KROGER CO
Form 10-K
March 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 28, 2012.

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-303

THE KROGER CO.

(Exact name of registrant as specified in its charter)

Ohio	**31-0345740**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1014 Vine Street, Cincinnati, OH	**45202**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number, including area code **(513) 762-4000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock $1 par value	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

NONE

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§299.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the Common Stock of The Kroger Co. held by non-affiliates as of August 13, 2011: $13.6 billion. There were 560,267,228 shares of Common Stock ($1 par value) outstanding as of March 23, 2012.

Documents Incorporated by Reference:

Portions of the proxy statement to be filed pursuant to Regulation 14A of the Exchange Act on or before May 29, 2012, are incorporated by reference into Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS.

The Kroger Co. was founded in 1883 and incorporated in 1902. As of January 28, 2012, 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.thekrogerco.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, its current reports on Form 8-K and its interactive data files, including amendments. These forms are available as soon as reasonably practicable after the Company has filed them 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. The Company s fiscal year ends on the Saturday closest to January 31.

EMPLOYEES

As of January 28, 2012, the Company employed approximately 339,000 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 300 such agreements, usually with terms of three to five years.

During 2012, the Company will negotiate major labor contracts covering store employees in Memphis, Las Vegas, Dayton and Columbus, Ohio, Indianapolis, Louisville, Nashville, Phoenix and Portland. These negotiations will be challenging as the Company seeks competitive cost structures in each market while meeting our associates needs for good wages and affordable health care. In these negotiations, we will also need to address the underfunding of our multi-employer pension plans.

STORES

As of January 28, 2012, the Company operated, either directly or through its subsidiaries, 2,435 supermarkets and multi-department stores, 1,090 of which had fuel centers. Approximately 45% 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 recognition. 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 typically draw 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.

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.

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.

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 28, 2012, the Company operated through subsidiaries 791 convenience stores and 348 fine jewelry stores. All of our fine jewelry stores located in malls are operated in leased locations. In addition, 83 convenience stores were operated through franchise agreements. Approximately 51% 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 Company s retail operations, which represent over 99% of the Company s consolidated sales and EBITDA, are its only reportable segment. The Company s retail operating divisions have been aggregated into one reportable segment due to the operating divisions having similar economic characteristics with similar long-term financial performance. In addition, the Company s operating divisions offer to its customers similar products, have similar distribution methods, operate in similar regulatory environments, purchase the majority of the Company s merchandise for retail sale from similar (and in many cases identical) vendors on a coordinated basis from a centralized location, serve similar types of customers, and are allocated capital from a centralized location. The Company s operating divisions reflect the manner in which the business is managed and how the Company s Chief Executive Officer and Chief Operating Officer, who act as the Company s Chief Operating Decision Makers, assess performance internally. All of the Company s operations are domestic. Revenues, profit and losses, and total assets are shown in the Company s Consolidated Financial Statements set forth in Item 8 below.

MERCHANDISING AND MANUFACTURING

Corporate brand products play an important role in the Company s merchandising strategy. Our supermarkets, on average, stock approximately 11,000 private label items. The Company s 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 Company s private label items, is designed to satisfy customers with quality products. Before Kroger will carry a banner brand product we must be satisfied that the product quality meets 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 Company s manufacturing plants; the remaining corporate brand items are produced to the Company s 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 28, 2012, the Company operated 39 manufacturing plants. These plants consisted of 17 dairies, 10 deli or bakery plants, five grocery product plants, three beverage plants, two meat plants and two cheese plants.

EXECUTIVE OFFICERS OF THE REGISTRANT

The disclosure regarding executive officers is set forth in Item 10 of Part III of this Form 10-K under the heading Executive Officers of the Company, and is incorporated herein by reference.

COMPETITIVE ENVIRONMENT

For the disclosure related to the Company s competitive environment, see Item 1A under the heading Competitive Environment.

ITEM 1A. RISK FACTORS.

There are risks and uncertainties that can affect our business. The significant risk factors are discussed below. Please also see the Outlook section in Item 7 of this Form 10-K for forward-looking statements and factors that could cause us not to realize our goals or meet our expectations.

COMPETITIVE ENVIRONMENT

The operating environment for the food retailing industry continues to be characterized by intense price competition, aggressive supercenter expansion, increasing fragmentation of retail formats, entry of non-traditional competitors and market consolidation. We have developed a strategic plan that we believe is a balanced approach that will enable Kroger to meet the wide-ranging needs and expectations of our customers in this challenging economic environment. However, the nature and extent to which our competitors implement various pricing and promotional activities in response to increasing competition, including our execution of our strategic plan, and our response to these competitive actions, can adversely affect our profitability. Our profitability and growth have been and could continue to be adversely affected by changes in the overall economic environment that affect consumer spending, including discretionary spending.

FOOD SAFETY

Customers count on Kroger to provide them with wholesome food products. Concerns regarding the safety of food products could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources of supply for all of their food needs, even if the basis for the concern is outside our control. Any lost confidence on the part of our customers would be difficult and costly to reestablish. Any issue regarding the safety of food items sold by Kroger, regardless of the cause, could have a substantial and adverse effect on our operations.

LABOR RELATIONS

A majority of our employees are covered by collective bargaining agreements with unions, and our relationship with those unions, including a prolonged work stoppage affecting a substantial number of locations, could have a material adverse effect on our results.

We are a party to approximately 300 collective bargaining agreements. We have various labor agreements that will be negotiated in 2012, covering store employees in Memphis, Las Vegas, Dayton and Columbus, Ohio, Indianapolis, Louisville, Nashville, Phoenix and Portland. Upon the expiration of our collective bargaining agreements, work stoppages by the affected workers could occur if we are unable to negotiate new contracts with labor unions. A prolonged work stoppage affecting a substantial number of locations could have a material adverse effect on our results. Further, if we are unable to control health care, pension and wage costs, or if we have insufficient operational flexibility under our collective bargaining agreements, we may experience increased operating costs and an adverse effect on future results of operations.

STRATEGY EXECUTION

Our strategy focuses on improving our customers shopping experiences through improved service, product selection and price. Successful execution of this strategy requires a balance between sales growth and earnings growth. Maintaining this strategy requires the ability to develop and execute plans to generate cost savings and productivity improvements that can be invested in the merchandising and pricing initiatives necessary to support our customer-focused programs, as well as recognizing and implementing organizational changes as required. If we are unable to execute our plans, or if our plans fail to meet our customers expectations, our sales and earnings growth could be adversely affected.

DATA AND TECHNOLOGY

Our business is increasingly dependent on information technology systems that are complex and vital to continuing operations. If we were to experience difficulties maintaining existing systems or implementing new systems, we could incur significant losses due to disruptions in our operations.

Through our sales and marketing activities, we collect and store some personal information that our customers provide to us. We also gather and retain information about our associates in the normal course of business. Under certain circumstances, we may share information with vendors that assist us in conducting our business, as required by law, or with the permission of the individual. Although we have implemented procedures to protect our information, we cannot be certain that all of our systems are entirely free from vulnerability to attack. Computer hackers may attempt to penetrate our or our vendors network security and, if successful, misappropriate confidential customer or business information. In addition, a Kroger associate, or a contractor or other third party with whom we do business may attempt to circumvent our security measures in order to obtain information or inadvertently cause a breach involving the information. Loss of customer or business information could disrupt our operations, damage our reputation, and expose us to claims from customers, financial institutions, regulatory authorities, payment card associations, associates, and other persons, any of which could have an adverse effect on our business, financial condition and results of operations. In addition, compliance with tougher privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes.

INDEBTEDNESS

As of year-end 2011, Kroger s outstanding indebtedness, including capital leases and financing obligations, totaled approximately $8.2 billion. This indebtedness could reduce our ability to obtain additional financing for working capital, acquisitions or other purposes and could make us more vulnerable to the ongoing economic downturn or future economic downturns as well as competitive pressures. If debt markets do not permit us to refinance certain maturing debt, we may be required to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness. Changes in our credit ratings, or in the interest rate environment, could have an adverse effect on our financing costs and structure.

LEGAL PROCEEDINGS

From time to time, we are a party to legal proceedings, including matters involving personnel and employment issues, personal injury, antitrust claims and other proceedings. Others purport to be brought as class actions on behalf of similarly situated parties. Some of these proceedings could result in a substantial loss to Kroger. We estimate our exposure to these legal proceedings and establish accruals for the estimated liabilities, where it is reasonably possible to estimate and where an adverse outcome is probable. Assessing and predicting the outcome of these matters involves substantial uncertainties. Adverse outcomes in these legal proceedings, or changes in our evaluations or predictions about the proceedings, could have a material adverse effect on our financial results. Please also refer to the Legal Proceedings section in Item 3 below.

MULTI-EMPLOYER PENSION OBLIGATIONS

As discussed in more detail below in Management s Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-*Multi-Employer Pension Plans*, Kroger contributes to several multi-employer pension plans based on obligations arising under collective bargaining agreements with unions representing employees covered by those agreements. 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, and it is probable that the Company s contributions to those funds will have meaningful increases over the next few years. A significant increase to those funding requirements could adversely affect our financial condition, results of operations, or cash flows. Despite the fact that the pension obligations of these funds are not the liability or responsibility of the Company, except as noted below, there is a risk that the agencies that rate Kroger s outstanding debt instruments could view the underfunded nature of these plans unfavorably when determining their ratings on our debt securities. Any downgrading of Kroger s debt ratings likely would affect Kroger s cost of borrowing and access to capital.

We also currently bear the investment risk of one of the larger multi-employer pension plans in which we participate. We committed to contribute sufficient funds to cover the actual cost of current accruals and to fund the pre-consolidation Unfunded Actuarial Accrued Liability (UAAL) that existed as of December 31, 2011, on or before March 31, 2018. We also have been designated as the named fiduciary of this fund with sole investment authority of the assets of the fund. If investment results fail to meet our expectations, we will be responsible for the shortfall.

