KROGER CO
Form 10-K
March 31, 2015

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 31, 2015.

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. o

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 (Do not check if a smaller reporting company)	o	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 16, 2014: $24.6 billion. There were 953,668,959 shares of Common Stock ($1 par value) outstanding as of March 27, 2015.

Documents Incorporated by Reference:

Portions of the proxy statement to be filed pursuant to Regulation 14A of the Exchange Act on or before June 1, 2015, are incorporated by reference into Part III of this Form 10-K.

PART I

FORWARD LOOKING STATEMENTS.

This Annual Report on Form 10-K contains forward-looking statements about our future performance. These statements are based on our assumptions and beliefs in light of the information currently available to us. These statements are subject to a number of known and unknown risks, uncertainties and other important factors, including the risks and other factors discussed in Risk Factors and Outlook below, that could cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward looking statements. Such statements are indicated by words such as comfortable, committed, will, expect, goal, should, intend, target, bel anticipate, plan, and similar words or phrases. Moreover, statements in the sections entitled Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Outlook, and elsewhere in this report 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, as amended.

ITEM 1. BUSINESS.

The Kroger Co. (the Company or Kroger) was founded in 1883 and incorporated in 1902. As of January 31, 2015, we are one of the largest retailers in the nation based on annual sales. We also manufacture and process some of the food for sale in our supermarkets. Our principal executive offices are located at 1014 Vine Street, Cincinnati, Ohio 45202, and our telephone number is (513) 762-4000. We maintain a web site (www.thekrogerco.com) that includes additional information about the Company. We make available through our web site, free of charge, our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and our interactive data files, including amendments. These forms are available as soon as reasonably practicable after we have filed them with, or furnished them electronically to, the SEC.

Our revenues are predominately earned and cash is generated as consumer products are sold to customers in our stores. We earn income predominantly by selling products at price levels that produce revenues in excess of the costs to make these products available to our customers. Such costs include procurement and distribution costs, facility occupancy and operational costs, and overhead expenses. Our fiscal year ends on the Saturday closest to January 31. All references to 2014, 2013 and 2012 are to the fiscal years ended January 31, 2015, February 1, 2014 and February 2, 2013, respectively, unless specifically indicated otherwise.

EMPLOYEES

As of January 31, 2015, Kroger employed approximately 400,000 full- and part-time employees. A majority of our 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.

STORES

As of January 31, 2015, Kroger operated, either directly or through its subsidiaries, 2,625 supermarkets and multi-department stores, 1,330 of which had fuel centers. Approximately 48% of these supermarkets were operated in Company-owned facilities, including some Company-owned buildings on leased land. Our current strategy emphasizes self-development and ownership of store real estate. Our 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 store is the primary food store format. They typically draw customers from a 2 2½ mile radius. We believe 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, outdoor living, electronics, automotive products, toys and fine jewelry.

Marketplace stores are smaller in size than multi-department stores. They offer full-service grocery, pharmacy and health and beauty care departments as well as an expanded perishable offering and general merchandise area that includes apparel, 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 31, 2015, we operated through subsidiaries 782 convenience stores, 326 fine jewelry stores and an online retailer. All 132 of our fine jewelry stores located in malls are operated in leased locations. In addition, 78 convenience stores were operated by franchisees through franchise agreements. Approximately 54% 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

We operate retail food and drug stores, multi-department stores, jewelry stores, and convenience stores throughout the United States. Our retail operations, which represent over 99% of our consolidated sales and earnings before interest, taxes and depreciation and amortization (EBITDA), is our only reportable segment. Our 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, our operating divisions offer customers similar products, have similar distribution methods, operate in similar regulatory environments, purchase the majority of the 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. Our operating divisions reflect the manner in which the business is managed and how our Chief Executive Officer and Chief Operating Officer, who act as our chief operating decision makers, assess performance internally. All of our operations are domestic. Revenues, profits and losses and total assets are shown in our Consolidated Financial Statements set forth in Item 8 below.

MERCHANDISING AND MANUFACTURING

Corporate brand products play an important role in our merchandising strategy. Our supermarkets, on average, stock approximately 13,000 private label items. Our corporate brand products are primarily 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®, Fred Meyer®, King Soopers®, etc.), which represents the majority of our private label items, is designed to satisfy customers with quality products. Before we 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. P$$T ®, Check This Out and Heritage Farm are the three value brands, designed to deliver good quality at a very affordable price. In addition, we continue to grow our other brands, including Simple Truth® and Simple Truth Organic®. Both Simple Truth and Simple Truth Organic are Free From 101 artificial preservatives and ingredients that customers have told us they do not want in their food, and the Simple Truth Organic products are USDA certified organic.

Approximately 40% of the corporate brand units sold in our supermarkets are produced in our manufacturing plants; the remaining corporate brand items are produced to our strict specifications by outside manufacturers. We perform a make or buy analysis on corporate brand products and decisions are based upon a comparison of market-based transfer prices versus open market purchases. As of January 31, 2015, we operated 37 manufacturing plants. These plants consisted of 17 dairies, nine deli or bakery plants, five grocery product plants, two beverage plants, two meat plants and two cheese plants.

SEASONALITY

The majority of our revenues are generally not seasonal in nature. However, revenues tend to be higher during the major holidays throughout the year.

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 our 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. The following information should be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Outlook section in Item 7 of this Form 10-K, which include 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 expansion, increasing fragmentation of retail and online formats, entry of non-traditional competitors and market consolidation. We have developed a strategic plan that we believe provides a balanced approach that will enable us 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.

PRODUCT SAFETY

Customers count on Kroger to provide them with safe food and drugs and other merchandise. Concerns regarding the safety of the products that we sell could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources of supply even if the basis for the concern is outside of our control. Any lost confidence on the part of our customers would be difficult and costly to reestablish. Any issue regarding the safety of items we sell, regardless of the cause, could have a substantial and adverse effect on our reputation, financial condition, results of operations, or cash flows.

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. 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 our financial condition, results of operations, or cash flows.

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 or operating 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, a contractor or other third party with whom we do business may attempt to circumvent our security measures in order to obtain information or may inadvertently cause a breach involving 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

Our indebtedness could reduce our ability to obtain additional financing for working capital, acquisitions or other purposes and could make us vulnerable to 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 AND INSURANCE

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. Other legal proceedings 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 and the Litigation section in Note 13 to the Consolidated Financial Statements.

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.

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 of these multi-employer plans substantially exceeds the value of the assets held in trust to pay benefits, and we expect that Kroger s contributions to those funds will increase 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 our outstanding debt instruments could view the underfunded nature of these plans unfavorably when determining their ratings on our debt securities. Any downgrading of our debt ratings likely would adversely affect our 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. In addition, we 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 could be responsible for the shortfall, which could have an adverse effect on our business, financial condition, results of operations, or cash flows.

INTEGRATION OF NEW BUSINESS

We enter into mergers and acquisitions with expected benefits including, among other things, operating efficiencies, procurement savings, innovation, sharing of best practices and increased market share that may allow for future growth. Achieving the anticipated benefits may be subject to a number of significant challenges and uncertainties, including, without limitation, whether unique corporate cultures will work collaboratively in an efficient and effective manner, the coordination of geographically separate organizations, the possibility of imprecise assumptions underlying expectations regarding potential synergies and the integration process, unforeseen expenses and delays, and competitive factors in the marketplace. We could also encounter unforeseen transaction and integration-related costs or other circumstances such as unforeseen liabilities or other issues. Many of these potential circumstances are outside of our control and any of them could result in increased costs, decreased revenue, decreased synergies and the diversion of management time and attention. If we are unable to achieve our objectives within the anticipated time frame, or at all, the expected benefits may not be realized fully or at all, or may take longer to realize than expected, which could have an adverse effect on our business, financial condition and results of operations, or cash flows.

FUEL

We sell a significant amount of gasoline, which could face increased regulation and demand could be affected by concerns about the effect of emissions on the environment as well as retail price increases. We are unable to predict future regulations, environmental effects, political unrest, acts of terrorism and other matters that may affect the cost and availability of fuel, and how our customers will react, which could adversely affect our financial condition, results of operations, or cash flows.

ECONOMIC CONDITIONS

Our operating results could be materially impacted by changes in overall economic conditions that impact consumer confidence and spending, including discretionary spending. Future economic conditions affecting disposable consumer income such as employment levels, business conditions, changes in housing market conditions, the availability of credit, interest rates, tax rates, the impact of natural disasters or acts of terrorism, and other matters could reduce consumer spending. Increased fuel prices could also 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 operations, 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, droughts and earthquakes. Weather conditions and natural disasters could disrupt our operations at one or more of our facilities, interrupt the delivery of products to our stores, substantially increase the cost of products, including supplies and materials and 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 financial condition, results of operations, or cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

As of January 31, 2015, we operated approximately 3,800 owned or leased supermarkets, convenience stores, fine jewelry stores, distribution warehouses and manufacturing plants through divisions, subsidiaries or affiliates. These facilities are located throughout the United States. While our current strategy emphasizes ownership of store real estate, a majority of the properties used to conduct our business are leased.

We generally own store equipment, fixtures and leasehold improvements, as well as processing and manufacturing equipment. The total cost of our owned assets and capitalized leases at January 31, 2015, was $34.5 billion while the accumulated depreciation was $16.6 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 10 to the Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS.

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, we believe that any resulting liability will not have a material adverse effect on our financial position, results of operations, or cash flows.

We continually evaluate our exposure to loss contingencies arising from pending or threatened litigation and believe we have 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 involves substantial uncertainties. We currently believe that the aggregate range of loss for our exposures is not material. It remains possible that despite our current belief, material differences in actual outcomes or changes in our evaluation or predictions could arise that could have a material adverse effect on our 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)

The following table sets forth the high and low sales prices for our common shares on the New York Stock Exchange for each full quarterly period of the two most recently completed fiscal years:

COMMON SHARE PRICE RANGE

	2014		2013	
Quarter	**High**	**Low**	**High**	**Low**
1st	$ 47.90	$ 35.13	$ 35.44	$ 27.53
2nd	$ 51.49	$ 46.50	$ 39.98	$ 32.77

3rd	$ 58.15	$ 49.98	$ 43.85	$ 35.91
4th	$ 70.06	$ 57.27	$ 42.73	$ 35.71

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

Number of shareholders of record at year-end 2014: 29,792

Number of shareholders of record at March 27, 2015: 29,502

During 2013, we paid three quarterly cash dividends of $0.15 per share and one quarterly cash dividend of $0.165 per share. During 2014, we paid three quarterly cash dividends of $0.165 per share and one quarterly cash dividend of $0.185 per share. On March 1, 2015, we paid a quarterly cash dividend of $0.185 per share. On March 12, 2015, we announced that our Board of Directors have declared a quarterly cash dividend of $0.185 per share, payable on June 1, 2015, to shareholders of record at the close of business on May 15, 2015. We currently expect to continue to pay comparable cash dividends on a quarterly basis depending on our earnings and other factors.

