UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended February 1, 2020.

OR

☐ **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
(State or Other Jurisdiction of Incorporation or Organization)

31-0345740
(I.R.S. Employer Identification No.)

1014 Vine Street, Cincinnati, OH
(Address of Principal Executive Offices)

45202
(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	Trading Symbol	Name of each exchange on which registered
Common, $1.00 Par Value	KR	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 ☒ No ☐

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 ☐ No ☒

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes ☒ No ☐

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

Large accelerated filer ☒
Non-accelerated filer ☐
Accelerated filer ☐
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (August 17, 2019). $18.2 billion.

The number of shares outstanding of the registrant's common stock, as of the latest practicable date. 777,891,827 shares of Common Stock of $1 par value, as of March 25, 2020.

Documents Incorporated by Reference:

Portions of Kroger's definitive proxy statement for its 2020 annual meeting of shareholders, which shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference into Part III of this Report.

The Kroger Co.
Form 10-K

For the Fiscal Year Ended February 1, 2020

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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" 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 "achieve," "affect," "believe," "committed," "continue," "could," "deliver," "effect," "estimate," "expects," "future," "growth," "intends," "likely," "may," "model," "plan," "position," "range," "result," "strategy," "strong," "trend," "will" and "would," 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 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.

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 global pandemics, including the novel coronavirus, 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 achieve sales, earnings and incremental First-In, First-Out ("FIFO") operating profit goals may be affected by: COVID-19 related factors, risks and challenges, including among others, the length of time that the pandemic continues, the temporary inability of customers to shop due to illness, quarantine, or other travel restrictions or financial hardship, shifts in demand away from discretionary or higher priced products to lower priced products, or stockpiling or similar pantry-filling activities, reduced workforces which may be caused by, but not limited to, the temporary inability of the workforce to work due to illness, quarantine, or government mandates, or temporary store closures due to reduced workforces or government mandates; labor negotiations or disputes; changes in the types and numbers of businesses that compete with Kroger; pricing and promotional activities of existing and new competitors, including non-traditional competitors, and the aggressiveness of that competition; Kroger's response to these actions; the state of the economy, including interest rates, the inflationary and deflationary trends in certain commodities, changes in tariffs, and the unemployment rate; the effect that fuel costs have on consumer spending; volatility of fuel margins; changes in government-funded benefit programs and the extent and effectiveness of any COVID-19 stimulus packages; manufacturing commodity costs; diesel fuel costs related to Kroger's logistics operations; trends in consumer spending; the extent to which Kroger's customers exercise caution in their purchasing in response to economic conditions; the uncertainty of economic growth or recession; changes in inflation or deflation in product and operating costs; stock repurchases; Kroger's ability to retain pharmacy sales from third party payors; consolidation in the healthcare industry, including pharmacy benefit managers; Kroger's ability to negotiate modifications to multi-employer pension plans; natural disasters or adverse weather conditions; the effect of public health crises or other significant catastrophic events, including the coronavirus; the potential costs and risks associated with potential cyber-attacks or data security breaches; the success of Kroger's future growth plans; the ability to execute on *Restock Kroger*; and the successful integration of merged companies and new partnerships.

- Our ability to achieve these goals may also be affected by our ability to manage the factors identified above. Our ability to execute our financial strategy may be affected by our ability to generate cash flow.

- 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.

We cannot fully foresee the effects of changes in economic conditions on our business.

Other factors and assumptions not identified above, including those discussed in Item 1A of this Report, 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 1. BUSINESS.

The Kroger Co. (the "Company" or "Kroger") was founded in 1883 and incorporated in 1902. As of February 1, 2020, we are one of the largest retailers in the world based on annual sales. We also manufacture and process some of the food for sale in our supermarkets. 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, fuel centers and via our online platforms. 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 2019, 2018 and 2017 are to the fiscal years ended February 1, 2020, February 2, 2019 and February 3, 2018, respectively, unless specifically indicated otherwise.

EMPLOYEES

As of February 1, 2020, Kroger employed approximately 435,000 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 360 such agreements, usually with terms of three to five years.