INSURANCE

We use a combination of insurance and self-insurance to provide for potential liability for workers compensation, automobile and general liability, property, director and officers liability, and employee health care benefits. Any actuarial projection of losses is subject to a high degree of variability. Changes in legal claims, trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency of insurance carriers, and changes in discount rates could all affect our financial condition, results of operations, or cash flows.

CURRENT ECONOMIC CONDITIONS

The global economy and financial markets have experienced volatility due to uncertainties related to energy prices, availability of credit, difficulties in the banking and financial services sectors, the decline in the housing market, diminished market liquidity, low consumer confidence and high unemployment rates. As a result, consumers have been more cautious. Consumers have reduced spending and have switched to less expensive mixes of products. They also have been patronizing discounters and dollar stores for grocery items to a greater extent, all of which has affected and could continue to affect our sales growth and earnings. Increased fuel prices could have an effect on consumer spending and on our costs of producing and procuring products that we sell. Our ability to pass higher prices along to consumers due to inflation or other reasons could have an effect on consumer spending. We are unable to predict how the global economy and financial markets will perform. If the global economy and financial markets do not perform as we expect, it could adversely affect our financial condition, results of operation, or cash flows.

WEATHER AND NATURAL DISASTERS

A large number of our stores and distribution facilities are geographically located in areas that are susceptible to hurricanes, tornadoes, floods, and earthquakes. Weather conditions and natural disasters could disrupt our operations at one or more of our facilities; could interrupt the delivery of products to our stores; could substantially increase the cost of products, including supplies and materials; and could substantially increase the cost of energy needed to operate our facilities or deliver products to our facilities. Adverse weather and natural disasters could materially affect our financial condition, results of operations, or cash flows.

GOVERNMENT REGULATION

Our stores are subject to various laws, regulations, and administrative practices that affect our business. We must comply with numerous provisions regulating, among other things, health and sanitation standards, food labeling and safety, equal employment opportunity, minimum wages, and licensing for the sale of food, drugs, and alcoholic beverages. We cannot predict future laws, regulations, interpretations, administrative orders, or applications, or the effect they will have on our operations. They could, however, significantly increase the cost of doing business. They also could require the reformulation of some of the products that we sell (or manufacture for sale to third parties) to meet new standards. We also could be required to recall or discontinue the sale of products that cannot be reformulated. These changes could result in additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, or scientific substantiation. Any or all of these requirements could have an adverse effect on our results of operations and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of January 28, 2012, the Company operated more than 3,600 owned or leased supermarkets, convenience stores, fine jewelry stores, distribution warehouses and food processing facilities through divisions, subsidiaries or affiliates. These facilities are located throughout the United States. While the Company s current strategy emphasizes ownership of store real estate, a majority of the properties used to conduct the Company s business are leased.

The Company generally owns store equipment, fixtures and leasehold improvements, as well as processing and manufacturing equipment. The total cost of the Company s owned assets and capitalized leases, at January 28, 2012, was $28.1 billion while the accumulated depreciation was $13.6 billion.

Leased premises generally have base terms ranging from ten-to-twenty years with renewal options for additional periods. Some options provide the right to purchase the property after the conclusion of the lease term. Store rentals are normally payable monthly at a stated amount or at a guaranteed minimum amount plus a percentage of sales over a stated dollar volume. Rentals for the distribution, manufacturing and miscellaneous facilities generally are payable monthly at stated amounts. For additional information on lease obligations, see Note 8 to the Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS.

On October 6, 2006, the Company petitioned the Tax Court (*Ralphs Grocery Company and Subsidiaries, formerly known as Ralphs Supermarkets, Inc. v. Commissioner of Internal Revenue, Docket No. 20364-06*) for a redetermination of deficiencies asserted by the Commissioner of Internal Revenue. The dispute at issue involves a 1992 transaction in which Ralphs Holding Company acquired the stock of Ralphs Grocery Company and made an election under Section 338(h)(10) of the Internal Revenue Code. The Commissioner determined that the acquisition of the stock was not a purchase as defined by Section 338(h)(3) of the Internal Revenue Code and that the acquisition therefore does not qualify for a Section 338(h)(10) election. On January 27, 2011, the Tax Court issued its opinion upholding the Company s position that the acquisition of the stock qualified as a purchase, granting the Company s motion for partial summary judgment and denying the Tax Commissioner s motion. We anticipate that all remaining issues in the matter will be resolved and the Tax Court will enter its decision. The parties will then have 90 days to file an appeal. As of January 28, 2012, an adverse decision would have required a cash payment of up to approximately $553 million, including interest. Any accounting implications of an adverse decision in this case would be charged through the statement of operations.

Various claims and lawsuits arising in the normal course of business, including suits charging violations of certain antitrust, wage and hour, or civil rights laws, as well as product liability cases, are pending against the Company. Some of these suits purport or have been determined to be class actions and/or seek substantial damages. Any damages that may be awarded in antitrust cases will be automatically trebled. Although it is not possible at this time to evaluate the merits of all of these claims and lawsuits, nor their likelihood of success, the Company is of the belief that any resulting liability will not have a material adverse effect on the Company s financial position, results of operations, or cash flows.

The Company continually evaluates its exposure to loss contingencies arising from pending or threatened litigation and believes it has made provisions where it is reasonably possible to estimate and where an adverse outcome is probable. Nonetheless, assessing and predicting the outcomes of these matters involve substantial uncertainties. Management currently believes that the aggregate range of loss for our exposures is not material to the Company. It remains possible that despite management s current belief, material differences in actual outcomes or changes in management s evaluation or predictions could arise that could have a material adverse impact on the Company s financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a)

COMMON SHARE PRICE RANGE

	2011				2010			
Quarter	**High**		**Low**		**High**		**Low**	
1st	**$**	**25.48**	**$**	**21.29**	$	**23.76**	$	**20.95**
2nd	**$**	**25.85**	**$**	**21.52**	$	**22.50**	$	**19.08**
3rd	**$**	**23.78**	**$**	**21.14**	$	**23.47**	$	**19.67**
4th	**$**	**24.83**	**$**	**21.68**	$	**24.14**	$	**20.53**

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

Number of shareholders of record at year-end 2011: 35,026

Number of shareholders of record at March 23, 2012: 34,573

During 2010, the Company paid three quarterly dividends of $0.095 and one quarterly dividend of $0.105. During 2011, the Company paid three quarterly dividends of $0.105 and one quarterly dividend of $0.115. On March 1, 2012, the Company paid a quarterly dividend of $0.115 per share. On March 8, 2012, the Company announced that its Board of Directors has declared a quarterly dividend of $0.115 per share, payable on June 1, 2012, to shareholders of record at the close of business on May 15, 2012.

PERFORMANCE GRAPH

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

	Base	INDEXED RETURNS				
	Period			Years Ending		
Company Name/Index	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
The Kroger Co.	100	101.59	89.10	86.28	87.25	101.44
S&P 500 Index	100	98.20	59.54	79.27	96.86	102.02
Peer Group	100	103.04	83.68	103.67	112.55	118.29

Kroger s fiscal year ends on the Saturday closest to January 31.

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* Total assumes $100 invested on February 3, 2007, in The Kroger Co., S&P 500 Index, and the Peer Group, with reinvestment of dividends.

** The Peer Group consists of Costco Wholesale Corp., CVS Corp, Delhaize Group SA (ADR), Great Atlantic & Pacific Tea Company, Inc., Koninklijke Ahold NV (ADR), Safeway, Inc., Supervalu Inc., Target Corp., Tesco plc, Wal-Mart Stores Inc., Walgreen Co., Whole Foods Market Inc. and Winn-Dixie Stores, Inc.

Data supplied by Standard & Poor s.

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

(c)

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 6, 2011 to December 3, 2011	6,105,778	$ 22.55	6,105,778	$ 585
Second period - four weeks				
December 4, 2011 to December 31, 2011	3,605,358	$ 23.78	3,605,358	$ 512
Third period four weeks				
January 1, 2012 to January 28, 2012	2,045,143	$ 24.22	2,045,143	$ 475
Total	11,756,279	$ 23.21	11,756,279	$ 475

(1) The reported periods conform to the Company s fiscal calendar composed of thirteen 28-day periods. The fourth quarter of 2011 contained three 28-day periods.

(2) Shares were repurchased under (i) a $1 billion share repurchase program, authorized by the Board of Directors and announced on September 15, 2011, and (ii) a program announced on December 6, 1999, to repurchase common shares to reduce dilution resulting from our employee stock option and long-term incentive plans, which program is limited to proceeds received from exercises of stock options and the tax benefits associated therewith. The programs have 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 under the Company s long-term incentive plans to pay for taxes on restricted stock awards.

(3) The amounts shown in this column reflect amounts remaining under the $1 billion share repurchase program referenced in clause (i) of Note 2 above. Amounts to be invested under the program utilizing option exercise proceeds are dependent upon option exercise activity.

ITEM 6. SELECTED FINANCIAL DATA.

	Fiscal Years Ended				
	January 28, 2012 (52 weeks)	**January 29, 2011 (52 weeks)***	**January 30, 2010 (52 weeks)***	**January 31, 2009 (52 weeks)***	**February 2, 2008 (52 weeks)***
	(In millions, except per share amounts)				
Sales	**$ 90,374**	$ **82,049**	$ 76,609	$ 76,063	$ 70,261
Net earnings including noncontrolling interests	**596**	**1,133**	57	1,250	1,224
Net earnings attributable to The Kroger Co.	**602**	**1,116**	70	1,249	1,209
Net earnings attributable to The Kroger Co. per diluted common share	**1.01**	**1.74**	0.11	1.89	1.73
Total assets	**23,476**	**23,505**	23,126	23,290	22,372

Long-term liabilities, including obligations under capital leases and financing obligations	**10,405**	**10,137**	10,473	10,311	8,696
Total Shareowners equity The Kroger Co.	**3,981**	**5,296**	4,852	5,225	4,962
Cash dividends per common share	**0.43**	**0.39**	0.365	0.345	0.29

*Certain prior year amounts have been revised or reclassified to conform to the current year presentation. For further information, see Note 1 to the Consolidated Financial Statements.