For information on securities authorized for issuance under our existing equity compensation plans, see Item 12 under the heading Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the five-year cumulative total shareholder return on our 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 Period			INDEXED RETURNS Years Ending		
Company Name/Index	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
The Kroger Co.	100	101.12	117.57	137.80	181.50	352.22
S&P 500 Index	100	122.19	128.70	151.35	182.08	207.98
Peer Group	100	108.56	114.10	137.81	155.93	188.85

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

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* Total assumes $100 invested on January 30, 2010, 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 Caremark Corp, Etablissements Delhaize Freres Et Cie Le Lion (Groupe Delhaize), Great Atlantic & Pacific Tea Company, Inc. (included through March 13, 2012 when it became private after emerging from bankruptcy), Koninklijke Ahold NV, Safeway, Inc. (included through January 29, 2015 when it was acquired by AB Acquisition LLC), Supervalu Inc., Target Corp., Tesco plc, Wal-Mart Stores Inc., Walgreens Boots Alliance Inc. (formerly, Walgreen Co.), Whole Foods Market Inc. and Winn-Dixie Stores, Inc. (included through March 9, 2012 when it became a wholly-owned subsidiary of Bi-Lo Holdings).

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)

The following table presents information on our purchases of our common shares during the fourth quarter of 2014.

ISSUER PURCHASES OF EQUITY SECURITIES

Period (1)	Total Number of Shares Purchased (2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (4) (in millions)
First period - four weeks				
November 9, 2014 to December 6, 2014	87,884	$ 58.72	78,700	$ 500
Second period - four weeks				
December 7, 2014 to January 3, 2015	223,024	$ 62.33	182,731	$ 500
Third period four weeks				
January 4, 2015 to January 31, 2015	290,348	$ 66.08	259,725	$ 500
Total	601,256	$ 63.61	521,156	$ 500

(1) The reported periods conform to our fiscal calendar composed of thirteen 28-day periods. The fourth quarter of 2014 contained three 28-day periods.

(2) Includes (i) shares repurchased under 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, under which repurchases are limited to proceeds received from exercises of stock options and the tax benefits associated therewith (the 1999 Repurchase Program), and (ii) 80,100 shares that were surrendered to the Company by participants under our long-term incentive plans to pay for taxes on restricted stock awards.

(3) Represents shares repurchased under the 1999 Repurchase Program.

(4) The amounts shown in this column reflect the amount remaining under the $500 million share repurchase program authorized by the Board of Directors and announced on June 26, 2014. Amounts available under the 1999 Repurchase Program are dependent upon option exercise activity. The repurchase programs do not have an expiration date but may be terminated by the Board of Directors at any time.

ITEM 6. SELECTED FINANCIAL DATA.

	Fiscal Years Ended				
	January 31, 2015 (52 weeks)(1)(2)	February 1, 2014 (52 weeks)(1)	February 2, 2013 (53 weeks)	January 28, 2012 (52 weeks)	January 29, 2011 (52 weeks)
	(In millions, except per share amounts)				
Sales	$ 108,465	$ 98,375	$ 96,619	$ 90,269	$ 81,967
Net earnings including noncontrolling interests	1,747	1,531	1,508	596	1,133
Net earnings attributable to The Kroger Co.	1,728	1,519	1,497	602	1,116
Net earnings attributable to The Kroger Co. per diluted common share	3.44	2.90	2.77	1.01	1.74
Total assets	30,556	29,281	24,634	23,454	23,505
Long-term liabilities, including obligations under capital leases and financing obligations	13,711	13,181	9,359	10,405	10,137
Total shareholders equity The Kroger Co.	5,412	5,384	4,207	3,981	5,296
Cash dividends per common share	0.680	0.615	0.495	0.430	0.390

(1) Harris Teeter Supermarkets, Inc. (Harris Teeter) is included in our ending Consolidated Balance Sheets for 2013 and 2014 and in our Consolidated Statements of Operations for 2014. Due to the timing of the merger closing late in fiscal year 2013, its results of operations were not material to our consolidated results of operations for 2013.

(2) Vitacost.com, Inc. (Vitacost.com) is included in our ending Consolidated Balance Sheets and Consolidated Statements of Operations for 2014.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of financial condition and results of operations of The Kroger Co. should be read in conjunction with the Forward-looking Statements section set forth in Part I, the Risk Factors section set forth in Item 1A of Part I and Outlook below.

OUR BUSINESS

The Kroger Co. was founded in 1883 and incorporated in 1902. Kroger is one of the nation s largest retailers, as measured by revenue, operating 2,625 supermarket and multi-department stores under two dozen banners including Kroger, City Market, Dillons, Food 4 Less, Fred Meyer, Fry s, Harris Teeter, Jay C, King Soopers, QFC, Ralphs and Smith s. Of these stores, 1,330 have fuel centers. We also operate 782 convenience stores, either directly or through franchisees, 326 fine jewelry stores and an online retailer.

We operate 37 manufacturing plants, primarily bakeries and dairies, which supply approximately 40% of the corporate brand units sold in our supermarkets.

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 our consolidated sales and EBITDA, is our only reportable segment.

On January 28, 2014, we closed our merger with Harris Teeter by purchasing 100% of the Harris Teeter outstanding common stock for approximately $2.4 billion. The merger allows us to expand into the fast-growing southeastern and mid-Atlantic markets and into Washington, D.C. Harris Teeter is included in our ending Consolidated Balance Sheets for 2013 and 2014 and in our Consolidated Statements of Operations for 2014. Due to the timing of the merger closing late in fiscal year 2013, its results of operations were not material to our consolidated results of operations for 2013. Year-over-year comparisons will be affected as a result. See Note 2 to the Consolidated Financial Statements for more information related to our merger with Harris Teeter.

On August 18, 2014, we closed our merger with Vitacost.com by purchasing 100% of the Vitacost.com outstanding common stock for $8.00 per share or $287 million. Vitacost.com is a leading online retailer in health and wellness products, which are sold directly to consumers through the website vitacost.com. The merger affords us access to Vitacost.com s extensive e-commerce platform, which can be combined with our customer insights and loyal customer base, to create new levels of personalization and convenience for our customers. Vitacost.com is included in our ending Consolidated Balance Sheets and Consolidated Statements of Operations for 2014. See Note 2 to the Consolidated Financial Statements for more information related to our merger with Vitacost.com.

OUR 2014 PERFORMANCE

We achieved outstanding results in 2014. Our business strategy continues to resonate with a full range of customers and our results reflect the balance we seek to achieve across our business including positive identical sales growth, increases in loyal household count, and good cost control, as well as growth in net earnings and net earnings per diluted share. Our 2014 net earnings were $1.7 billion or $3.44 per diluted share, compared to $1.5 billion, or $2.90 per diluted share for the same period of 2013.

Our net earnings for 2014 include a net $39 million after-tax charge for an $87 million ($56 million after-tax) charge to operating, general and administrative (OG&A) expenses due to the commitments and withdrawal liabilities arising from restructuring of certain pension plan agreements to help stabilize associates future pension benefits, offset partially by the benefits from certain tax items ($17 million) (2014 Adjusted Items). In addition, our net earnings for 2014 included unusually high fuel margins, partially offset by a last-in, first-out (LIFO) charge that was significantly higher than 2013 and $140 million in contributions charged to OG&A expenses for the United Food and Commercial Workers International Union (UFCW) Consolidated Pension Plan ($55 million) and our charitable foundation ($85 million) (2014 Contributions). Fuel margin per gallon was $0.19 per gallon in 2014, compared to $0.14 per gallon in 2013. The $55 million contribution to the UFCW Consolidated Pension Plan was to further fund the plan. The $85 million contribution to Kroger s charitable foundation will enable it to continue to support causes such as hunger relief, breast cancer awareness, the military and their families and local community organizations.
Our net earnings for 2013 include a net benefit of $23 million, which includes benefits from certain tax items of $40 million, offset partially by costs of $11 million in interest and $16 million in OG&A expenses ($17 million after-tax) related to our merger with Harris Teeter (2013 Adjusted Items).

Excluding the 2014 Adjusted Items, net earnings for 2014 totaled $1.8 billion, or $3.52 per diluted share, compared to net earnings in 2013 of $1.5 billion, or $2.85 per diluted share, excluding the 2013 Adjusted Items. We believe adjusted net earnings and adjusted net earnings per diluted share present a more accurate year-over-year comparison of our financial results because the Adjusted Items were not the result of our normal operations. Our adjusted net earnings per diluted share for 2014 represent a 24% increase, compared to 2013. Please refer to the Net Earnings section of MD&A for more information.

Our identical supermarket sales increased 5.2%, excluding fuel, in 2014, compared to 2013. We have achieved 45 consecutive quarters of positive identical supermarket sales growth, excluding fuel. As we continue to outpace many of our competitors on identical supermarket sales growth, we continue to gain market share. We focus on identical supermarket sales growth, excluding fuel, as it is a key performance target for our long-term growth strategy.

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 POS+ data, our overall market share of the products we sell in markets in which we operate increased by approximately 60 basis points in 2014. This data also indicates that our market share increased in 18 markets and declined slightly in two. Wal-Mart is one of our top two competitors in 15 of the 20 markets outlined in the Nielson report. Our market share increased in all 15 of these markets. These market share results reflect our long-term strategy of market share growth.

RESULTS OF OPERATIONS

The following discussion summarizes our operating results for 2014 compared to 2013 and for 2013 compared to 2012. Comparability is affected by income and expense items that fluctuated significantly between and among the periods, our merger with Harris Teeter in late 2013 and an extra week in 2012.