STORES

As of February 1, 2020, Kroger operated, either directly or through its subsidiaries, 2,757 supermarkets under a variety of local banner names, of which 2,270 had pharmacies and 1,567 had fuel centers. We offer Pickup (also referred to as ClickList®) and Harris Teeter ExpressLane™— personalized, order online, pick up at the store services — at 1,989 of our supermarkets and provide home delivery service to 97% of Kroger households. Approximately 54% of our supermarkets were operated in Company-owned facilities, including some Company-owned buildings on leased land. Our current strategy emphasizes self-development and ownership of real estate. Our stores operate under a variety of 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 2-2.5 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 and toys.

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.

SEGMENTS

We operate supermarkets and multi-department stores throughout the United States. Our retail operations, which represent 97% of our consolidated sales, is our only reportable segment. We aggregate our operating divisions 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 are organized primarily on a geographical basis so that the operating division management team can be responsive to local needs of the operating division and can execute company strategic plans and initiatives throughout the locations in their operating division. This geographical separation is the primary differentiation between these retail operating divisions. The geographical basis of organization reflects how the business is managed and how our Chief Executive Officer, who acts as our chief operating decision maker, assesses 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

Our Brands products play an important role in our merchandising strategy. Our supermarkets, on average, stock over 16,000 private label items. *Our Brands* products are primarily produced and sold in three “tiers.” Private Selection® is one of our premium quality brands, offering customers culinary foods and ingredients that deliver amazing eating experiences. The Kroger® brand, which represents the majority of our private label items, is designed to consistently satisfy and delight customers with quality products that exceed or meet the national brand in taste and efficacy, as well as with unique and differentiated products. Big K®, Check This Out…® and Heritage Farm® are some of our value brands, designed to deliver good quality at a very affordable price. In addition, we continue to grow natural and organic *Our Brands* offerings with Simple Truth® and Simple Truth Organic®. Both Simple Truth and Simple Truth Organic are free from a defined list of artificial ingredients that customers have told us they do not want in their food, and the Simple Truth Organic products are USDA certified organic.

Approximately 31% of *Our Brands* units and 42% of the grocery category *Our Brands* units sold in our supermarkets are produced in our food production plants; the remaining *Our Brands* items are produced to our strict specifications by outside manufacturers. We perform a “make or buy” analysis on *Our Brands* products and decisions are based upon a comparison of market-based transfer prices versus open market purchases. As of February 1, 2020, we operated 35 food production plants. These plants consisted of 16 dairies, 9 deli or bakery plants, five grocery product plants, two beverage plants, one meat plant 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. Additionally, certain significant events including inclement weather systems, particularly winter storms, tend to affect our sales trends.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following is a list of the names and ages of the executive officers and the positions held by each such person. Except as otherwise noted, each person has held office for at least five years. Each officer will hold office at the discretion of the Board for the ensuing year until removed or replaced.

Name	Age	Recent Employment History
Mary E. Adcock	44	Ms. Adcock was elected Senior Vice President effective May 1, 2019 and is responsible for the oversight of several Kroger retail divisions. From June 2016 to April 2019, she served as Group Vice President of Retail Operations. Prior to that, she served as Vice President of Operations for Kroger's Columbus Division from November 2015 to May 2016 and as Vice President of Merchandising for the Columbus Division from March 2014 to November 2015. From February 2012 to March 2014, Ms. Adcock served as Vice President of Natural Foods Merchandising and from October 2009 to February 2012, she served as Vice President of Deli/Bakery Manufacturing. Prior to that, Ms. Adcock held several leadership positions in the manufacturing department, including human resources manager, general manager and division operations manager. Ms. Adcock joined Kroger in 1999 as human resources assistant manager at the Country Oven Bakery in Bowling Green, Kentucky.
Stuart W. Aitken	48	Mr. Aitken was elected Senior Vice President in February 2019 and served as Group Vice President from June 2015 to February 2019. He is responsible for leading Kroger's alternative profit businesses, including Kroger's data analytics subsidiary, 84.51° LLC and Kroger Personal Finance. Prior to joining Kroger, he served as the chief executive officer of dunnhumby USA, LLC from July 2010 to June 2015. Mr. Aitken has over 15 years of marketing, academic and technical experience across a variety of industries, and held various leadership roles with other companies, including Michaels Stores and Safeway, Inc.
Robert W. Clark	54	Mr. Clark was named Senior Vice President of Supply Chain, Manufacturing and Sourcing in May 2019. He was elected Senior Vice President of Merchandising in March 2016. From March 2013 to March 2016, he served as Group Vice President of Non-Perishables. Prior to that, he served as Vice President of Merchandising for Kroger's Fred Meyer division from October 2011 to March 2013. From August 2010 to October 2011 he served as Vice President of Operations for Kroger's Columbus division. Prior to that, from May 2002 to August 2010, he served as Vice President of Merchandising for Kroger's Fry's division. From 1985 to 2002, Mr. Clark held various leadership positions in store and district management, as well as grocery merchandising. Mr. Clark began his career with Kroger in 1985 as a courtesy clerk at Fry's.
Yael Cosset	46	Mr. Cosset was elected Senior Vice President and Chief Information Officer in May 2019 and is responsible for leading Kroger's digital strategy, focused on building Kroger's presence in the marketplace in digital channels, personalization and e-commerce. Prior to that, Mr. Cosset served as Group Vice President and Chief Digital Officer from January 2017 to April 2019. Before that, he served as Chief Commercial Officer and Chief Information Officer of 84.51° LLC from April 2015 to December 2016. Prior to joining Kroger, Mr. Cosset served in several leadership roles at dunnhumby USA, LLC from 2009 to 2015, including Executive Vice President of Consumer Markets and Global Chief Information Officer.