ITEM 7. MANAGEMENT S 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 nation s largest retailers, as measured by revenue, operating 2,435 supermarket and multi-department stores under two dozen banners including Kroger, City Market, Dillons, Jay C, Food 4 Less, Fred Meyer, Fry s, King Soopers, QFC, Ralphs and Smith s. Of these stores, 1,090 have fuel centers. We also operate 791 convenience stores, either directly or through franchisees, and 348 fine jewelry stores.

Kroger operates 39 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 retail operations, which represent over 99% of Kroger s consolidated sales and EBITDA, are our only reportable segment.

OUR 2011 PERFORMANCE

We achieved solid results in 2011. Our results reflect the balance we seek to achieve across our business including positive identical sales growth, increases in loyal household count, good cost control, as well as growth in earnings and earnings per diluted share. Our 2011 net earnings were $602 million or $1.01 per diluted share. The results included a charge related to the consolidation of multi-employer pension plans to which we contribute totaling $953 million, pre-tax ($591 million after-tax). Excluding the charge, our adjusted net earnings were $1.2 billion or $2.00 per diluted share. Our identical supermarket sales increased by 4.9%, excluding fuel. We have achieved 33 consecutive quarters of positive identical sales growth, excluding fuel. As we continue to outpace many of our competitors on identical sales growth, we continue to gain market share. We focus on identical supermarket sales growth, excluding fuel, because our business model emphasizes this primary component, and identical sales generate earnings and free cash flow that reward our shareholders.

Increasing market share is an important part of our long-term strategy as it best reflects how our products and services resonate with customers. Market share growth allows us to spread the fixed costs in our business over a wider revenue base. Our fundamental operating philosophy is to maintain and increase market share by offering customers good prices and superior products and service. Based on Nielsen Homescan Data, our estimated market share increased in total by approximately 50 basis points in 2011 across our 19 marketing areas outlined by the Nielsen report. This information also indicates that our market share increased in 13 of the marketing areas and declined in six. Wal-Mart supercenters are a primary competitor in 17 of our 19 marketing areas. Our overall market share grew by approximately 40 basis points in 2011 in those 17 marketing areas. Nielsen Homescan Data is generated by customers who self-report their grocery purchases to Nielsen, regardless of retail channel or grocery outlet. These market share results reflect our long-term strategy of market share growth.

RESULTS OF OPERATIONS

The following discussion summarizes our operating results for 2011 compared to 2010 and for 2010 compared to 2009. Comparability is affected by income and expense items that fluctuated significantly between and among the periods.

Net Earnings

Net earnings totaled $602 million in 2011, $1.1 billion in 2010 and $70 million in 2009. The net earnings for 2011 include the UFCW consolidated pension plan charge totaling $591 million, after-tax. The net earnings for 2010 include a non-cash goodwill impairment charge totaling $12 million, after-tax, related to a small number of stores. The net earnings for 2009 include non-cash asset impairment charges totaling $1.05 billion, after-tax, related to a division in southern California. The 2009 impairment charge primarily resulted from the write-off of the Ralphs division goodwill balance. Excluding these charges for 2011, 2010 and 2009, adjusted net earnings were $1.2 billion in 2011 and $1.1 billion in both 2010 and 2009. 2011 adjusted net earnings improved, compared to 2010, due to an increase in FIFO non-fuel operating profit, lower interest expense, favorable resolutions for certain tax issues, and higher retail fuel margins, partially offset by a LIFO charge of $216 million (pre-tax), compared to a LIFO charge of $57 million (pre-tax) in 2010. 2010 adjusted net earnings improved, compared to 2009, due to lower interest expense, favorable resolutions for certain tax issues and higher retail fuel margins, partially offset by decreased non-fuel operating profit.

2011 net earnings per diluted share totaled $1.01, and adjusted net earnings per diluted share in 2011 totaled $2.00, which excludes the UFCW consolidated pension plan charge. 2010 net earnings per diluted share totaled $1.74, and adjusted net earnings per diluted share in 2010 totaled $1.76, which excludes the $0.02 per diluted share for the non-cash goodwill impairment charge. Net earnings per diluted share was $0.11 in 2009, and adjusted net earnings per diluted share in 2009 was $1.71, which excludes the $1.60 per diluted share for the non-cash asset impairment charges. Adjusted net earnings per diluted share in 2011, compared to 2010, increased primarily due to increased retail fuel margins, the repurchase of Kroger common shares, increased FIFO non-fuel operating profit, and the favorable resolution of certain tax issues, offset by a LIFO charge of $216 million (pre-tax), compared to a LIFO charge of $57 million (pre-tax) in 2010. Adjusted net earnings per diluted share in 2010, compared to 2009, increased due to increased retail fuel margins, the favorable resolution of certain tax issues and the repurchase of Kroger common shares, partially offset by reduced non-fuel net earnings.

Management believes adjusted net earnings (and adjusted net earnings per diluted share) are useful metrics to investors and analysts because the one-time charges reflected in net earnings, and net earnings per diluted share, are non-recurring and are not directly related to our day-to-day business.

Sales

Total Sales

(in millions)

	2011	2010	2009

			Percentage Increase		Percentage Increase	
Total supermarket sales without fuel	$	71,109	5.0% $	67,742	3.4% $	65,525
Total supermarket fuel sales		12,995	42.6%	9,111	36.6%	6,671
Total supermarket sales	$	84,104	9.4% $	76,853	6.5% $	72,196
Other sales(1)		6,270	20.7%	5,196	17.7%	4,413
Total sales	$	90,374	10.1% $	82,049	7.1% $	76,609

(1) Other sales primarily relate to sales at convenience stores, including fuel; jewelry stores; manufacturing plants to outside customers; variable interest entities; and in-store health clinics.

The increase in total sales for 2011 compared to 2010 was primarily the result of our identical supermarket sales increase, excluding fuel, of 4.9% and an increase in supermarket fuel sales of 42.6%. Total supermarket fuel sales increased over the same period due to a 26.3% increase in average retail fuel prices and a 13.0% increase in fuel gallons sold. The increase in the average supermarket retail fuel price was caused by an increase in the product cost of fuel. The increase in total supermarket sales without fuel for 2011 over 2010 was primarily the result of increases in identical supermarket sales, excluding fuel, of 4.9%. Identical supermarket sales, excluding fuel, increased primarily due to inflation, increased transaction count and an increase in the average sale per shopping trip.

The increase in total sales for 2010 compared to 2009 was primarily the result of our identical supermarket sales increase, excluding fuel, of 2.8% and an increase in supermarket fuel sales of 36.6%. Total supermarket fuel sales increased over the same period due to a 16.8% increase in average retail fuel prices and a 17.2% increase in fuel gallons sold. The increase in the average supermarket retail fuel price was caused by an increase in the product cost of fuel. The increase in total supermarket sales without fuel for 2010 over 2009 was primarily the result of increases in identical supermarket sales, excluding fuel, of 2.8% as well as an increase in supermarket square footage of 0.5%. Identical supermarket sales, excluding fuel, increased primarily due to inflation, increased transaction count and an increase in the average sale per shopping trip.

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 identical supermarket sales results calculations illustrated below. Differences between total supermarket sales and identical supermarket sales primarily relate to changes in supermarket square footage. Identical supermarket sales include all sales at identical 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 2011, 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 28, 2012 and January 29, 2011.

Identical Supermarket Sales

(dollars in millions)

		2011		2010
Including supermarket fuel centers	$	81,082	$	74,243
Excluding supermarket fuel centers	$	68,558	$	65,336
Including supermarket fuel centers		9.2%		5.7%
Excluding supermarket fuel centers		4.9%		2.8%
Identical 4th Quarter store count		2,355		2,342

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, as a percentage of sales, were 21.13% in 2011, 22.31% in 2010 and 23.25% in 2009. 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 33 basis points in 2011 and 35 basis points in 2010. FIFO gross margin in 2011, compared to 2010, decreased primarily due to continued investments in lower prices for our customers, the effect of inflation and higher transportation expenses, partially offset by improvements in shrink, advertising, and warehousing expenses, as a percentage of sales. FIFO gross margin in 2010, compared to 2009, decreased primarily from continued investments in lower prices for our customers and higher transportation expenses, as a percentage of sales.

LIFO Charge

The LIFO charge was $216 million in 2011, $57 million in 2010 and $49 million in 2009. Like many food retailers, we experienced higher levels of product cost inflation in 2011, compared to 2010. In 2011, our LIFO charge primarily resulted from an annualized product cost inflation related to grocery, meat and seafood, deli and bakery, and pharmacy. A slight increase in annualized product cost inflation caused the increase in the LIFO charge in 2010, compared to 2009. In 2010, our LIFO charge primarily resulted from annualized product cost inflation related to meat, pharmacy, and Company-manufactured products, partially offset by deflation in grocery products. In 2009, our LIFO charge primarily resulted from annualized product cost inflation related to tobacco and pharmacy products.

Operating, General and Administrative Expenses

Operating, general and administrative (OG&A) expenses consist primarily of employee-related costs such as wages, health care benefit 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 percentage of sales, were 16.98% in 2011, 16.85% in 2010 and 17.51% in 2009. 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. Our OG&A expenses in 2011 included $953 million for the UFCW consolidated pension plan charge. Without the UFCW consolidated pension plan charge, OG&A expenses, as a percentage of sales excluding fuel, decreased 25 basis points in 2011, compared to 2010. The 2011 decrease, compared to 2010, resulted primarily from increased identical supermarket sales growth, productivity improvements and strong cost controls at the store level, offset partially by increased credit and debit card fees, incentive compensation, and health care costs. OG&A expenses, as a percentage of sales excluding fuel, decreased 14 basis points in 2010, compared to 2009. The 2010 decrease, compared to 2009, resulted primarily from increased identical supermarket sales growth, strong cost controls at the store level and reduced utility costs. These improvements were partially offset by increases in pension and health care expenses and credit card fees.