Net Earnings

Net earnings totaled $1.7 billion in 2014 and $1.5 billion in 2013 and 2012. Net earnings improved in 2014, compared to net earnings in 2013, due to an increase in operating profit, partially offset by increases in interest and tax expense. Operating profit increased in 2014, compared to 2013, primarily due to an increase in first-in, first-out (FIFO) non-fuel gross profit, excluding Harris Teeter, the effect of our merger with Harris Teeter and an increase in fuel operating profit, partially offset by continued investments in lower prices for our customers, the 2014 Contributions, an $87 million ($56 million after-tax) charge due to the restructuring of certain pension plan agreements and a higher LIFO charge which was $147 million (pre-tax), compared to a LIFO charge of $52 million (pre-tax) in 2013. Net earnings improved in 2013, compared to net earnings of 2012, due to a decrease in tax and interest expense, partially offset by a decrease in operating profit. Operating profit decreased in 2013, compared to 2012, primarily due to a 53rd week in fiscal year 2012 (the Extra Week), continued investments in lower prices for our customers, the 2012 settlement with Visa and MasterCard and the reduction in our obligation to fund the UFCW Consolidated Pension Plan created in 2012, partially offset by an increase in FIFO non-fuel gross profit.

The net earnings for 2014 include a net charge of $39 million, after tax, related to the 2014 Adjusted Items. The net earnings for 2013 include a net benefit of $23 million, after tax, related to the 2013 Adjusted Items. The net earnings for 2012 include a benefit from net earnings of approximately $58 million, after-tax, due to the Extra Week and a net $115 million ($74 million after-tax) benefit in OG&A expenses for the settlement with Visa and MasterCard and a reduction in our obligation to fund the UFCW Consolidated Pension Plan created in January 2012

(2012 Adjusted Items). Excluding these benefits and charges for Adjusted Items for 2014, 2013 and 2012, adjusted net earnings were $1.8 billion in 2014, $1.5 billion in 2013 and $1.4 billion in 2012. 2014 adjusted net earnings improved, compared to adjusted net earnings in 2013, due to an increase in FIFO non-fuel operating profit, excluding Harris Teeter, the effect of our merger with Harris Teeter and an increase in fuel operating profit, partially offset by continued investments in lower prices for our customers, increases in interest and tax expense and a higher LIFO charge which was $147 million (pre-tax), compared to a LIFO charge of $52 million (pre-tax) in 2013. 2013 adjusted net earnings improved, compared to adjusted net earnings in 2012, due to an increase in FIFO non-fuel operating profit and decreased interest, partially offset by continued investments in lower prices for our customers and increased tax expense.

Net earnings per diluted share totaled $3.44 in 2014, $2.90 in 2013 and $2.77 in 2012. Net earnings per diluted share in 2014, compared to 2013, increased primarily due to fewer shares outstanding as a result of the repurchase of Kroger common shares and an increase in net earnings. Net earnings per diluted share in 2013, compared to 2012, increased primarily due to fewer shares outstanding as a result of the repurchase of Kroger common shares and an increase in net earnings.

Excluding the 2014, 2013 and 2012 Adjusted Items, adjusted net earnings per diluted share totaled $3.52 in 2014, $2.85 in 2013 and $2.52 in 2012. Adjusted net earnings per diluted share in 2014, compared to adjusted net earnings per diluted share in 2013, increased primarily due to fewer shares outstanding as a result of the repurchase of Kroger common shares and an increase in adjusted net earnings. Adjusted net earnings per diluted share in 2013, compared to adjusted net earnings per diluted share in 2012, increased primarily due to fewer shares outstanding as a result of the repurchase of Kroger common shares and an increase in adjusted net earnings.

Management believes adjusted net earnings (and adjusted net earnings per diluted share) are useful metrics to investors and analysts because they more accurately reflect our day-to-day business operations than do the generally accepted accounting principle (GAAP) measures of net earnings and net earnings per diluted share. Adjusted net earnings (and adjusted net earnings per diluted share) are non-generally accepted accounting principle (non-GAAP) financial measures and should not be considered alternatives to net earnings (and net earnings per diluted share) or any other GAAP measure of performance. Adjusted net earnings (and adjusted net earnings per diluted share) should not be viewed in isolation or considered substitutes for our financial results as reported in accordance with GAAP. Management uses adjusted net earnings (and adjusted net earnings per diluted share) in evaluating our results of operations as it believes these measures are more meaningful indicators of operating performance since, as adjusted, those earnings relate more directly to our day-to-day operations. Management also uses adjusted net earnings (and adjusted net earnings per diluted share) as a performance metric for management incentive programs, and to measure our progress against internal budgets and targets.

The following table provides a reconciliation of net earnings attributable to The Kroger Co. to net earnings attributable to The Kroger Co. excluding the Adjusted Items for 2014, 2013 and 2012 and a reconciliation of net earnings attributable to The Kroger Co. per diluted common share to the net earnings attributable to The Kroger Co. per diluted common share excluding the Adjusted Items for 2014, 2013 and 2012:

Net Earnings per Diluted Share excluding the Adjusted Items

(in millions, except per share amounts)

	2014	2013	2012
Net earnings attributable to The Kroger Co.	$ 1,728	$ 1,519	$ 1,497
2014 Adjusted Items	39		
2013 Adjusted Items		(23)	
2012 Adjusted Items			(132)
Net earnings attributable to The Kroger Co. excluding the adjustment items above	$ 1,767	$ 1,496	$ 1,365
Net earnings attributable to The Kroger Co. per diluted common share	$ 3.44	$ 2.90	$ 2.77
2014 Adjusted Items(1)	0.08		
2013 Adjusted Items(1)		(0.05)	
2012 Adjusted Items(1)			(0.25)
Net earnings attributable to The Kroger Co. per diluted common share excluding the adjustment items above	$ 3.52	$ 2.85	$ 2.52
Average numbers of common shares used in diluted calculation	497	520	537

(1) The amounts presented represent the net earnings per diluted common share effect of each adjusted item.

Sales

Total Sales

(in millions)

		2014	Percentage Increase(2)		2013	Percentage Increase(3)	2012		2012 Adjusted(4)
Total supermarket sales without fuel	$	86,281	12.5%	$	76,666	4.0% $	75,179	$	73,733
Fuel sales		18,850	(0.6)%		18,962	3.0%	18,896		18,413
Other sales(1)		3,334	21.4%		2,747	9.2%	2,544		2,515
Total sales	$	108,465	10.3%	$	98,375	3.9% $	96,619	$	94,661

(1) Other sales primarily relate to sales at convenience stores, excluding fuel; jewelry stores; manufacturing plants to outside customers; variable interest entities; a specialty pharmacy; in-store health clinics; and online sales by Vitacost.com.

(2) This column represents the sales percentage increases in 2014, compared to 2013.

(3) This column represents the sales percentage increases in 2013, compared to 2012 Adjusted.

(4) The 2012 Adjusted column represents the items presented in the 2012 column as adjusted to remove the Extra Week.

Total sales increased in 2014, compared to 2013, by 10.3%. This increase in 2014 total sales, compared to 2013, was primarily due to our merger with Harris Teeter, which closed on January 28, 2014, and an increase in identical supermarket sales, excluding fuel, of 5.2%. Identical supermarket sales, excluding fuel for 2014, compared to 2013, increased primarily due to an increase in the number of households shopping with us, an increase in visits per household and product cost inflation. Total fuel sales decreased in 2014, compared to 2013, primarily due to a 6.8% decrease in the average retail fuel price, partially offset by an increase in fuel gallons sold of 6.6%.

Total sales increased in 2013, compared to 2012, by 1.82%. The increase in 2013 total sales, compared to 2012, was primarily due to our identical supermarket sales increase, excluding fuel, of 3.6%, partially offset by the Extra Week in fiscal 2012. Total sales increased in 2013, compared to 2012 adjusted total sales, by 3.9%. The increase in 2013 total sales, compared to 2012 adjusted total sales, was primarily due to our identical supermarket sales increase, excluding fuel, of 3.6%. Identical supermarket sales, excluding fuel, increased in 2013, compared to 2012, primarily due to an increase in number of households shopping with us, an increase in visits per household and product cost inflation. Total fuel sales increased in 2013, compared to 2012 adjusted total sales, primarily due to an increase in fuel gallons sold of 5.2% partially offset by a decrease in the average retail fuel price of 2.9%.

We define a supermarket as identical when it has been in operation without expansion or relocation for five full quarters. Although identical supermarket sales is a relatively standard term, numerous methods exist for calculating identical supermarket sales growth. As a result, the method used by our management to calculate identical supermarket sales may differ from methods other companies use to calculate identical supermarket sales. We urge you to understand the methods used by other companies to calculate identical supermarket sales before comparing our identical supermarket sales to those of other such companies. Fuel discounts received at our fuel centers and earned based on in-store purchases are included in all of the supermarket identical sales results calculations illustrated below and reduce our identical supermarket sales results. Differences between total supermarket sales and identical supermarket sales primarily relate to changes in supermarket square footage.

Identical supermarket sales include sales from all departments at identical Fred Meyer multi-department stores and include Harris Teeter sales for stores that are identical as if they were part of the Company in our prior year. 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.

Identical Supermarket Sales

(dollars in millions)

	2014	2013
Including supermarket fuel centers	$ 97,323	$ 93,435
Excluding supermarket fuel centers	$ 82,987	$ 78,878
Including supermarket fuel centers	4.2%	3.3%(1)
Excluding supermarket fuel centers	5.2%	3.6%(1)

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(1) Identical supermarket sales for 2013 were calculated on a 52 week basis by excluding week 1 of fiscal 2012 in our 2012 identical supermarket sales base.

Gross Margin and FIFO Gross Margin

We calculate gross margin as sales less merchandise costs, including advertising, warehousing, and transportation expenses. Merchandise costs exclude depreciation and rent expenses. Our gross margin rates, as a percentage of sales, were 21.16% in 2014, 20.57% in 2013 and 20.59% in 2012. The increase in 2014, compared to 2013, resulted primarily from the effect of our merger with Harris Teeter, an increase in fuel gross margin rate and a reduction in warehouse and transportation costs, as a percentage of sales, partially offset by continued investments in lower prices for our customers and an increase in our LIFO charge, as a percentage of sales. The merger with Harris Teeter, which closed late in fiscal year 2013, had a positive effect on our gross margin rate in 2014 since Harris Teeter has a higher gross margin rate as compared to total Company without Harris Teeter. The increase in fuel gross margin rate for 2014, compared to 2013, resulted primarily from an increase in fuel margin per gallon sold of $0.19 in 2014, compared to $0.14 in 2013. The decrease in 2013, compared to 2012, resulted primarily from continued investments in lower prices for our customers and increased shrink and advertising costs, as a percentage of sales, offset partially by a growth rate in retail fuel sales that was lower than the total Company sales growth rate. Our retail fuel operations lower our gross margin rate, as a percentage of sales, due to the very low gross margin on retail fuel sales as compared to non-fuel sales. A lower growth rate in retail fuel sales, as compared to the growth rate for the total Company, increases the gross margin rates, as a percentage of sales, when compared to the prior year.