Michael J. Donnelly	61	Mr. Donnelly was elected Executive Vice President and Chief Operating Officer in December 2017. Prior to that, he was Executive Vice President of Merchandising from September 2015 to December 2017, and Senior Vice President of Merchandising from July 2011 to September 2015. Before that, Mr. Donnelly held a variety of key management positions with Kroger, including President of Ralphs Grocery Company, President of Fry's Food Stores, and Senior Vice President, Drug/GM Merchandising and Procurement. Mr. Donnelly joined Kroger in 1978 as a clerk.
Carin L. Fike	51	Ms. Fike was elected Vice President and Treasurer effective April 2017. Prior to that, she served as Assistant Treasurer from March 2011 to April 2017. Before that, Ms. Fike served as Director of Investor Relations from December 2003 to March 2011. Ms. Fike began her career with Kroger in 1999 as a manager in the Financial Reporting department after working with PricewaterhouseCoopers from 1995 to 1999, where most recently she was an audit manager.
Todd A. Foley	50	Mr. Foley was elected Vice President and Corporate Controller effective April 2017. Before that, he served as Vice President and Treasurer from June 2013 to April 2017. Prior to that, Mr. Foley served as Assistant Corporate Controller from March 2006 to June 2013, and Controller of Kroger's Cincinnati/Dayton division from October 2003 to March 2006. Mr. Foley began his career with Kroger in 2001 as an audit manager in the Internal Audit Department after working for PricewaterhouseCoopers from 1991 to 2001, where most recently he was a senior audit manager.
Joseph A. Grieshaber, Jr.	62	Mr. Grieshaber was elected Senior Vice President in June 2019 and is responsible for sales, promotional and category planning for center store, fresh foods, and general merchandise categories. Prior to this, he served as President of Kroger's Fred Meyer division since March 2017, the Columbus division President from March 2015 to March 2017, and the Dillons division President from July 2010 to March 2015. In August 2003, Mr. Grieshaber was named Kroger's Group Vice President of Perishables Merchandising and Procurement. From 1995 to 2003, he served various leadership roles, including district management and Meat Merchandising in the Michigan Division and Vice President of Merchandising in the Columbus Division. Mr. Grieshaber began his career with Kroger in 1983 as a store manager trainee in Nashville.
Calvin J. Kaufman	57	Mr. Kaufman was elected Senior Vice President in June 2017, and is responsible for the oversight of several Kroger retail divisions. From July 2013 to June 2017, he served as President of the Louisville division. Prior to that, he served as President of Kroger Manufacturing and Our Brands from June 2008 to June 2013, and Group Vice President of Fred Meyer Logistics from September 2005 to May 2008. Mr. Kaufman held various positions in Logistics after joining Kroger in the Fred Meyer division in September 1994.
Timothy A. Massa	53	Mr. Massa was elected Senior Vice President of Human Resources and Labor Relations in June 2018. Prior to that, he served as Group Vice President of Human Resources and Labor Relations from June 2014 to June 2018. Mr. Massa joined Kroger in October 2010 as Vice President, Corporate Human Resources and Talent Development. Prior to joining Kroger, he served in various Human Resources leadership roles for 21 years at Procter & Gamble, most recently serving as Global Human Resources Director of Customer Business Development.