Rent Expense

Rent expense was $619 million in 2011, as compared to $623 million in 2010 and $620 million in 2009. Rent expense, as a percentage of sales, was 0.68% in 2011, as compared to 0.76% in 2010 and 0.81% in 2009. The continual decrease in rent expense, as a percentage of sales, reflects our continued emphasis on owning rather than leasing, whenever possible, a decrease in the number of leased locations and the benefit of increased supermarket sales.

Depreciation and Amortization Expense

Depreciation and amortization expense was $1.6 billion in 2011, $1.6 billion in 2010 and $1.5 billion in 2009. The increase in depreciation expense from 2010, compared to 2009, was the result of additional depreciation on capital expenditures, including prior acquisitions and the prior purchase of leased facilities, totaling $1.9 billion in 2010. Depreciation and amortization expense, as a percentage of sales, was 1.81% in 2011, 1.95% in 2010 and 1.99% in 2009. The decrease in depreciation and amortization expense in 2011, compared to 2010, as a percentage of sales, is primarily the result of increasing sales. The decrease in depreciation and amortization expense in 2010, compared to 2009, as a percentage of sales, is primarily the result of increasing sales.

Interest Expense

Net interest expense totaled $435 million in 2011, $448 million in 2010 and $502 million in 2009. The decrease in interest expense in 2011, compared to 2010, resulted primarily from a lower weighted average interest rate and an average lower debt balance for the year, offset partially by a decrease in the benefit from interest rate swaps. The decrease in interest expense in 2010, compared to 2009, resulted primarily from a lower weighted average interest rate, an average lower debt balance for the year and an increase in our benefit from interest rate swaps.

Income Taxes

Our effective income tax rate was 29.3% in 2011, 34.7% in 2010 and 90.4% in 2009. The 2011 and 2010 effective tax rates differed from the federal statutory rate primarily as a result of the utilization of tax credits and favorable resolution of certain tax issues, partially offset by the effect of state income taxes. The 2011 effective tax rate was also lower than 2010 due to the effect on pre-tax income of the UFCW consolidated pension plan charge of $953 million ($591 million after-tax). Excluding the UFCW consolidated pension plan charge, our effective rate in 2011 would have been 33.9%. The 2009 effective income tax rate differed from the federal statutory rate primarily because the goodwill impairment charge incurred in that year was mostly non-deductible for tax purposes. Excluding the non-cash impairment charges, our effective rate in 2009 would have been 35.8%. In addition, the effective tax rate for 2009 differed from the expected federal statutory rate due to the utilization of tax credits, resolution of certain tax issues and the effect of state income taxes.

COMMON SHARE REPURCHASE PROGRAM

We maintain share repurchase programs that comply with Securities Exchange Act Rule 10b5-1 and allow for the orderly repurchase of our common shares, from time to time. We made open market purchases of Kroger common shares totaling $1.4 billion in 2011, $505 million in 2010 and $156 million in 2009 under these repurchase programs. In addition to these repurchase programs, we also repurchase common shares 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 $127 million in 2011, $40 million in 2010 and $62 million in 2009 of Kroger shares under the stock option program.

On March 3, 2011, the Board of Directors authorized a $1 billion share repurchase program. On September 15, 2011, the Board of Directors authorized a new $1 billion share repurchase program that replaced the share repurchase program authorized by the Board of Directors on March 3, 2011. As of January 28, 2012, we had $475 million remaining on the September 15, 2011 $1 billion share repurchase program.

CAPITAL EXPENDITURES

Capital expenditures, including changes in construction-in-progress payables and excluding acquisitions and the purchase of leased facilities, totaled $1.9 billion in 2011 compared to $1.9 billion in 2010 and $2.2 billion in 2009. The decrease in capital expenditures in 2010, compared to 2009, was due to Kroger reducing the capital expenditures in our original plan in order to provide the cash flow necessary to execute our financial strategy. Capital expenditures for the purchase of leased facilities totaled $60 million in 2011 compared to $38 million for 2010 and $164 million for 2009. The increase in capital expenditures for the purchase of leased facilities in 2011, compared to 2010, was due to Kroger purchasing several more previously leased retail stores in 2011 compared to 2010. The decrease in capital expenditures for the purchase of leased facilities in 2010, compared to 2009, was due to Kroger purchasing several more previously leased retail stores and one large distribution center in 2009 compared to 2010. The table below shows our supermarket storing activity and our total food store square footage:

Supermarket Storing Activity

	2011	**2010**	**2009**
Beginning of year	**2,460**	2,469	2,481
Opened	**10**	14	14
Opened (relocation)	**12**	6	9
Acquired	**6**	4	1
Acquired (relocation)	**2**		1
Closed (operational)	**(41)**	(27)	(27)
Closed (relocation)	**(14)**	(6)	(10)
End of year	**2,435**	2,460	2,469
Total food store square footage (in millions)	**149**	149	148

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 28, 2012. 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 $5 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

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 $37 million in 2011, $25 million in 2010 and $48 million in 2009. Included in the 2009 amount are asset impairments recorded totaling $24 million for the Ralphs reporting unit in southern California. 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 level, could produce significantly different results.

Goodwill

Our goodwill totaled $1.1 billion as of January 28, 2012. We review goodwill for impairment in the fourth quarter of each year, and also upon the occurrence of triggering events. We perform reviews of each of our operating divisions and variable interest entities (collectively, our reporting units) with goodwill balances. Fair value is determined using a multiple of earnings, or discounted projected future cash flows, and we compare fair value to the carrying value of a reporting unit for purposes of identifying potential impairment. We base projected future cash flows on management s knowledge of the current operating environment and expectations for the future. If we identify potential for impairment, we measure the fair value of a reporting unit against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of the division s goodwill. We recognize goodwill impairment for any excess of the carrying value of the division s goodwill over the implied fair value.

The annual evaluation of goodwill performed during the fourth quarter of 2011 and 2009 did not result in impairment.

The annual evaluation of goodwill performed during the fourth quarter of 2010 resulted in an impairment charge of $18 million. Based on the results of our step one analysis in the fourth quarter of 2010, a supermarket reporting unit with a small number of stores indicated potential impairment. Due to estimated future expected cash flows being lower than in the past, our estimated fair value of the reporting unit decreased. We concluded that the carrying value of goodwill for this reporting unit exceeded its implied fair value, resulting in a pre-tax impairment charge of $18 million ($12 million after-tax). In 2009, we disclosed that a 10% reduction in fair value of this supermarket reporting unit would indicate a potential for impairment. Subsequent to the impairment, no goodwill remains at this reporting unit.

In the third quarter of 2009, our operating performance suffered due to deflation and intense competition. During the third quarter of 2009, based on revised forecasts for 2009 and the initial results of our annual budget process of the supermarket reporting units, management believed that there were circumstances evident to warrant impairment testing of these reporting units. In the third quarter of 2009, we did not test the variable interest entities with recorded goodwill for impairment as no triggering event occurred. Based on the results of our step one analysis in the third quarter of 2009, the Ralphs reporting unit in Southern California was the only reporting unit for which there was a potential impairment. In 2009, the operating performance of the Ralphs reporting unit was significantly affected by the economic conditions at the time and responses to competitive actions in Southern California. As a result of this decline in current and future expected cash flows, along with comparable fair value information, management concluded that the carrying value of goodwill for the Ralphs reporting unit exceeded its implied fair value, resulting in a pre-tax impairment charge of $1,113 ($1,036 after-tax). Subsequent to the impairment, no goodwill remains at the Ralphs reporting unit. Management used an equal weighting of discounted cash flows and a sales-weighted EBITDA multiple to estimate fair value. The discounted cash flows assumed long-term sales growth rates comparable to historical performance and a discount rate of 11%. In addition, the EBITDA multiples observed in the marketplace declined since those used in the January 31, 2009 assessment. Based on current and future expected cash flows, the Company believes additional goodwill impairments are not reasonably likely.

For additional information relating to our results of the goodwill impairment reviews performed during 2011, 2010 and 2009 see Note 2 to the Consolidated Financial Statements.

The impairment review requires the extensive use of management judgment and financial estimates. Application of alternative estimates and assumptions, such as reviewing goodwill for impairment at a different level, could produce significantly different results. The cash flow projections embedded in our goodwill impairment reviews can be affected by several factors such as inflation, business valuations in the market, the economy and market competition.

Store Closing Costs

We provide for closed store liabilities on the basis of the present value of the estimated remaining noncancellable 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

We account for our defined benefit pension plans using the recognition and disclosure provisions of GAAP, 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 and transition obligations that have not yet been recognized.

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 assumptions was intended to reflect the rates 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 rates as of year-end 2011 was to match the plan s 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 theoretically be settled by investing them in the zero-coupon bond that matures in the same year. The discount rates are the single rates that produce the same present value of cash flows. The selection of the 4.55% and 4.40% discount rates as of year-end 2011 for pension and other benefits, respectively, represent the equivalent single rates constructed under a broad-market AA yield curve. We utilized a discount rate of 5.60% and 5.40% for year-end 2010 for pension and other benefits, respectively. A 100 basis point increase in the discount rate would decrease the projected pension benefit obligation as of January 28, 2012, by approximately $406 million.

To determine the expected rate of return on pension plan assets, we consider current and forecasted plan asset allocations as well as historical and forecasted rates of return on various asset categories. For 2011 and 2010, we assumed a pension plan investment return rate of 8.5%. Our pension plan s average rate of return was 7.2% for the 10 calendar years ended December 31, 2011, net of all investment management fees and expenses. The value of all investments in our Company-sponsored defined benefit pension plans during the calendar year ending December 31, 2011, net of investment management fees and expenses, increased 1.6%. For the past 20 years, our average annual rate of return has been 9.4%. The average annual return for the S&P 500 over the same period of time has been 8.7%. Based on the above information and forward looking assumptions for investments made in a manner consistent with our target allocations, we believe an 8.5% rate of return assumption is reasonable. See Note 13 to the Consolidated Financial Statements for more information on the asset allocations of pension plan assets.