We calculate FIFO gross margin as sales less merchandise costs, including advertising, warehousing, and transportation expenses, but excluding the LIFO charge. Merchandise costs exclude depreciation and rent expenses. Our LIFO charge was $147 million in 2014, $52 million in 2013 and $55 million in 2012. FIFO gross margin is a non-GAAP financial measure and should not be considered as an alternative to gross margin or any other GAAP measure of performance. FIFO gross margin should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP. FIFO gross margin is an important measure used by management to evaluate merchandising and operational effectiveness. Management believes FIFO gross margin is a useful metric to investors and analysts because it measures our day-to-day merchandising and operational effectiveness.

Our FIFO gross margin rates, as a percentage of sales, were 21.30% in 2014, 20.62% in 2013 and 20.65% in 2012. Our retail fuel operations lower our FIFO gross margin rate, as a percentage of sales, due to the very low FIFO gross margin rate on retail fuel as compared to non-fuel sales. Excluding the effect of retail fuel, our FIFO gross margin rate decreased three basis points in 2014, as a percentage of sales, compared to 2013. The decrease in FIFO gross margin rates, excluding retail fuel, in 2014, compared to 2013, resulted primarily from continued investments in lower prices for our customers, offset partially by the effect of our merger with Harris Teeter and a reduction of warehouse and transportation costs, as a percentage of sales. Excluding the effect of retail fuel operations, our FIFO gross margin rate decreased 14 basis points in 2013, as a percentage of sales, compared to 2012. The decrease in FIFO gross margin rates, excluding retail fuel, in 2013, compared to 2012, resulted primarily from continued investments in lower prices for our customers and increased shrink and advertising costs, as a percentage of sales.

LIFO Charge

The LIFO charge was $147 million in 2014, $52 million in 2013 and $55 million in 2012. In 2014, we experienced higher levels of product cost inflation, compared to 2013. In 2014, our LIFO charge primarily resulted from annualized product cost inflation related to pharmacy, grocery, deli, meat and seafood. We experienced relatively consistent levels of product cost inflation in 2013, compared to 2012. In 2013, our LIFO charge resulted primarily from an annualized product cost inflation related to meat, seafood and pharmacy. In 2012, our LIFO charge resulted primarily from an annualized product cost inflation related to grocery, natural foods, meat, deli and bakery, general merchandise and grocery, partially offset by deflation in seafood and manufactured product.

Operating, General and Administrative Expenses

OG&A expenses consist primarily of employee-related costs such as wages, health care benefits 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 15.82% in 2014, 15.45% in 2013 and 15.37% in 2012. The increase in OG&A expenses, as a percentage of sales, in 2014, compared to 2013, resulted primarily from the 2014 Contributions, expenses related to commitments and withdrawal liabilities arising from restructuring of certain pension plan agreements to help stabilize associates future pension benefits, the effect of fuel, the effect of our merger with Harris Teeter and increases in credit card fees and incentive plan costs, as a percentage of sales, partially offset by increased supermarket sales growth, productivity improvements and effective cost controls at the store level. Retail fuel sales lower our OG&A rate due to the very low OG&A rate, as a percentage of sales, of retail fuel sales compared to non-fuel sales. The merger with Harris Teeter, which closed late in fiscal year 2013, increased our OG&A rate, as a percentage of sales, since Harris Teeter has a higher OG&A rate as compared to the total Company without Harris Teeter. The increase in OG&A rate in 2013, compared to 2012, resulted primarily from the 2012 settlement with Visa and MasterCard and a reduction in our obligation to fund the UFCW Consolidated Pension Plan created in January 2012, the effect of fuel and increased incentive plan costs, as a percentage of sales, offset partially by increased identical supermarket sales growth, productivity improvements and effective cost controls at the store level.

Our retail fuel operations reduce our overall OG&A rate, as a percentage of sales, due to the very low OG&A rate on retail fuel sales as compared to non-fuel sales. OG&A expenses, as a percentage of sales excluding fuel, the 2014 Contributions and the 2014 Adjusted Items, decreased 19 basis points in 2014, compared to 2013, adjusted for the 2013 Adjusted Items. The decrease in our adjusted OG&A rate in 2014, compared to 2013, resulted primarily from increased supermarket sales growth, productivity improvements and effective cost controls at the store level, offset partially by the effect of our merger with Harris Teeter and increases in credit card fees and incentive plan costs, as a percentage of sales. OG&A expenses, as a percentage of sales excluding fuel and the 2013 Adjusted Items, decreased 17 basis points in 2013, compared to 2012, adjusted for the 2012 Adjusted Items. The decrease in our adjusted OG&A rate in 2013, compared to 2012, resulted primarily from increased identical supermarket sales growth, productivity improvements and effective cost controls at the store level, offset partially by increased incentive plan costs, as a percentage of sales.

Rent Expense

Rent expense was $707 million in 2014, compared to $613 million in 2013 and $628 million in 2012. Rent expense, as a percentage of sales, was 0.65% in 2014, compared to 0.62% in 2013 and 0.65% in 2012. The increase in rent expense, as a percentage of sales, in 2014, compared to 2013, is due to the effect of our merger with Harris Teeter, partially offset by our continued emphasis to own rather than lease, whenever possible, and the benefit of increased sales. The merger with Harris Teeter, which closed late in fiscal year 2013, increased rent expense, as a percentage of sales, since Harris Teeter has a higher rent expense rate compared to the total Company without Harris Teeter. The decrease in rent expense, as a percentage of sales, in 2013, compared to 2012, is due to our continued emphasis to own rather than lease, whenever possible, and the benefit of increased sales.

Depreciation and Amortization Expense

Depreciation and amortization expense was $1.9 billion, compared to $1.7 billion in 2013 and 2012. Depreciation and amortization expense, as a percentage of sales, was 1.80% in 2014, 1.73% in 2013 and 1.71% in 2012. The increase in depreciation and amortization expense for 2014, compared to 2013, in total dollars, was due to the effect of our merger with Harris Teeter and our increased spending in capital investments, including acquisitions and lease buyouts, of $3.1 billion in 2014. The increase in depreciation and amortization expense, as a percentage of sales, from 2014, compared to 2013, is primarily due to the effect of our merger with Harris Teeter and our increased spending in capital investments, partially offset by increased supermarket sales. The merger with Harris Teeter, which closed late in fiscal year 2013, increased our depreciation and amortization expense, as a percentage of sales, since Harris Teeter has a higher depreciation expense rate as compared to the total Company without Harris Teeter. The increase in depreciation and amortization expense, as a percentage of sales, from 2013, compared to 2012, is primarily the result of increased spending in capital investments, partially offset by increases in supermarket sales and the Extra Week.

Operating Profit and Adjusted FIFO Operating Profit

Operating profit was $3.1 billion in 2014, $2.7 billion in 2013 and $2.8 billion in 2012. Operating profit, as a percentage of sales, was 2.89% in 2014, 2.77% in 2013 and 2.86% in 2012. Operating profit, as a percentage of sales, increased 12 basis points in 2014, compared to 2013, primarily from the effect of our merger with Harris Teeter, an increase in fuel gross margin rate and a reduction in warehouse and transportation costs, rent and depreciation and amortization expenses, as a percentage of sales, partially offset by continued investments in lower prices for our customers and an increase in the LIFO charge, as a percentage of sales. Operating profit, as a percentage of sales, decreased 9 basis points in 2013, compared to 2012, primarily from continued investments in lower prices for our customers, the 2012 settlement with Visa and MasterCard and the reduction in our obligation to fund the UFCW Consolidated Pension Plan created in January 2012 and increased shrink and advertising costs, as a percentage of sales, partially offset by productivity improvements, effective cost controls at store level and a reduction in rent expense, as a percentage of sales.

We calculate FIFO operating profit as operating profit excluding the LIFO charge. FIFO operating profit is a non-GAAP financial measure and should not be considered as an alternative to operating profit or any other GAAP measure of performance. FIFO operating profit should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP. FIFO operating profit is an important measure used by management to evaluate operational effectiveness. Management believes FIFO operating profit is a useful metric to investors and analysts because it measures our day-to-day merchandising and operational effectiveness. Since fuel discounts are earned based on in-store purchases, fuel operating profit does not include fuel discounts, which are allocated to our in-store supermarket location departments. We also derive OG&A, rent and depreciation and amortization expenses through the use of estimated allocations in the calculation of fuel operating profit.

FIFO operating profit was $3.3 billion in 2014 and $2.8 billion in 2013 and 2012. Excluding the Extra Week in 2012, FIFO operating profit was $2.7 billion. FIFO operating profit, as a percentage of sales, was 3.03% in 2014, 2.82% in 2013 and 2.92% in 2012. FIFO operating profit, as a percentage of sales excluding the Extra Week in 2012, was 2.87%. FIFO operating profit, excluding the 2014, 2013 and 2012 Adjusted Items and the 2014 Contributions, was $3.5 billion in 2014, $2.8 billion in 2013 and $2.6 billion in 2012. FIFO operating profit, as a percentage of sales excluding the 2014, 2013 and 2012 Adjusted Items and the 2014 Contributions, was 3.24% in 2014, 2.84% in 2013 and 2.75% in 2012.