Stephen M. McKinney	63	Mr. McKinney was elected Senior Vice President in March 2018, and is responsible for the oversight of several Kroger retail divisions. From October 2013 to March 2018, he served as President of Kroger's Fry's Food Stores division. Prior to that, he served as Vice President of Operations for the Ralphs division from October 2007 to September 2013, and Vice President of Operations for the Southwest division from October 2006 to September 2007. From 1988 to 1998, Mr. McKinney served in various leadership positions in the Fry's Food Stores division, including store manager, deli director, and executive director of operations. From 1981 to 1998, Mr. McKinney held several roles with Florida Choice Supermarkets, a former Kroger banner, including store manager, buyer, and field representative. He started his career with Kroger in 1981 as a clerk with Florida Choice.
W. Rodney McMullen	59	Mr. McMullen was elected Chairman of the Board effective January 1, 2015, and Chief Executive Officer effective January 1, 2014. Prior to that, he served as President and Chief Operating Officer from August 2009 to December 2013. Prior to that he was elected Vice Chairman in June 2003, Executive Vice President, Strategy, Planning and Finance in January 2000, Executive Vice President and Chief Financial Officer in May 1999, Senior Vice President in October 1997, and Group Vice President and Chief Financial Officer in June 1995. Before that he was appointed Vice President, Control and Financial Services in March 1993, and Vice President, Planning and Capital Management in December 1989. Mr. McMullen joined Kroger in 1978 as a part-time stock clerk.
Gary Millerchip	48	Mr. Millerchip was elected Senior Vice President and Chief Financial Officer effective April 2019. Prior to this, he serviced as Chief Executive Officer for Kroger Personal Finance since joining Kroger in 2008. Before coming to Kroger he was responsible for the Royal Bank of Scotland (RBS) Personal Credit Card business in the United Kingdom. He joined RBS in 1987 and held leadership positions in Sales & Marketing, Finance, Change Management, Retail Banking Distribution Strategy and Branch Operations during his time there.
Erin S. Sharp	62	Ms. Sharp has served as Group Vice President of Manufacturing since June 2013. She joined Kroger in 2011 as Vice President of Operations for Kroger's Manufacturing division. Before joining Kroger, Ms. Sharp served as Vice President of Manufacturing for the Sara Lee Corporation. In that role, she led the manufacturing and logistics operations for the central region of their U.S. Fresh Bakery Division. Ms. Sharp has over 30 years of experience supporting food manufacturing operations.
Mark C. Tuffin	60	Mr. Tuffin has served as Senior Vice President since January 2014, and is responsible for the oversight of several of Kroger's retail divisions. Prior to that, he served as President of Kroger's Smith's division from July 2011 to January 2014. From September 2009 to July 2011, Mr. Tuffin served as Vice President of Transition, where he was responsible for implementing an organizational restructuring initiative for Kroger's retail divisions. He joined Kroger's Smith's division in 1996 and served in a series of leadership roles, including Vice President of Merchandising from September 1999 to September 2009. Mr. Tuffin held various positions with other supermarket retailers before joining Smith's in 1996.

Christine S. Wheatley	49	Ms. Wheatley was elected Group Vice President, Secretary and General Counsel in May 2014. She joined Kroger in February 2008 as Corporate Counsel, and became Senior Attorney in 2010, Senior Counsel in 2011, and Vice President in 2012. Before joining Kroger, Ms. Wheatley was engaged in the private practice of law for 11 years, most recently as a partner at Porter Wright Morris & Arthur in Cincinnati.