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%	$ 406/(494)	$ 30/($34)
Expected Return on Assets	+/- 1.0%		$ 25/($25)

We contributed $52 million in 2011, $141 million in 2010 and $265 million in 2009 to our Company-sponsored defined benefit pension plans. Although we are not required to make cash contributions to our Company-sponsored defined benefit pension plans during 2012, we expect to contribute approximately $75 million to these plans in 2012. Additional contributions may be made if required under the Pension Protection Act to avoid any benefit restrictions. We expect any contributions made during 2012 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 contributions.

We contributed and expensed $130 million in 2011, $119 million in 2010 and $115 million in 2009 to employee 401(k) retirement savings accounts. The 401(k) retirement savings account plans provide to eligible employees both matching contributions and automatic contributions from the Company based on participant contributions, plan compensation, and length of service.

Multi-Employer Pension Plans

We also contribute to various multi-employer pension plans based on obligations arising from 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.

In the fourth quarter of 2011, we entered into a memorandum of understanding (MOU) with 14 locals of the UFCW that participated in four multi-employer pension funds. The MOU established a process that amended each of the collective bargaining agreements between Kroger and the UFCW locals under which we made contributions to these funds and consolidated the four multi-employer pension funds into one multi-employer pension fund.

Under the terms of the MOU, the locals of the UFCW agreed to a future pension benefit formula through 2021. We were designated as the named fiduciary of the new consolidated plan with sole investment authority over its assets. We committed to contribute sufficient funds to cover the actuarial cost of current accruals and to fund the pre-consolidation Unfunded Actuarial Accrued Liability (UAAL) that existed as of December 31, 2011, in a series of installments on or before March 31, 2018. At January 1, 2012, the UAAL was estimated to be $911 million (pre-tax). In accordance with GAAP, we expensed $911 million in 2011 related to the UAAL. The expense was based on a preliminary estimate of the contractual commitment. As the estimate is updated, we may incur additional expense. We do not expect any adjustments to be material. In the fourth quarter of 2011, we contributed $650 million to the consolidated multi-employer pension plan of which $600 million was allocated to the UAAL and $50 million was allocated to service and interest costs and expensed in 2011. Future contributions will be dependent, among other things, on the investment performance of assets in the plan. The funding commitments under the MOU replace the prior commitments under the four existing funds to pay an agreed upon amount per hour worked by eligible employees.

We recognize expense in connection with these plans as contributions are funded or, in the case of the UFCW consolidated pension plan, when commitments are made, in accordance with GAAP. We made cash contributions to these plans of $946 million in 2011, $262 million in 2010 and $233 million in 2009. The cash contributions for 2011 include the Company s $650 million contribution to the UFCW consolidated pension plan in the fourth quarter of 2011.

Based on the most recent information available to us, we believe that the present value of actuarially accrued liabilities in most 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, 2011. 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 except as noted above. As of December 31, 2011, we estimate that Kroger s share of the underfunding of multi-employer plans to which Kroger contributes was $2.3 billion, pre-tax, or $1.4 billion, after-tax. This represents a decrease in the estimated amount of underfunding of approximately $280 million, pre-tax, or $175 million, after-tax, as of December 31, 2011, compared to December 31, 2010. The December 31, 2011 estimate of our underfunding includes the effect of our $650 million contribution to the UFCW consolidated pension plan made in January 2012. The decrease in the amount of underfunding is attributable to the Company s $650 million contribution to the UFCW consolidated pension plan, partially offset by increases in underfunded amounts in other plans. Our estimate is based on the most current 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.

We have made and disclosed this estimate not because, except as noted above, this underfunding is a direct liability of Kroger. Rather, we believe the underfunding is likely to have important consequences. In 2011, excluding the $650 million contribution to our UFCW consolidated pension plan, our contributions to these plans increased approximately 13% over the prior year and have grown at a compound annual rate of approximately 9% since 2006. In 2012, we expect to contribute approximately $240 million to our multi-employer pension plans, subject to collective bargaining and capital market conditions. This amount reflects a contribution decrease due to the UFCW consolidated pension plan. Based on current market conditions, we expect meaningful increases in funding and in expense as a result of increases in multi-employer pension plan contributions over the next few years. 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 GAAP.

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.

See Note 14 to the Consolidated Financial Statements for more information relating to our participation in these multi-employer pension plans.

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.

Uncertain Tax Positions

We review the tax positions taken or expected to be taken on tax returns to determine whether and to what extent a benefit can be recognized in our consolidated financial statements. Refer to Note 4 to the Consolidated Financial Statements for the amount of unrecognized tax benefits and other related disclosures related to uncertain tax positions.

Various taxing authorities periodically audit our income tax returns. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions. In evaluating the exposures connected with these various tax filing positions, including state and local taxes, we record allowances for probable exposures. A number of years may elapse before a particular matter, for which an allowance has been established, is audited and fully resolved. As of January 28, 2012, the most recent examination concluded by the Internal Revenue Service covered the years 2005 through 2007.

The assessment of our tax position relies on the judgment of management to estimate the exposures associated with our various filing positions.

Share-Based Compensation Expense

We account for stock options under the fair value recognition provisions of GAAP. Under this method, we recognize compensation expense for all share-based payments granted. We recognize share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. In addition, 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 award restrictions lapse.

Inventories

Inventories are stated at the lower of cost (principally on a LIFO basis) or market. In total, approximately 97% of inventories were valued using the LIFO method in both 2011 and 2010. Cost for the balance of the inventories was determined using the FIFO method. Replacement cost was higher than the carrying amount by $1.0 billion at January 28, 2012, and by $827 million at January 29, 2011. 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 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 cost 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 $5.9 billion in 2011, $6.4 billion in 2010 and $5.7 billion in 2009 of vendor allowances as a reduction in merchandise costs. We recognized approximately95% 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 $2.7 billion of cash from operations in 2011, compared to $3.4 billion in 2010 and $2.9 billion in 2009. The cash provided by operating activities came from net earnings including noncontrolling interests adjusted primarily for non-cash expenses of depreciation and amortization, the LIFO charge, the goodwill impairment charge, and changes in working capital. The decrease in net cash provided by operating activities in 2011, compared to 2010, was primarily due to the decline in net earnings including noncontrolling interests due to the UFCW consolidated pension plan charge. Changes in working capital also provided (used) cash from operating activities of ($300) million in 2011, compared to $698 million in 2010 and ($83) million in 2009. The decrease in cash provided by changes in working capital for 2011, compared to 2010, was primarily due to an increase in inventories, offset partially by increases in trade accounts payable and accrued expenses. In addition, the decrease in net cash provided by operating activities in 2011, compared to 2010, was partially offset by an increase in other long-term liabilities for our remaining estimated commitment for the UAAL in excess of the cash contribution. The change in working capital for 2010, compared to 2009, was primarily due to increases in trade accounts payable and accrued expenses and a decrease in prepaid expenses. In addition, the increase in net cash provided by operating activities in 2010, compared to 2009, was partially offset by a decrease in other long-term liabilities. Prepaid expenses decreased in 2010, compared to 2009, due to Kroger not prefunding $300 million of employee benefits in 2010. These amounts are also net of cash contributions to our Company-sponsored defined benefit pension plans totaling $52 million in 2011, $141 million in 2010, and $265 million in 2009.

The amount of cash paid for income taxes decreased in 2011, compared to 2010, primarily due to the decrease in net earnings including noncontrolling interests and from the bonus depreciation deductions allowed by the 2010 Tax Relief Act for property placed into service in 2011. The amount of cash paid for income taxes increased in 2010, compared to 2009, due to reversals of temporary differences in 2010 and overpayments being applied to 2009 income taxes.

Net cash used by investing activities

Cash used by investing activities was $1.9 billion in 2011, compared to $2.0 billion in 2010 and $2.3 billion in 2009. The amount of cash used by investing activities decreased in 2011, compared to 2010, due to decreased payments for other investing activities, offset partially by increased payments for acquisitions. The amount of cash used by investing activities decreased in 2010, compared to 2009, due primarily to decreased payments on capital expenditures. Capital expenditures, including changes in construction-in-progress payables and excluding acquisitions, were $1.9 billion in 2011, $1.9 billion in 2010, and $2.3 billion in 2009. 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 $1.4 billion of cash in 2011, compared to $1.0 billion in 2010 and $434 million in 2009. The increase in the amount of cash used for financing activities in 2011, compared to 2010, was primarily related to the increased payments for treasury stock purchases, partially offset by increased borrowings under our commercial paper program. The increase in the amount of cash used for financing activities in 2010, compared to 2009, was primarily related to the increased payments on long-term debt and treasury stock repurchases, decreased proceeds from the issuance of long-term debt, and an investment in the remaining interest of a variable interest entity, partially offset by decreased payments on the credit facility. We repurchased $1.5 billion of Kroger common shares in 2011, compared to $545 million in 2010 and $218 million in 2009. We paid dividends totaling $257 million in 2011, $250 million in 2010 and $238 million in 2009.

Debt Management

Total debt, including both the current and long-term portions of capital leases and lease-financing obligations, increased $273 million to $8.2 billion as of year-end 2011, compared to year-end 2010. The increase in 2011, compared to 2010, resulted from increased net borrowings of commercial paper of $370 million and the issuance of $450 million of senior notes bearing an interest rate of 2.20%, offset by the payment at maturity of our $478 million of senior notes bearing an interest rate of 6.80%. Total debt decreased $164 million to $7.9 billion as of year-end 2010, compared to year-end 2009. The decrease in 2010, compared to 2009, resulted from the payment at maturity of our $500 million of senior notes bearing an interest rate of 8.05%, offset by the issuance of $300 million of senior notes bearing an interest rate of 5.40%. As of January 28, 2012, our cash and temporary cash investments were $188 million compared to $825 million as of January 29, 2011. This decrease was primarily due to the payment at maturity of our $478 million of senior notes, our $650 million UFCW consolidated pension plan contribution and the increased share repurchase activity noted above, partially offset by the borrowing of commercial paper and the issuance of our $450 million of senior notes described above.