Retail fuel sales lower our overall FIFO operating profit rate due to the very low FIFO operating profit rate, as a percentage of sales, of retail fuel sales compared to non-fuel sales. FIFO operating profit, as a percentage of sales excluding fuel, the 2014 Contributions and the 2014 Adjusted Items, increased 10 basis points in 2014, compared to 2013, adjusted for the 2013 Adjusted Items. The increase in our adjusted FIFO operating profit rate in 2014, compared to 2013, was primarily due to the effect of our merger with Harris Teeter and a reduction in warehouse and transportation costs, improvements in OG&A, rent and depreciation and amortization expense, as a percentage of sales, partially offset by continued investments in lower prices for our customers. FIFO operating profit, as a percentage of sales excluding fuel and the 2013 Adjusted Items, increased 11 basis points in 2013, compared to 2012, adjusted for the 2012 Adjusted Items. The increase in our adjusted FIFO operating profit rate in 2013, compared to 2012, was primarily due to improvements in OG&A and rent expenses, as a percentage of sales, offset partially by continued investments in lower prices for our customers and increased shrink and advertising costs, as a percentage of sales.

Interest Expense

Interest expense totaled $488 million in 2014, $443 million in 2013 and $462 million in 2012. The increase in interest expense in 2014, compared to 2013, resulted primarily from an increase in net total debt, primarily due to financing the merger with Harris Teeter and repurchases of our outstanding common shares. The decrease in interest expense in 2013, compared to 2012, resulted primarily from a lower weighted average interest rate, offset partially by a decrease in the net benefit from interest rate swaps and the Extra Week.

Income Taxes

Our effective income tax rate was 34.1% in 2014, 32.9% in 2013 and 34.5% in 2012. The 2014 and 2013 tax rates differed from the federal statutory rate primarily as a result of the utilization of tax credits, the Domestic Manufacturing Deduction and other changes, partially offset by the effect of state income taxes. The 2013 benefit from the Domestic Manufacturing deduction was greater than 2014 and 2012 due to the amendment of prior years tax returns to claim additional benefit available in years still under review by the Internal Revenue Service. The 2012 tax rate differed from the federal statutory rate primarily as a result of the utilization of tax credits, the favorable resolution of certain tax issues and other changes, partially offset by the effect of state income taxes.

COMMON SHARE REPURCHASE PROGRAMS

We maintain share repurchase programs that comply with Rule 10b5-1 of the Securities Exchange Act of 1934 and allow for the orderly repurchase of our common shares, from time to time. We made open market purchases of our common shares totaling $1.1 billion in 2014, $338 million in 2013 and $1.2 billion in 2012 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 $155 million in 2014, $271 million in 2013 and $96 million in 2012 of our common shares under the stock option program.

The shares repurchased in 2014 were acquired under three separate share repurchase programs. The first is a $500 million repurchase program that was authorized by our Board of Directors on October 16, 2012. The second is a $1 billion repurchase program that was authorized by our Board of Directors on March 13, 2014, that replaced the first referenced program. The third is a program that uses the cash proceeds from the exercises of stock options by participants in our stock option and long-term incentive plans as well as the associated tax benefits. On June 26, 2014, we announced a new $500 million share repurchase program that was authorized by our Board of Directors, replacing the $1 billion repurchase program that was authorized by our Board of Directors on March 13, 2014. As of January 31, 2015, we have not repurchased any shares utilizing the June 26, 2014 repurchase program.

CAPITAL INVESTMENTS

Capital investments, including changes in construction-in-progress payables and excluding acquisitions and the purchase of leased facilities, totaled $2.8 billion in 2014, $2.3 billion in 2013 and $2.0 billion in 2012. Capital investments for acquisitions totaled $252 million in 2014, $2.3 billion in 2013 and $122 million in 2012. Payments for acquisitions of $2.3 billion in 2013 relate to our merger with Harris Teeter. Refer to Note 2 to the Consolidated Financial Statements for more information on the merger with Harris Teeter. Capital investments for the purchase of leased facilities totaled $135 million in 2014, $108 million in 2013 and $73 million in 2012. The table below shows our supermarket storing activity and our total food store square footage:

Supermarket Storing Activity

	2014	2013	2012
Beginning of year	2,640	2,424	2,435
Opened	33	17	18
Opened (relocation)	13	7	7
Acquired		227	
Closed (operational)	(48)	(28)	(29)
Closed (relocation)	(13)	(7)	(7)
End of year	2,625	2,640	2,424
Total food store square footage (in millions)	162	161	149

RETURN ON INVESTED CAPITAL

We calculate return on invested capital (ROIC) by dividing adjusted operating profit for the prior four quarters by the average invested capital. Adjusted operating profit is calculated by excluding certain items included in operating profit, and adding our LIFO charge, depreciation and amortization and rent. Average invested capital is calculated as the sum of (i) the average of our total assets, (ii) the average LIFO reserve, (iii) the average accumulated depreciation and amortization and (iv) a rent factor equal to total rent for the last four quarters multiplied by a factor of eight; minus (i) the average taxes receivable, (ii) the average trade accounts payable, (iii) the average accrued salaries and wages and (iv) the average other current liabilities. Averages are calculated for return on invested capital by adding the beginning balance of the first quarter and the ending balance of the fourth quarter, of the last four quarters, and dividing by two. We use a factor of eight for our total rent as we believe this is a common factor used by our investors and analysts. ROIC is a non-GAAP financial measure of performance. ROIC should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP. ROIC is an important measure used by management to evaluate our investment returns on capital. Management believes ROIC is a useful metric to investors and analysts because it measures how effectively we are deploying our assets. All items included in the calculation of ROIC are GAAP measures, excluding certain adjustments to operating profit.

Although ROIC is a relatively standard financial term, numerous methods exist for calculating a company s ROIC. As a result, the method used by our management to calculate ROIC may differ from methods other companies use to calculate their ROIC. We urge you to understand the methods used by other companies to calculate their ROIC before comparing our ROIC to that of such other companies.

The following table provides a calculation of ROIC for 2014 and 2013. The calculation of the numerator in the table below only includes Harris Teeter in 2014. The calculation of the denominator excludes the assets and liabilities recorded as of February 1, 2014 for Harris Teeter due to the merger being completed at the end of 2013 ($ in millions):

	January 31, 2015	February 1, 2014
Return on Invested Capital		
Numerator		
Operating profit	$ 3,137	$ 2,725
LIFO charge	147	52
Depreciation and amortization	1,948	1,703
Rent	707	613
Adjustments for pension plan agreements	87	
Other		16
Adjusted operating profit	$ 6,026	$ 5,109
Denominator		
Average total assets	$ 29,919	$ 26,958
Average taxes receivable(1)	(19)	(10)
Average LIFO reserve	1,197	1,124
Average accumulated depreciation and amortization	16,057	14,991
Average trade accounts payable	(4,967)	(4,683)
Average accrued salaries and wages	(1,221)	(1,084)
Average other current liabilities(2)	(2,780)	(2,544)
Adjustment for Harris Teeter (3)		(1,618)
Rent x 8	5,656	4,904
Average invested capital	$ 43,842	$ 38,038
Return on Invested Capital	13.74%	13.43%

(1) Taxes receivable were $20 as of January 31, 2015, $18 as of February 1, 2014 and $2 as of February 2, 2013.

(2) Other current liabilities included accrued income taxes of $5 as of January 31, 2015, $92 as of February 1, 2014 and $128 as of February 2, 2013. Accrued income taxes are removed from other current liabilities in the calculation of average invested capital.

(3) Harris Teeter s invested capital has been excluded from the calculation for 2013 due to the merger being completed at the end of 2013.

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 GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and other factors we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

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

Self-Insurance Costs

We primarily are self-insured for costs related to workers compensation and general liability claims. The liabilities represent our best estimate, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all claims incurred through January 31, 2015. 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 $2 million. General liability claims are not discounted.

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 triggering 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 triggering 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 2014, $39 million in 2013 and $18 million in 2012. 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 $2.3 billion as of January 31, 2015. 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, reporting units) that have 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 reporting unit s goodwill. We recognize goodwill impairment for any excess of the carrying value of the reporting unit s goodwill over the implied fair value.

In 2014, goodwill increased $160 million due to our merger with Vitacost.com which closed on August 18, 2014. In addition, goodwill increased $9 million in 2014 and $901 million in 2013 due to our merger with Harris Teeter which closed on January 28, 2014. For additional information related to the allocation of the purchase price for Vitacost.com and Harris Teeter, refer to Note 2 to the Consolidated Financial Statements.

The annual evaluation of goodwill performed for our other reporting units during the fourth quarter of 2014, 2013 and 2012 did not result in impairment. Based on current and future expected cash flows, we believe goodwill impairments are not reasonably likely. A 10% reduction in fair value of our reporting units would not indicate a potential for impairment of our goodwill balance.

For additional information relating to our results of the goodwill impairment reviews performed during 2014, 2013 and 2012 see Note 3 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 non-cancellable 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 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 15 to the Consolidated Financial Statements and include, among others, the discount rate, the expected long-term rate of return on plan assets, mortality 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 15 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 was to match the plan s cash flows to that of a hypothetical bond portfolio whose cash flow from coupons and maturities match the plan s projected benefit cash flows. The discount rates are the single rates that produce the same present value of cash flows. The selection of the 3.87% and 3.74% discount rates as of year-end 2014 for pension and other benefits, respectively, represents the hypothetical bond portfolio using bonds with an AA or better rating constructed with the assistance of an outside consultant. We utilized a discount rate of 4.99% and 4.68% as of year-end 2013 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 31, 2015, by approximately $500 million.

To determine the expected rate of return on pension plan assets held by Kroger for 2014, we considered current and forecasted plan asset allocations as well as historical and forecasted rates of return on various asset categories. In 2014, we decreased our assumed pension plan investment return rate to 7.44%, compared to 8.50% in 2013 and 2012. Our pension plan s average rate of return was 7.58% for the 10 calendar years ended December 31, 2014, 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, 2014, net of investment management fees and expenses, increased 5.65%. For the past 20 years, our average annual rate of return has been 9.58%. Based on the above information and forward looking assumptions for investments made in a manner consistent with our target allocations, we believe a 7.44% rate of return assumption is reasonable for 2014. See Note 15 to the Consolidated Financial Statements for more information on the asset allocations of pension plan assets.

On January 31, 2015, we adopted new mortality tables based on mortality experience and assumptions for generational mortality improvement in calculating our 2014 year end pension obligation. The tables assume an improvement in life expectancy and increase our benefit obligation and future expenses. We used the RP-2000 projected 2021 mortality table in calculating our 2013 year end pension obligation and 2014, 2013 and 2012 pension expense.