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 on our fixed rate debt. In 2009, we prefunded employee benefit costs of $300 million. The mark-to-market adjustments increased the carrying value of our debt by $24 million in 2011 and $57 million in both 2010 and 2009.

Liquidity Needs

We estimate our liquidity needs over the next twelve month period to be approximately $3.6 billion, which includes anticipated requirements for working capital, capital expenditures, interest payments, and scheduled principal payments of debt, offset by cash and temporary cash investments on hand at the end of fiscal year 2011. Based on current operating trends, we believe that cash flows from operating activities and other sources of liquidity, including borrowings under our commercial paper program and bank credit facility, will be adequate to meet our liquidity needs for the next twelve months and for the foreseeable future beyond the next twelve months. We have approximately $1.3 billion of debt due in the next twelve months, which is included in the $3.6 billion in estimated liquidity needs. We expect to refinance this debt on favorable terms based on our past experience. If necessary, we believe we can also fund future scheduled principal payments of long-term debt from our cash flows from operating activities. We also currently do not expect to purchase our common shares at the levels we did in 2011. We used our commercial paper program toward the end of 2011 to fund our common share purchases. We expect our contributions to the UFCW consolidated pension plan to significantly decrease in future periods. We may use our commercial paper program to fund debt maturities in 2012 but do not expect to use the program permanently. We believe we have adequate coverage of our debt covenants to continue to maintain our current debt ratings and to respond effectively to competitive conditions.

Factors Affecting Liquidity

We can currently borrow on a daily basis approximately $1 billion under our commercial paper (CP) program. At January 28, 2012, we had $370 million of CP borrowings outstanding. CP borrowings are backed by our credit facility, and reduce the amount we can borrow under the credit facility. If our short-term credit ratings fall, the ability to borrow under our current CP program could be adversely affected for a period of time and increase our interest cost on daily borrowings under our CP program. 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 our borrowing capacity under our CP program would be any lower than $500 million on a daily basis. 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 an increase in our Leverage Ratio.

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Our credit facility 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 Leverage Ratio (the ratio of Net Debt to Consolidated EBITDA, as defined in the credit facility) was 1.85 to 1 as of January 28, 2012. If this ratio were to exceed 3.50 to 1, we would be in default of our credit facility and our ability to borrow under the facility would be impaired. In addition, our Applicable Margin on borrowings is determined by our Leverage Ratio.
- 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 4.42 to 1 as of January 28, 2012. 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 including our UFCW consolidated pension plan charge in 2011. 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 2011.

The tables below illustrate our significant contractual obligations and other commercial commitments, based on year of maturity or settlement, as of January 28, 2012 (in millions of dollars):

	2012	2013	2014	2015	2016	Thereafter	Total
Contractual Obligations (1) (2)							
Long-term debt(3)	$ 1,275	$ 1,514	$ 374	$ 517	$ 463	$ 3,600	$ 7,743
Interest on long-term debt (4)	414	350	284	268	248	2,145	3,709
Capital lease obligations	59	49	45	40	36	202	431
Operating lease obligations	725	683	630	563	497	2,197	5,295
Low-income housing obligations	6	4	1				11
Financed lease obligations	13	13	13	13	13	133	198
Self-insurance liability (5)	197	123	83	53	26	47	529
Construction commitments	225						225
UFCW consolidated pension plan commitment					7	304	311
Purchase obligations	645	94	24	19	12	14	808
Total	$ 3,559	$ 2,830	$ 1,454	$ 1,473	$ 1,302	$ 8,642	$ 19,260
Other Commercial Commitments							
Standby letters of credit	$ 210	$	$	$	$	$	$ 210
Surety bonds	298						298
Guarantees	6						6
Total	$ 514	$	$	$	$	$	$ 514

(1) The contractual obligations table excludes funding of pension and other postretirement benefit obligations, which totaled approximately $75 million in 2011. This table also excludes contributions under various multi-employer pension plans, which totaled $946 million in 2011, including our $650 million contribution to the UFCW consolidated pension plan.

(2) 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) As of January 28, 2012, we had $370 million of borrowings of commercial paper and no borrowings under our credit agreement and money market lines.

(4) Amounts include contractual interest payments using the interest rate as of January 28, 2012, and stated fixed and swapped interest rates, if applicable, for all other debt instruments.

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

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 28, 2012, we maintained a $2 billion (with the ability to increase by $500 million), unsecured revolving credit facility that, unless extended, terminates on January 25, 2017. We amended the credit agreement subsequent to year-end 2011 to update our covenants for the exclusion of the UFCW consolidated pension plan charge. All other terms remained the same. 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 two 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 28, 2012, we had $370 million of borrowings of commercial paper and no borrowings under our credit agreement and money market lines. The outstanding letters of credit that reduce funds available under our credit agreement totaled $19 million as of January 28, 2012.

In addition to the available credit mentioned above, as of January 28, 2012, we had authorized for issuance $1.6 billion of securities under a shelf registration statement filed with the SEC and effective on December 15, 2010.

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.

We have guaranteed half of the indebtedness of two real estate entities in which we have a 50% ownership interest. Our share of the responsibility for this indebtedness, should the entities be unable to meet their obligations, totals approximately $6 million. Based on the covenants underlying this indebtedness as of January 28, 2012, we believe that it is unlikely that we will be responsible for repayment of these obligations.

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 ISSUED ACCOUNTING STANDARDS

In September 2011, the FASB amended its standards related to the testing of goodwill for impairment. The objective of this amendment is to simplify the annual goodwill impairment evaluation process. The amendment provides entities the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The two-step impairment test is now only required if an entity determines through this qualitative analysis that it is more likely than not that the fair value of the reporting unit is less than its carrying value. The new rules are effective for interim and annual periods beginning after December 15, 2011; however, entities were permitted to adopt the standards early. We did not adopt these standards early for our 2011 goodwill impairment testing process. Because the measurement of a potential impairment loss has not changed, the amended standards will not have an effect on our Consolidated Financial Statements.

In June 2011, the FASB amended its rules regarding the presentation of comprehensive income. The objective of this amendment is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Specifically, this amendment requires that all non-owner changes in shareholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new rules were to become effective for interim and annual periods beginning after December 15, 2011. In December 2011, the FASB deferred certain aspects of this standard beyond the December 15, 2011 effective date, specifically the provisions dealing with reclassification adjustments. Because the standards only affect the display of comprehensive income and do not affect what is included in comprehensive income, the standards will not have a material effect on our Consolidated Financial Statements.

In May 2011, the FASB amended its standards related to fair value measurements and disclosures. The objective of the amendment is to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with GAAP and International Financial Reporting Standards. This amendment primarily changed the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. In addition, the amendment clarified the FASB s intent about the application of existing fair value measurement requirements. The new standard also requires additional disclosures related to fair value measurements categorized within Level 3 of the fair value hierarchy and requires disclosure of the categorization in the hierarchy for items that are not recorded at fair value but as to which fair value is required to be disclosed. The new rules became effective for interim and annual periods beginning after December 15, 2011. While we are still finalizing our evaluation of the effect of this amended standard on our Consolidated Financial Statements, we believe this new standard will not have a material effect on our Consolidated Financial Statements.

OUTLOOK

This discussion and analysis contains certain forward-looking statements about Kroger s future performance. These statements are based on management s assumptions and beliefs in light of the information currently available. Such statements relate to, among other things: projected changes in net earnings attributable to The Kroger Co.; identical supermarket sales growth; expected product cost; expected pension plan contributions; our ability to generate operating cash flows; 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, intend, target, believe, anticipate, plan, and similar words or phrases. These forward-looking statements are subject to uncertaintie 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 21E 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 net earnings per diluted share in the range of $2.28-$2.38 for 2012. This guidance assumes the benefit of the 53rd week, a lower expected LIFO charge, the benefit of our share buyback program during 2011, the benefit from the pension plan consolidation and the benefit from transfers of prescriptions to our stores from customers that previously used a former third party pharmacy provider to obtain their Express Scripts benefits.

- We expect identical supermarket sales growth, excluding fuel sales, of 3.0%-3.5% in 2012. This guidance contemplates the effect of several brand prescription drugs coming off patent during 2012, which will reduce sales because generic equivalents have a lower retail price.

- Our business model is designed to produce annual earnings per diluted share growth on average of 6.0% to 8.0% over a rolling three to five year time horizon. Including our dividend, our business model is designed to generate total shareholder return on average of 8.0% to 10.0% over a rolling three to five year time period. In 2012, annual earnings per diluted share growth are expected to be higher than this due to a combination of the benefit of the 53rd week, a lower expected LIFO charge, the benefit of our share buyback program during 2011, the benefits from the pension plan consolidation and the benefit from Express Scripts prescription transfers.

- For 2012, we intend to continue to focus on improving sales growth, in accordance with our Customer 1st strategy, by making investments in gross margin and customer shopping experiences. We expect to finance these investments primarily with operating cost reductions. We expect FIFO non-fuel operating margins for 2012 to expand slightly compared to 2011, excluding the UFCW consolidated pension plan charge in 2011.

- For 2012, we expect our annualized LIFO charge to be approximately $140 million to $190 million. This forecast is based on estimated cost changes for products in our inventory.

- For 2012, we expect interest expense to be approximately $450 million.

- We plan to use cash flow primarily for capital investments, to maintain our current debt coverage ratios, to pay cash dividends, and to repurchase stock. As market conditions change, we re-evaluate these uses of cash flow.

- 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 increases from our existing store base through remodels. In addition, we intend to continue our emphasis on self-development and ownership of real estate, and 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 investments for 2012 to be in the range of $1.9-$2.2 billion, excluding acquisitions and purchases of leased facilities. We expect total food store square footage to grow approximately 1.3%-1.5% 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 facility and other borrowing sources for the next twelve months and for the foreseeable future beyond the next twelve months.

- We expect that our OG&A results will be affected by increased costs, such as higher employee benefit costs and credit card fees, offset by improved productivity from process changes and leverage gained through sales increases.

- We expect that our effective tax rate for 2012 will be approximately 36.5%, excluding the effect of the resolution of any tax issues.

- We expect rent expense, as a percentage 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 2012 there will be opportunities to reduce our operating costs in such areas as administration, productivity improvements, shrink, warehousing and transportation. We intend to invest most of these savings in our core business to drive profitable sales growth and offer improved value and shopping experiences for our customers.

- Although we are not required to make cash contributions to the Company-sponsored defined benefit pension plans during 2012, we expect to contribute approximately $75 million to these plans in 2012. We expect any elective contributions made during 2012 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 expect 2012 expense for Company-sponsored defined benefit pension plans to be approximately $90 million. In addition, we expect 401(k) Retirement Savings Account Plan cash contributions and expense from automatic and matching contributions to participants to increase slightly in 2012, compared to 2011.

- We expect to contribute approximately $240 million to multi-employer pension plans in 2012, subject to collective bargaining. In addition, we expect meaningful increases in expense as a result of increases in multi-employer pension plan contributions over the next few years.

- We do not anticipate additional goodwill impairments in 2012.

- We have various labor agreements that will be renegotiated in 2012, covering store employees in Memphis, Las Vegas, Dayton and Columbus, Ohio, Indianapolis, Louisville, Nashville, Phoenix and Portland. Upon the expiration of our collective bargaining agreements, work stoppages by the affected workers could occur if we are unable to negotiate new contracts with labor unions. A prolonged work stoppage affecting a substantial number of locations could have a material adverse effect on our results. In all of these contracts, rising health care and pension costs will continue to be an important issue in negotiations.

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 effect 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.

- Changes in market conditions could affect our cash flow.

- Our ability to achieve sales and earnings goals may be affected by: labor negotiations or disputes; industry consolidation; pricing and promotional activities of existing and new competitors, including non-traditional competitors, and the aggressiveness of that competition; our response to these actions; the state of the economy, including interest rates, the inflationary and deflationary trends in certain commodities, and the unemployment rate; the effect that increased fuel costs have on consumer spending; changes in government-funded benefit programs; manufacturing commodity costs; diesel fuel costs related to our logistics operations; trends in consumer spending; the extent to which our customers exercise caution in their purchasing in response to economic conditions; the inconsistent pace of the economic recovery; changes in inflation or deflation in product and operating costs; stock repurchases; the effect of brand prescription drugs going off patent; our ability to obtain additional pharmacy sales from third party payors such as Express Scripts; the benefits that we receive from the consolidation of the UFCW pension plans and the success of our future growth plans. Our ability to achieve sales and earnings goals may also be affected by our ability to manage the factors identified above.

- The extent to which the adjustments we are making to our strategy create value for our shareholders will depend primarily on the reaction of our customers and our competitors to these adjustments, as well as operating conditions, including inflation or deflation, increased competitive activity, and cautious spending behavior of our customers.

- Our product cost inflation could vary from our estimate due to 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.

- Our ability to pass on product cost increases will depend on the reactions of our customers and competitors to those increases.

- Our ability to use free cash flow to continue to maintain our debt coverage and to reward our shareholders could be affected by unanticipated increases in net total debt, our inability to generate free cash flow at the levels anticipated, and our failure to generate expected earnings.

- Our LIFO charge and the timing of our recognition of LIFO expense will be affected primarily by changes in product costs during the year.

- If actual results differ significantly from anticipated future results for certain reporting units including variable interest entities, an impairment loss for any excess of the carrying value of the reporting units goodwill over the implied fair value would have 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 decline or fail to meet expectations if we are unable to pass on any cost increases, if we fail to deliver the cost savings contemplated or if changes in the cost of our inventory and the timing of those changes differ from our expectations.

- 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 provisions where it is reasonably possible to estimate and where 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 were 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, compensation as defined by the plan, and length of service of participants.

- The amounts of our contributions and recorded expense related to multi-employer pension funds could vary from the amounts that we expect, and could increase more than anticipated. Should asset values in these funds 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.

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

- 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 may 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 percentage of sales.

- Our capital expenditures, expected square footage growth, and number of store projects completed over the next fiscal year could differ from our estimate if we are unsuccessful in acquiring suitable sites for new stores, if development costs vary from those budgeted, if our logistics and technology or store projects are not completed on budget or within the time frame projected, or if economic conditions fail to improve, or worsen.

- Interest expense could be adversely affected by the interest rate environment, changes in our 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, including goodwill, could be affected by changes in our assumptions of future cash flows, market values or business valuations in the market. Our cash flow projections include several years of projected cash flows which would be affected by changes in the economic environment, real estate market values, competitive activity, inflation and customer behavior.

- Our estimated expense and obligation for Kroger-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 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 would suffer.

- Earnings and sales also may be affected by adverse weather conditions, particularly to the extent that hurricanes, tornadoes, floods, earthquakes, and other conditions disrupt our operations or those of our suppliers; create shortages in the availability or increases in the cost of products that we sell in our stores or materials and ingredients we use in our manufacturing facilities; or raise the cost of supplying energy to our various operations, including the cost of transportation.

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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Financial Risk Management

We use derivative financial instruments primarily to manage our exposure to fluctuations in interest rates and, to a lesser extent, adverse fluctuations in commodity prices and other market risks. We do not enter into derivative financial instruments for trading purposes. As a matter of policy, all of our derivative positions are intended to reduce risk by hedging an underlying economic exposure. Because of the high correlation between the hedging instrument and the underlying exposure, fluctuations in the value of the instruments generally are offset by reciprocal changes in the value of the underlying exposure. The interest rate derivatives we use are straightforward instruments with liquid markets.

We manage our exposure to interest rates and changes in the fair value of our debt instruments primarily through the strategic use of variable and fixed rate debt, and interest rate swaps. Our current program relative to interest rate protection contemplates hedging the exposure to changes in the fair value of fixed-rate debt attributable to changes in interest rates. To do this, we use the following guidelines: (i) use average daily outstanding borrowings to determine annual debt amounts subject to interest rate exposure, (ii) limit the average annual amount of debt subject to interest rate reset and the amount of floating rate debt to a combined total of $2.5 billion or less, (iii) include no leveraged products, and (iv) hedge without regard to profit motive or sensitivity to current mark-to-market status.

As of January 28, 2012, we maintained 18 interest rate swap agreements, with notional amounts totaling $1.6 billion, to manage our exposure to changes in the fair value of our fixed rate debt resulting from interest rate movements by effectively converting a portion of our debt from fixed to variable rates. These agreements mature at varying times between April 2012 and April 2013, and coincide with our scheduled debt maturities. The differential between fixed and variable rates to be paid or received is accrued as interest rates change in accordance with the agreements as an adjustment to interest expense. These interest rate swap agreements are being accounted for as fair value hedges. As of January 28, 2012, other long-term assets totaling $25 million were recorded to reflect the fair value of these agreements, primarily offset by increases in the fair value of the underlying debt. We have unamortized proceeds from nine interest rate swaps once classified as fair value hedges totaling approximately $5 million. The unamortized proceeds are recorded as adjustments to the carrying values of the underlying debt and are being amortized over the remaining term of the debt.

As of January 28, 2012, we maintained 24 forward-starting interest rate swap agreements with maturity dates between May 2012 and April 2013 with an aggregate notional amount totaling $1.2 billion. A forward-starting interest rate swap is an agreement that effectively hedges the variability in future benchmark interest payments attributable to changes in interest rates on the forecasted issuance of fixed-rate debt. We entered into the forward-starting interest rate swaps in order to lock in fixed interest rates on our forecasted issuances of debt in fiscal years 2012 and 2013. The fixed interest rates for these forward-starting interest rate swaps range from 2.15% to 3.26%. The variable rate component of the forward-starting interest rate swaps is 3 month LIBOR. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of January 28, 2012, the fair value of the interest rates swaps was recorded in other long term liabilities for $41 million and accumulated other comprehensive loss for $26 million net of tax.

In addition, in 2005, we entered into three forward-starting interest rate swap agreements with a notional amount totaling $750 million. We entered into the forward-starting interest rate swaps in order to lock into fixed interest rates on forecasted issuances of debt in 2007 and 2008. In 2007, we terminated two of these forward-starting interest rate swaps with a notional amount of $500 million. In 2008, we terminated the remaining forward interest rate swap with a notional amount of $250 million. As of January 28, 2012, the unamortized payments and proceeds of $5 million ($3 million net of tax) on these terminated forward-starting interest rate swaps have been recorded net of tax in other comprehensive income and will be amortized to earnings as the payments of interest to which the hedge relates are made.

Annually, we review with the Financial Policy Committee of our Board of Directors compliance with the guidelines described above. The guidelines may change as our business needs dictate.

The tables below provide information about our interest rate derivatives classified as fair value hedges and underlying debt portfolio as of January 28, 2012 and January 29, 2011. The amounts shown for each year represent the contractual maturities of long-term debt, excluding capital leases, and the average outstanding notional amounts of interest rate derivatives classified as fair value hedges as of January 28, 2012 and January 29, 2011. Interest rates reflect the weighted average rate for the outstanding instruments. The variable component of each interest rate derivative and the variable rate debt is based on U.S. dollar LIBOR using the forward yield curve as of January 28, 2012 and January 29, 2011. The Fair-Value column includes the fair-value of our debt instruments and interest rate derivatives classified as fair value hedges as of January 28, 2012 and January 29, 2011. Refer to Notes 5, 6 and 7 to the Consolidated Financial Statements.