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

	Percentage Point Change	Projected Benefit Obligation Decrease/(Increase)	Expense Decrease/(Increase)
Discount Rate	+/- 1.0%	$ 500/(613)	$ 30/($40)
Expected Return on Assets	+/- 1.0%		$ 31/($31)

In 2014, we did not contribute to our Company-sponsored defined benefit plans and do not expect to make any contributions to this plan in 2015. We contributed $100 million in 2013 and $71 million in 2012 to our Company-sponsored defined benefit pension plans. 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 contributions.

We contributed and expensed $177 million in 2014, $148 million in 2013 and $140 million in 2012 to employee 401(k) retirement savings accounts. The increase in 2014 is due to the effect of our merger with Harris Teeter. 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 contribute to various multi-employer pension plans, including the UFCW Consolidated Pension Plan, based on obligations arising from collective bargaining agreements. We are designated as the named fiduciary of the UFCW Consolidated Pension Plan and have sole investment authority over these assets. These multi-employer pension 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 first quarter of 2014, we incurred a charge of $56 million (after-tax) related to commitments and withdrawal liabilities associated with the restructuring of pension plan agreements, of which $15 million was contributed to the UFCW Consolidated Pension Plan in 2014. We are required to contribute an additional $75 million over the next four years related to the restructuring of these pension plan agreements.

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 $297 million in 2014, $228 million in 2013 and $492 million in 2012. The cash contributions for 2012 include our $258 million contribution to the UFCW Consolidated Pension Plan in the fourth quarter of 2012.

Based on the most recent information available to us, we believe that the present value of actuarially accrued liabilities in most of the multi-employer plans to which we contribute 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, 2014. Because we are only one of a number of employers contributing to these plans, we also have attempted to estimate the ratio of our contributions to the total of all contributions to these plans in a year as a way of assessing our share of the underfunding. Nonetheless, the underfunding is not a direct obligation or liability of ours or of any employer except as noted above. As of December 31, 2014, we estimate that our share of the underfunding of multi-employer plans to which we contribute was $1.8 billion, pre-tax, or $1.2 billion, after-tax. This represents an increase in the estimated amount of underfunding of approximately $200 million, pre-tax, or $130 million, after-tax, as of December 31, 2014, compared to December 31, 2013. The increase in the amount of underfunding is attributable to lower than expected returns on the assets held in the multi-employer plans during 2014. 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 ours. Rather, we believe the underfunding is likely to have important consequences. In 2015, we expect to contribute approximately $250 million to multi-employer pension plans, subject to collective bargaining and capital market conditions. We expect increases 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 our 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, our share of the underfunding could increase and our 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. We continue to evaluate our potential exposure to under-funded multi-employer pension plans. Although these liabilities are not a direct obligation or liability of ours, any commitments to fund certain multi-employer plans will be expensed when our commitment is probable and an estimate can be made.

See Note 16 to the Consolidated Financial Statements for more information relating to our participation in these multi-employer pension plans.

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 5 to the Consolidated Financial Statements for the amount of unrecognized tax benefits and other 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 31, 2015, the Internal Revenue Service had concluded its examination of our 2008 and 2009 federal tax returns. Tax years 2010 through 2013 remain under examination.

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 95% of inventories in 2014 and 2013 were valued using the LIFO method. Cost for the balance of the inventories, including substantially all fuel inventories, was determined using the FIFO method. Replacement cost was higher than the carrying amount by $1.2 billion at January 31, 2015 and February 1, 2014. 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. In addition, substantially all of our inventory consists of finished goods and is recorded at actual purchase costs (net of vendor allowances and cash discounts).

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 $6.9 billion in 2014 and $6.2 billion in 2013 and 2012 of vendor allowances as a reduction in merchandise costs. We recognized approximately 93% of all vendor allowances in the item cost with the remainder being based on inventory turns.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In February 2013, the Financial Accounting Standards Board (FASB) amended its standards on comprehensive income by requiring disclosure of information about amounts reclassified out of AOCI by component. Specifically, the amendment requires disclosure of the effect of significant reclassifications out of AOCI on the respective line items in net income in which the item was reclassified if the amount being reclassified is required to be reclassified to net income in its entirety in the same reporting period. It requires cross reference to other disclosures that provide additional detail for amounts that are not required to be reclassified in their entirety in the same reporting period. This new disclosure became effective for us beginning February 3, 2013, and was adopted prospectively in accordance with the standard. See Note 9 to the Consolidated Financial Statements for our disclosures related to this amended standard.

In July 2013, the FASB amended Accounting Standards Codification 740, Income Taxes. The amendment provides guidance on the financial statement presentation of an unrecognized tax benefit, as either a reduction of a deferred tax asset or as a liability, when a net operating loss carryforward, similar tax loss, or a tax credit carryforward exists. This amendment became effective for us beginning February 2, 2014, and was adopted prospectively in accordance with the standard. The adoption of this amendment did not have an effect on net income and did not have a significant effect on the Consolidated Balance Sheets.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, FASB issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers , which provides guidance for revenue recognition. The standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This guidance will be effective for us in the first quarter of its fiscal year ending January 27, 2018. Early adoption is not permitted. We are currently in the process of evaluating the effect of adoption of this ASU on the Consolidated Financial Statements.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Information

Net cash provided by operating activities

We generated $4.2 billion of cash from operations in 2014, compared to $3.6 billion in 2013 and $3.0 billion in 2012. The cash provided by operating activities came from net earnings including non-controlling interests adjusted primarily for non-cash expenses of depreciation and amortization, the LIFO charge and changes in working capital. The increase in net cash provided by operating activities in 2014, compared to 2013, resulted primarily due to an increase in net earnings including non-controlling interests, which include the results of Harris Teeter, an increase in non-cash items, a reduction in contributions to Company-sponsored pension plans and changes in working capital. The increase in non-cash items in 2014, as compared to 2013, was primarily due to increases in depreciation and amortization expense and the LIFO charge.

Cash provided (used) by operating activities for changes in working capital was ($49) million in 2014, compared to $63 million in 2013 and ($211) million in 2012. The increase in cash used by operating activities for changes in working capital in 2014, compared to 2013, was primarily due to an increase in cash used for receivables and a decrease in cash provided by trade accounts payables, partially offset by an increase in cash provided by accrued expenses.

The increase in net cash provided by operating activities in 2013, compared to 2012, resulted primarily due to changes in working capital and long-term liabilities. The increase in cash provided by operating activities for changes in working capital in 2013, compared to 2012, was primarily due to a decrease in cash used for deposits in-transit, prepaid expenses and receivables. The use of cash for the payment of long-term liabilities decreased in 2013, as compared to 2012, primarily due to our funding of the remaining unfunded actuarial accrued liability for the UFCW Consolidated Pension Plan in 2012.

The amount of cash paid for income taxes increased in 2014, compared to 2013, primarily due to an increase in net earnings including non-controlling interests. The amount of cash paid for income taxes increased in 2013, compared to 2012, primarily due to additional deductions taken in 2012 related to the funding of our pension contributions and union health benefits.

Net cash used by investing activities

Cash used by investing activities was $3.1 billion in 2014, compared to $4.8 billion in 2013 and $2.2 billion in 2012. The amount of cash used by investing activities decreased in 2014, compared to 2013, due to decreased payments for acquisitions, offset primarily by increased payments for capital investments. The amount of cash used by investing activities increased in 2013, compared to 2012, due to increased payments for capital investments and acquisitions. Capital investments, including payments for lease buyouts and excluding acquisitions, were $2.8 billion in 2014, $2.3 billion in 2013 and $2.1 billion in 2012. Acquisitions were $252 million in 2014, $2.3 billion in 2013 and $122 million in 2012. The decrease in payments for acquisitions in 2014, compared to 2013, and the increase in payments for acquisitions in 2013, compared to 2012, was primarily due to our merger with Harris Teeter in 2013. Refer to the Capital Investments section for an overview of our supermarket storing activity during the last three years.

Net cash provided (used) by financing activities

Financing activities provided (used) cash of ($1.2) billion in 2014, $1.4 billion in 2013 and ($721) million in 2012. The increase in the amount of cash used for financing activities in 2014, compared to 2013, was primarily related to decreased proceeds from the issuance of long-term debt and increased treasury stock purchases, offset partially by decreased payments on long-term debt. The increase in cash provided by financing activities in 2013, compared to 2012, was primarily related to increased proceeds from the issuance of long-term debt, primarily to finance our merger with Harris Teeter, and a reduction in payments on long-term debt and treasury stock purchases, offset partially by net payments on our commercial paper program. Proceeds from the issuance of long-term debt were $576 million in 2014, $3.5 billion in 2013 and $863 million in 2012. Net borrowings (payments) provided from our commercial paper program were $25 million in 2014, ($395) million in 2013 and $1.3 billion in 2012. Please refer to the Debt Management section of MD&A for additional information. We repurchased $1.3 billion of Kroger common shares in 2014, compared to $609 million in 2013 and $1.3 billion in 2012. We paid dividends totaling $338 million in 2014, $319 million in 2013 and $267 million in 2012.

Debt Management

Total debt, including both the current and long-term portions of capital lease and lease-financing obligations increased $346 million to $11.7 billion as of year-end 2014, compared to 2013. The increase in 2014, compared to 2013, resulted primarily from the issuance of (i) $500 million of senior notes bearing an interest rate of 2.95% and (ii) an increase in commercial paper of $25 million, partially offset by payments at maturity of $300 million of senior notes bearing an interest rate of 4.95%. The increase in financing obligations was due to partially funding our outstanding common share repurchases.

Total debt, including both the current and long-term portions of capital lease and lease-financing obligations increased $2.4 billion to $11.3 billion as of year-end 2013, compared to 2012. The increase in 2013, compared to 2012, resulted from the issuance of (i) $600 million of senior notes bearing an interest rate of 3.85%, (ii) $400 million of senior notes bearing an interest rate of 5.15%, (iii) $500 million of senior notes bearing an interest rate of 3-month London Inter-Bank Offering Rate (LIBOR) plus 53 basis points, (iv) $300 million of senior notes bearing an interest rate of 1.2%, (v) $500 million of senior notes bearing an interest rate of 2.3%, (vi) $700 million of senior notes bearing an interest rate of 3.3%, and (vii) $500 million of senior notes bearing an interest rate of 4.0%, offset partially by a reduction in commercial paper of $395 million and payments at maturity of $400 million of senior notes bearing an interest rate of 5.0% and $600 million of senior notes bearing an interest rate of 7.5%. This increase in financing obligations was due to partially funding our merger with Harris Teeter, refinancing our debt maturities in 2013 and replacing the senior notes that matured in the fourth quarter of 2012, offset partially by the payment at maturity of our $400 million of senior notes bearing an interest rate of 5.0%, $600 million of senior notes bearing an interest rate of 7.5% and a reduction in commercial paper of $395 million.

Liquidity Needs

We estimate our liquidity needs over the next twelve-month period to be approximately $5.2 billion, which includes anticipated requirements for working capital, capital expenditures, interest payments and scheduled principal payments of debt and commercial paper, offset by cash and temporary cash investments on hand at the end of 2014. 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 commercial paper and $500 million of senior notes maturing in the next twelve months, which is included in the $5.2 billion in estimated liquidity needs. We expect to refinance this debt, in 2015, by issuing additional senior notes or commercial paper on favorable terms based on our past experience. We also currently plan to continue repurchases of common shares under the Company s share repurchase programs. 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 $2.75 billion under our commercial paper (CP) program. At January 31, 2015, we had $1.3 billion 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. As of March 27, 2015, we had $1.0 billion of CP borrowings outstanding. The decrease as of March 27, 2015, compared to year-end 2014, was due to applying cash from operations against our year-end CP outstanding borrowings.

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 2.06 to 1 as of January 31, 2015. 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 4.99 to 1 as of January 31, 2015. 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.

Our credit agreement is more fully described in Note 6 to the Consolidated Financial Statements. We were in compliance with our financial covenants at year-end 2014.

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The tables below illustrate our significant contractual obligations and other commercial commitments, based on year of maturity or settlement, as of January 31, 2015 (in millions of dollars):

	2015	2016	2017	2018	2019	Thereafter	Total
Contractual Obligations (1) (2)							
Long-term debt(3)	$ 1,844	$ 1,299	$ 736	$ 1,008	$ 773	$ 5,425	$ 11,085
Interest on long-term debt (4)	431	405	371	335	299	2,700	4,541
Capital lease obligations	63	60	58	49	45	409	684
Operating lease obligations	837	773	699	629	554	2,877	6,369
Low-income housing obligations	1						1
Financed lease obligations	14	14	14	14	14	104	174
Self-insurance liability (5)	216	123	88	58	35	79	599
Construction commitments(6)	366						366
Purchase obligations(7)	509	116	84	45	37	44	835
Total	$ 4,281	$ 2,790	$ 2,050	$ 2,138	$ 1,757	$ 11,638	$ 24,654
Other Commercial Commitments							
Standby letters of credit	$ 233	$	$	$	$	$	$ 233
Surety bonds	314						310
Total	$ 547	$	$	$	$	$	$ 547

(1) The contractual obligations table excludes funding of pension and other postretirement benefit obligations, which totaled approximately $25 million in 2014. This table also excludes contributions under various multi-employer pension plans, which totaled $297 million in 2014.

(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 31, 2015, we had $1.3 billion of borrowings of commercial paper and no borrowings under our credit agreement.

(4) Amounts include contractual interest payments using the interest rate as of January 31, 2015, 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 related to workers compensation claims have been stated on a present value basis.

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

(7) Amounts include commitments, many of which are short-term in nature, 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 and outside service contracts. Any upfront vendor allowances or incentives associated with outstanding purchase commitments are recorded as either current or long-term liabilities in our Consolidated Balance Sheets.

As of January 31, 2015, we maintained a $2.75 billion (with the ability to increase by $750 million), unsecured revolving credit facility that, unless extended, terminates on June 30, 2019. Outstanding borrowings under the credit agreement and commercial paper borrowings, and some outstanding letters of credit, reduce funds available under the credit agreement. As of January 31, 2015, we had $1.3 billion of borrowings of commercial paper and no borrowings under our credit agreement. The outstanding letters of credit that reduce funds available under our credit agreement totaled $10 million as of January 31, 2015.

In addition to the available credit mentioned above, as of January 31, 2015, we had authorized for issuance $2 billion of securities under a shelf registration statement filed with the SEC and effective on December 13, 2013.

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 predominately 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 ours, 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 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 us; 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 our aggregate indemnification obligation could result in a material liability, we are not aware of any current matter that could result in a material liability.

OUTLOOK

This discussion and analysis contains certain forward-looking statements about our future performance. These statements are based on management s assumptions and beliefs in light of the information currently available to it. Such statements are indicated by words such as comfortable, committed, will, expect, goal, should, intend, target, believe, anticipate, plan, and similar words or phrases. T statements are subject to uncertainties and other factors that could cause actual results to differ materially.

Statements elsewhere in this report and below regarding our expectations, projections, beliefs, intentions or strategies are forward-looking statements within the meaning of Section 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 $3.80-$3.90 for fiscal year 2015, which is consistent with our long-term net earnings per diluted share growth rate of 8 11%, growing off of 2014 adjusted net earnings of $3.52 per diluted share.

- We expect identical supermarket sales growth, excluding fuel sales, of 3.0%-4.0% in fiscal year 2015.

- We expect full-year FIFO non-fuel operating margin for 2015 to expand slightly compared to 2014, excluding the 2014 Adjusted Items.

- For 2015, we expect our annualized LIFO charge to be approximately $75 million.

- For 2015, we expect interest expense to be approximately $480 million.

- We plan to use cash flow primarily to maintain our current investment grade debt rating, fund capital investments, fund our cash dividend and repurchase shares of common stock.

- We expect to obtain sales growth from new square footage, as well as from increased productivity from existing locations.

- We expect capital investments, excluding mergers, acquisitions and purchases of leased facilities, to be $3.0 - $3.3 billion. We expect total food store square footage for 2015 to grow approximately 2.0% - 2.5% before mergers, acquisitions and operational closings.

- For 2015, we expect our effective tax rate to be approximately 35.0%, excluding the resolution of certain tax items and potential changes to tax legislation.

- We do not anticipate goodwill impairments in 2015.

- For 2015, we expect to contribute approximately $250 million to multi-employer pension funds. We continue to evaluate and address our potential exposure to under-funded multi-employer pension plans. Although these liabilities are not a direct obligation or liability of Kroger, any new agreements that would commit us to fund certain multi-employer plans will be expensed when our commitment is probable and an estimate can be made.

- In 2015, we will negotiate agreements with the UFCW for store associates in Columbus, Denver, Las Vegas, Louisville, Memphis and Portland, and agreements with the Teamsters covering several distribution and manufacturing facilities. Negotiations this year will be challenging as we must have competitive cost structures in each market while meeting our associates needs for solid wages and good quality, affordable health care and retirement benefits.

Various uncertainties and other factors could cause actual results to differ materially from those contained in the forward-looking statements. 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, or in the event that natural disasters or weather conditions interfere with the ability of our lenders to lend to us. Our ability to refinance maturing debt may be affected by the state of the financial markets.

- Our ability to use cash flow to continue to maintain our investment grade debt rating and repurchase shares, fund dividends and increase capital investments, could be affected by unanticipated increases in net total debt, our inability to generate cash flow at the levels anticipated, and our failure to generate expected earnings.

- Our ability to achieve sales, earnings and cash flow goals may be affected by: labor negotiations or disputes; changes in the types and numbers of businesses that compete with us; 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 fuel costs have on consumer spending; volatility of fuel margins; 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; our ability to retain pharmacy sales from third party payors; consolidation in the health care industry, including pharmacy benefit managers; our ability to negotiate modifications to multi-employer pension plans; natural disasters or adverse weather conditions; the potential costs and risks associated with potential cyber-attacks or data security breaches; the success of our future growth plans; and the successful integration of Harris Teeter. Our ability to achieve sales and earnings goals may also be affected by our ability to manage the factors identified above.

- Our capital investments 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.

- During the first three quarters of each fiscal year, our LIFO charge and the recognition of LIFO expense is affected primarily by estimated year-end changes in product costs. Our fiscal year LIFO charge is affected primarily by changes in product costs at year-end.

- 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.

- 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.

- 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.

We cannot fully foresee the effects of changes in economic conditions on Kroger s business. We have assumed economic and competitive situations will not change significantly in 2015.

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. We undertake no obligation to update the forward-looking information contained in this filing.

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 our commercial paper program, 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 31, 2015, we maintained two interest rate swap agreements, with an aggregate notional amount totaling $100 million, 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 in December 2018, 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 31, 2015, we maintained 11 forward-starting interest rate swap agreements with maturity dates between October 2015 and August 2017 with an aggregate notional amount totaling $700 million. 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 these forward-starting interest rate swaps in order to lock in fixed interest rates on our forecasted issuances of debt in fiscal years 2015 and 2017. The fixed interest rates for these forward-starting interest rate swaps range from 2.28% to 3.00%. The variable rate component on 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 31, 2015, the fair value of the interest rate swaps was recorded in other long-term liabilities for $39 million and accumulated other comprehensive income for $25 million net of tax.

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 31, 2015 and February 1, 2014. 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 31, 2015 and February 1, 2014. 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 31, 2015 and February 1, 2014.

The Fair Value column includes the fair value of our debt instruments and interest rate derivatives classified as fair value hedges as of January 31, 2015 and February 1, 2014. See Notes 6, 7 and 8 to the Consolidated Financial Statements.