	January 28, 2012 Expected Year of Maturity							
	2012	2013	2014	2015 (in millions)	2016	Thereafter	Total	Fair Value
Debt								
Fixed rate	$ (850)	$ (1,510)	$ (308)	$ (508)	$ (460)	$ (3,519)	$ (7,155)	$ (8,148)
Average interest rate	6.02%	5.96%	5.95%	6.10%	6.47%	6.74%		
Variable rate	$ (425)	$ (4)	$ (66)	$ (9)	$ (3)	$ (81)	$ (588)	$ (552)
Average interest rate	0.88%	0.89%	0.72%	0.25%	0.32%	0.41%		

	January 28, 2012 Average Notional Amounts Outstanding						January 28, 2012 Total	January 28, 2012 Fair Value
	2012	2013	2014	2015 (in millions)	2016	Thereafter		
Interest Rate Derivatives Classified as Fair Value Hedges								
Fixed to variable	$ 1,067	$ 78	$	$	$	$	$ 1,625	$ 25
Average pay rate	3.38%	2.76%						
Average receive rate	5.51%	5.00%						

	January 29, 2011 Expected Year of Maturity							
	2011	2012	2013	2014 (In millions)	2015	Thereafter	Total	Fair Value
Debt								
Fixed rate	$ (491)	$ (850)	$ (1,509)	$ (308)	$ (507)	$ (3,528)	$ (7,193)	$ (7,950)
Average interest rate	6.34%	6.30%	6.29%	6.36%	6.56%	6.87%		
Variable rate	$ (58)	$ (55)	$ (11)	$	$ (9)	$ (108)	$ (241)	$ (241)
Average interest rate	2.46%	1.23%	2.11%	2.16%	3.57%	4.04%		

	January 29, 2011 Average Notional Amounts Outstanding						January 29, 2011 Total	January 29, 2011 Fair Value
	2011	2012	2013	2014 (In millions)	2015	Thereafter		
Interest Rate Derivatives								
Fixed to variable	$ 1,625	$ 1,067	$ 78	$	$	$	$ 1,625	$ 45

Average pay rate	3.83%	3.67%	3.98%
Average receive rate	5.87%	5.51%	5.00%

Based on our year-end 2011 variable rate debt levels, a 10 percent change in interest rates would be immaterial. See Note 6 to the Consolidated Financial Statements for further discussion of derivatives and hedging policies.

Commodity Price Protection

We enter into purchase commitments for various resources, including raw materials utilized in our manufacturing facilities and energy to be used in our stores, warehouses, manufacturing facilities and administrative offices. We enter into commitments expecting to take delivery of and to utilize those resources in the conduct of normal business. Those commitments for which we expect to utilize or take delivery in a reasonable amount of time in the normal course of business qualify as normal purchases.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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 28, 2012 and January 29, 2011, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2012 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 28, 2012, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s 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 Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s 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.

A company s 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 company s 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 company s 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.

/s/ PricewaterhouseCoopers LLP

Cincinnati, Ohio

March 27, 2012

THE KROGER CO.

CONSOLIDATED BALANCE SHEETS

(In millions, except par values)		January 28, 2012		January 29, 2011
ASSETS				
Current assets				
Cash and temporary cash investments	$	188	$	825
Deposits in-transit		786		666
Receivables		949		845
FIFO inventory		6,157		5,793
LIFO reserve		(1,043)		(827)
Prepaid and other current assets		288		319
Total current assets		7,325		7,621
Property, plant and equipment, net		14,464		14,147
Goodwill		1,138		1,140
Other assets		549		597
Total Assets	$	23,476	$	23,505
LIABILITIES				
Current liabilities				
Current portion of long-term debt including obligations under capital leases and financing obligations	$	1,315	$	588
Trade accounts payable		4,329		4,227
Accrued salaries and wages		1,056		888
Deferred income taxes		190		220
Other current liabilities		2,215		2,147
Total current liabilities		9,105		8,070
Long-term debt including obligations under capital leases and financing obligations				
Face-value of long-term debt including obligations under capital leases and financing obligations		6,826		7,247
Adjustment related to fair-value of interest rate hedges		24		57
Long-term debt including obligations under capital leases and financing obligations		6,850		7,304
Deferred income taxes		647		750
Pension and postretirement benefit obligations		1,393		946
Other long-term liabilities		1,515		1,137
Total Liabilities		19,510		18,207
Commitments and contingencies (see Note 11)				
SHAREOWNERS EQUITY				
Preferred shares, $100 par per share, 5 shares authorized and unissued		—		—
Common shares, $1 par per share, 1,000 shares authorized; 959 shares issued in 2011 and 2010		959		959
Additional paid-in capital		3,427		3,394
Accumulated other comprehensive loss		(844)		(550)
Accumulated earnings		8,571		8,225
Common stock in treasury, at cost, 398 shares in 2011 and 339 shares in 2010		(8,132)		(6,732)

Total Shareowners Equity The Kroger Co.		3,981		5,296
Noncontrolling interests		(15)		2
Total Equity		3,966		5,298
Total Liabilities and Equity	$	23,476	$	23,505

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

THE KROGER CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended January 28, 2012, January 29, 2011 and January 30, 2010

(In millions, except per share amounts)	**2011 (52 weeks)**	**2010 (52 weeks)**	**2009 (52 weeks)**
Sales	$ 90,374	$ 82,049	$ 76,609
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	71,494	63,803	58,848
Operating, general and administrative	15,345	13,823	13,412
Rent	619	623	620
Depreciation and amortization	1,638	1,600	1,525
Goodwill impairment charge	—	18	1,113
Operating Profit	1,278	2,182	1,091
Interest expense	435	448	502
Earnings before income tax expense	843	1,734	589
Income tax expense	247	601	532
Net earnings including noncontrolling interests	596	1,133	57
Net earnings (loss) attributable to noncontrolling interests	(6)	17	(13)
Net earnings attributable to The Kroger Co.	$ 602	$ 1,116	$ 70
Net earnings attributable to The Kroger Co. per basic common share	$ 1.01	$ 1.75	$ 0.11
Average number of common shares used in basic calculation	590	635	647
Net earnings attributable to The Kroger Co. per diluted common share	$ 1.01	$ 1.74	$ 0.11
Average number of common shares used in diluted calculation	593	638	650
Dividends declared per common share	$ 0.44	$ 0.40	$ 0.37

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

THE KROGER CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended January 28, 2012, January 29, 2011 and January 30, 2010

(In millions)	**2011 (52 weeks)**	**2010 (52 weeks)**	**2009 (52 weeks)**
Cash Flows From Operating Activities:			
Net earnings including noncontrolling interests	$ 596	$ 1,133	$ 57
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,638	1,600	1,525
Goodwill impairment charge	—	18	1,113
Asset impairment charge	37	25	48
LIFO charge	216	57	49
Stock-based employee compensation	81	79	83
Expense for Company-sponsored pension plans	70	65	31
Deferred income taxes	31	37	222
Other	8	8	53
Changes in operating assets and liabilities net of effects from acquisitions of businesses:			
Store deposits in-transit	(120)	(12)	(23)
Inventories	(361)	(88)	(45)
Receivables	(63)	(11)	(21)
Prepaid expenses	52	290	(51)
Trade accounts payable	82	315	54
Accrued expenses	216	71	(46)
Income taxes receivable and payable	(106)	133	49
Contribution to Company-sponsored pension plans	(52)	(141)	(265)
Other	333	(213)	89
Net cash provided by operating activities	2,658	3,366	2,922
Cash Flows From Investing Activities:			
Payments for capital expenditures	(1,898)	(1,919)	(2,297)
Proceeds from sale of assets	51	55	20
Payments for acquisitions	(51)	(7)	(36)
Other	(10)	(90)	(14)
Net cash used by investing activities	(1,908)	(1,961)	(2,327)
Cash Flows From Financing Activities:			
Proceeds from issuance of long-term debt	453	381	511
Payments on long-term debt	(547)	(553)	(432)
Borrowings (payments) on credit facility	370	—	(129)
Proceeds from issuance of capital stock	118	29	51
Treasury stock purchases	(1,547)	(545)	(218)
Dividends paid	(257)	(250)	(238)
Investment in the remaining interest of a variable interest entity	—	(86)	—
Other	23	20	21
Net cash used by financing activities	(1,387)	(1,004)	(434)

Net increase (decrease) in cash and temporary cash investments		(637)		401		161
Cash and temporary cash investments:						
Beginning of year		825		424		263
End of year	$	188	$	825	$	424
Reconciliation of capital expenditures:						
Payments for capital expenditures	$	(1,898)	$	(1,919)	$	(2,297)
Changes in construction-in-progress payables		(60)		22		(18)
Total capital expenditures	$	(1,958)	$	(1,897)	$	(2,315)
Disclosure of cash flow information:						
Cash paid during the year for interest	$	457	$	486	$	542
Cash paid during the year for income taxes	$	296	$	664	$	130

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

THE KROGER CO.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREOWNERS EQUITY

Years Ended January 28, 2012, January 29, 2011 and January 30, 2010

(In millions, except per share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Gain (Loss)	Accumulated Earnings	Noncontrolling Interest	Total
Balances at January 31, 2009	955	$ 955	$ 3,266	306	$ (6,039)	$ (495)	$ 7,538	$ 95	$ 5,320
Issuance of common stock:									
Stock options exercised	3	3	54		(6)				51
Restricted stock issued			(59)	(1)	42				(17)
Treasury stock activity:									
Treasury stock purchases, at cost				8	(156)				(156)
Stock options exchanged				3	(62)				(62)
Tax detriments from exercise of stock options			(2)						(2)
Share-based employee compensation			83						83
Other comprehensive loss net of income tax of $(58)						(98)			(98)
Other									