	January 31, 2015 Expected Year of Maturity							
	2015	2016	2017	2018	2019	Thereafter	Total	Fair Value
	(in millions)							
Debt								
Fixed rate	$ (516)	$ (776)	$ (718)	$ (1,008)	$ (753)	$ (5,319)	$ (9,090)	$ (10,383)
Average interest rate	4.80%	4.89%	4.97%	5.08%	5.24%	4.91%		
Variable rate	$ (1,328)	$ (523)	$ (18)	$	$ (20)	$ (106)	$ (1,995)	$ (1,995)
Average interest rate	1.05%	1.53%	1.51%		0.96%	1.27%		

	January 31, 2015 Average Notional Amounts Outstanding						January 31, 2015 Total	January 31, 2015 Fair Value
	2015	2016	2017	2018	2019	Thereafter		
	(in millions)							
Interest Rate Derivatives Classified as Fair Value Hedges								
Fixed to variable	$ 100	$ 100	$ 100	$ 88	$	$	$ 100	$
Average pay rate	6.18%	6.81%	7.22%	7.39%				
Average receive rate	6.80%	6.80%	6.80%	6.80%				

	February 1, 2014 Expected Year of Maturity							
	2014	2015	2016	2017	2018	Thereafter	Total	Fair Value
	(in millions)							
Debt								
Fixed rate	$ (309)	$ (515)	$ (764)	$ (708)	$ (1,003)	$ (5,556)	$ (8,855)	$ (9,623)
Average interest rate	4.75%	4.75%	4.92%	5.09%	5.12%	5.30%		
Variable rate	$ (1,307)	$ (9)	$ (503)	$	$	$ (106)	$ (1,925)	$ (1,924)
Average interest rate	0.87%	1.16%	1.83%			2.41%		

	February 1, 2014 Average Notional Amounts Outstanding						February 1, 2014 Total	February 1, 2014 Fair Value
	2014	2015	2016	2017	2018	Thereafter		
	(in millions)							
Interest Rate Derivatives Classified as Fair Value Hedges								
Fixed to variable	$ 100	$ 100	$ 100	$ 100	$ 88	$	$ 100	$ (2)
Average pay rate	5.83%	5.95%	6.55%	7.62%	8.47%			
Average receive rate	6.80%	6.80%	6.80%	6.80%	6.80%			

Based on our year-end 2014 variable rate debt levels, a 10 percent change in interest rates would be immaterial. See Note 7 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 Shareholders and Board of Directors of

The Kroger Co.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, cash flows and changes in shareholders equity present fairly, in all material respects, the financial position of The Kroger Co. and its subsidiaries at January 31, 2015 and February 1, 2014, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* 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 31, 2015

THE KROGER CO.

CONSOLIDATED BALANCE SHEETS

(In millions, except par values)	January 31, 2015	February 1, 2014
ASSETS		
Current assets		
Cash and temporary cash investments	$ 268	$ 401
Store deposits in-transit	988	958
Receivables	1,266	1,116
FIFO inventory	6,933	6,801
LIFO reserve	(1,245)	(1,150)
Prepaid and other current assets	701	704
Total current assets	8,911	8,830
Property, plant and equipment, net	17,912	16,893
Intangibles, net	757	702
Goodwill	2,304	2,135
Other assets	672	721
Total Assets	$ 30,556	$ 29,281
LIABILITIES		
Current liabilities		
Current portion of long-term debt including obligations under capital leases and financing obligations	$ 1,885	$ 1,657
Trade accounts payable	5,052	4,881
Accrued salaries and wages	1,291	1,150
Deferred income taxes	287	248
Other current liabilities	2,888	2,769
Total current liabilities	11,403	10,705
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	9,771	9,654
Adjustment to reflect fair-value interest rate hedges	—	(1)
Long-term debt including obligations under capital leases and financing obligations	9,771	9,653
Deferred income taxes	1,209	1,381
Pension and postretirement benefit obligations	1,463	901
Other long-term liabilities	1,268	1,246
Total Liabilities	25,114	23,886
Commitments and contingencies (see Note 13)		
SHAREHOLDERS 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 2014 and 2013	959	959
Additional paid-in capital	3,707	3,549
Accumulated other comprehensive loss	(812)	(464)
Accumulated earnings	12,367	10,981
Common stock in treasury, at cost, 472 shares in 2014 and 451 shares in 2013	(10,809)	(9,641)

Total Shareholders Equity The Kroger Co.		5,412		5,384
Noncontrolling interests		30		11
Total Equity		5,442		5,395
Total Liabilities and Equity	$	30,556	$	29,281

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

THE KROGER CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended January 31, 2015, February 1, 2014 and February 2, 2013

(In millions, except per share amounts)	**2014 (52 weeks)**	**2013 (52 weeks)**	**2012 (53 weeks)**
Sales	$ 108,465	$ 98,375	$ 96,619
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	85,512	78,138	76,726
Operating, general and administrative	17,161	15,196	14,849
Rent	707	613	628
Depreciation and amortization	1,948	1,703	1,652
Operating Profit	3,137	2,725	2,764
Interest expense	488	443	462
Earnings before income tax expense	2,649	2,282	2,302
Income tax expense	902	751	794
Net earnings including noncontrolling interests	1,747	1,531	1,508
Net earnings attributable to noncontrolling interests	19	12	11
Net earnings attributable to The Kroger Co.	$ 1,728	$ 1,519	$ 1,497
Net earnings attributable to The Kroger Co. per basic common share	$ 3.49	$ 2.93	$ 2.78
Average number of common shares used in basic calculation	490	514	533
Net earnings attributable to The Kroger Co. per diluted common share	$ 3.44	$ 2.90	$ 2.77
Average number of common shares used in diluted calculation	497	520	537
Dividends declared per common share	$ 0.70	$ 0.63	$ 0.53

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

THE KROGER CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended January 31, 2015, February 1, 2014 and February 2, 2013

(In millions)	2014 (52 weeks)	2013 (52 weeks)	2012 (53 weeks)
Net earnings including noncontrolling interests	$ 1,747	$ 1,531	$ 1,508
Other comprehensive income (loss)			
Unrealized gain on available for sale securities, net of income tax(1)	5	5	—
Change in pension and other postretirement defined benefit plans, net of income tax(2)	(329)	295	75
Unrealized gains and losses on cash flow hedging activities, net of income tax(3)	(25)	(12)	13
Amortization of unrealized gains and losses on cash flow hedging activities, net of income tax(4)	1	1	3
Total other comprehensive income (loss)	(348)	289	91
Comprehensive income	1,399	1,820	1,599
Comprehensive income attributable to noncontrolling interests	19	12	11
Comprehensive income attributable to The Kroger Co.	$ 1,380	$ 1,808	$ 1,588

(1) Amount is net of tax of $3 in 2014 and 2013.

(2) Amount is net of tax of $(193) in 2014, $173 in 2013 and $45 in 2012.

(3) Amount is net of tax of $(14) in 2014, $(8) in 2013 and $7 in 2012.

(4) Amount is net of tax of $1 in 2013 and $2 in 2012.

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

THE KROGER CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended January 31, 2015, February 1, 2014 and February 2, 2013

(In millions)	**2014 (52 weeks)**	**2013 (52 weeks)**	**2012 (53 weeks)**
Cash Flows From Operating Activities:			
Net earnings including noncontrolling interests	$ 1,747	$ 1,531	$ 1,508
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,948	1,703	1,652
Asset impairment charge	37	39	18
LIFO charge	147	52	55
Stock-based employee compensation	155	107	82
Expense for Company-sponsored pension plans	55	74	89
Deferred income taxes	73	72	176
Other	72	47	23
Changes in operating assets and liabilities net of effects from acquisitions of businesses:			
Store deposits in-transit	(27)	25	(169)
Inventories	(147)	(131)	(78)
Receivables	(141)	(8)	(126)
Prepaid and other current assets	2	(49)	(257)
Trade accounts payable	135	196	188
Accrued expenses	197	77	67
Income taxes receivable and payable	(68)	(47)	164
Contribution to Company-sponsored pension plans	—	(100)	(71)
Other	(22)	(15)	(367)
Net cash provided by operating activities	4,163	3,573	2,954
Cash Flows From Investing Activities:			
Payments for property and equipment, including payments for lease buyouts	(2,831)	(2,330)	(2,062)
Proceeds from sale of assets	37	24	49
Payments for acquisitions	(252)	(2,344)	(122)
Other	(14)	(121)	(48)
Net cash used by investing activities	(3,060)	(4,771)	(2,183)
Cash Flows From Financing Activities:			
Proceeds from issuance of long-term debt	576	3,548	863
Payments on long-term debt	(375)	(1,060)	(1,445)
Net borrowings (payments) of commercial paper	25	(395)	1,275
Proceeds from issuance of capital stock	110	196	110
Treasury stock purchases	(1,283)	(609)	(1,261)
Dividends paid	(338)	(319)	(267)
Other	49	—	4
Net cash provided (used) by financing activities	(1,236)	1,361	(721)

Net increase (decrease) in cash and temporary cash investments	(133)	163	50
Cash and temporary cash investments:			
Beginning of year	401	238	188
End of year	$ 268	$ 401	$ 238
Reconciliation of capital investments:			
Payments for property and equipment, including payments for lease buyouts	$ (2,831)	$ (2,330)	$ (2,062)
Payments for lease buyouts	135	108	73
Changes in construction-in-progress payables	(56)	(83)	(1)
Total capital investments, excluding lease buyouts	$ (2,752)	$ (2,305)	$ (1,990)
Disclosure of cash flow information:			
Cash paid during the year for interest	$ 477	$ 401	$ 438
Cash paid during the year for income taxes	$ 941	$ 679	$ 468

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

THE KROGER CO.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

Years Ended January 31, 2015, February 1, 2014 and February 2, 2013

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Gain (Loss)	Accumulated Earnings	Noncontrolling Interest	
(In millions, except per share amounts)	**Shares**	**Amount**		**Shares**	**Amount**				**Total**
Balances at January 28, 2012	959	$ 959	$ 3,427	398	$ (8,132)	$ (844)	$ 8,571	$ (15)	$ 3,966
Issuance of common stock:									
Stock options exercised				(7)	110				110
Restricted stock issued			(59)	(2)	40				(19)
Treasury stock activity:									
Treasury stock purchases, at cost				51	(1,165)				(1,165)
Stock options exchanged				5	(96)				(96)
Share-based employee compensation			82						82
Other comprehensive gain net of income tax of $54						91			91
Other			1		6			11	18
Cash dividends declared ($0.53 per common share)							(281)		(281)
Net earnings including non-controlling interests							1,497	11	1,508
Balances at February 2, 2013	959	$ 959	$ 3,451	445	$ (9,237)	$ (753)	$ 9,787	$ 7	$ 4,214
Issuance of common stock:									
Stock options exercised				(9)	196				196
Restricted stock issued			(60)	(2)	26				(34)
Treasury stock activity:									
Treasury stock purchases, at cost				9	(338)				(338)
Stock options exchanged				8	(271)				(271)
Share-based employee compensation			107						107
Other comprehensive gain net of income tax of $169						289			289
Other			51		(17)			(8)	26
Cash dividends declared ($0.63 per common share)							(325)		(325)
Net earnings including non-controlling interests							1,519	12	1,531
Balances at February 1, 2014	959	$ 959	$ 3,549	451	$ (9,641)	$ (464)	$ 10,981	$ 11	$ 5,395
Issuance of common stock:									
Stock options exercised				(5)	110				