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," which includes 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, expansion, increasing fragmentation of retail and online formats, entry of non-traditional competitors and market consolidation. In addition, evolving customer preferences and the advancement of online, delivery, ship to home, and mobile channels in our industry enhance the competitive environment. We must anticipate and meet these evolving customer preferences and continue to implement technology, software and processes to be able to conveniently and cost-effectively fulfill customer orders. Providing flexible fulfillment options and implementing new technology is complex and may not meet customer preferences. If we are not successful in offsetting increased cost of fulfilling orders outside of our traditional in-store channel with efficiencies, cost-savings or expense reductions, our results of operations could be adversely affected. If we do not anticipate customer preferences or fail to quickly adapt to these changing preferences, our sales and profitability could be adversely affected. If we are unable to make, improve, or develop relevant customer-facing technology in a timely manner, our ability to compete and our results of operations could be adversely affected.

We are continuing to enhance the customer connection with investments in our competitive moats of today – which are product freshness and quality, *Our Brands*, and personalized rewards – and our competitive moat of tomorrow, the seamless ecosystem we are building. If we are unable to enhance the foregoing customer connection, our ability to compete and our financial condition, results of operations, or cash flows could be adversely affected. We believe our *Restock Kroger* plan provides a balanced approach that will enable us to meet the wide-ranging needs and expectations of our customers. However, we may be unsuccessful in implementing *Restock Kroger*, including our alternative profit strategy and our cost savings initiatives, which could adversely affect our relationships with our customers, our market share and business growth, and our operations and results. The nature and extent to which our competitors respond to the evolving and competitive industry by developing and implementing their competitive strategies could adversely affect our profitability.

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 360 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, resulting in an expansion of our technological presence and corresponding risk exposure. 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 otherwise in accordance with our privacy policy.

Our technology systems are vulnerable to disruption from circumstances beyond our control. Cyber-attackers may attempt to access information stored in our or our vendors' systems in order to misappropriate confidential customer or business information. Although we have implemented procedures to protect our information, and require our vendors to do the same, we cannot be certain that our security systems will successfully defend against rapidly evolving, increasingly sophisticated cyber-attacks as they become more difficult to detect and defend against. Further, a Kroger associate, a contractor or other third party with whom we do business may in the future circumvent our security measures in order to obtain information or may inadvertently cause a breach involving information. In addition, hardware, software or applications we may use may have inherent defects or could be inadvertently or intentionally applied or used in a way that could compromise our information security.

Our continued investment in our information technology systems may not effectively insulate us from potential attacks, breaches or disruptions to our business operations, which could result in a loss of customers or business information, negative publicity, damage to our reputation, and exposure to claims from customers, financial institutions, regulatory authorities, payment card associations, associates and other persons. Any such events could have an adverse effect on our business, financial condition and results of operations and may not be covered by our insurance. In addition, compliance with 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 and may require us to devote significant management resources to address these issues. The costs of attempting to protect against the foregoing risks and the costs of responding to cyber-attacks are significant. Following a cyber-attack , our and/or our vendors' remediation efforts may not be successful, and a cyber-attack could result in interruptions, delays or cessation of service, and loss of existing or potential customers. In addition, breaches of our and/or our vendors' security measures and the unauthorized dissemination of sensitive personal information or confidential information about us or our customers could expose our customers' private information and our customers to the risk of financial or medical identity theft, or expose us or other third parties to a risk of loss or misuse of this information, and result in investigations, regulatory enforcement actions, material fines and penalties, loss of customers, litigation or other actions which could have a material adverse effect on our brands, reputation, business, financial condition, results of operations, or cash flows.

Data governance failures can adversely affect our reputation and business. Our business depends on our customers' willingness to entrust us with their personal information. Events that adversely affect that trust, including inadequate disclosure to our customers of our uses of their information, failing to keep our information technology systems and our customers' sensitive information secure from significant attack, theft, damage, loss or unauthorized disclosure or access, whether as a result of our action or inaction (including human error) or that of our business associates, vendors or other third parties, could adversely affect our brand and reputation and operating results and also could expose and/or has exposed us to mandatory disclosure to the media, litigation (including class action litigation), governmental investigations and enforcement proceedings, material fines, penalties and/or remediation costs, and compensatory, special, punitive and statutory damages, consent orders, and/or injunctive relief, any of which could adversely affect our businesses, financial condition, results of operations, or cash flows. Large scale data breaches at other entities increase the challenge we and our vendors face in maintaining the security of our information technology systems and proprietary information and of our customers' information. There can be no assurance that such failures will not occur, or if any do occur, that we will detect them or that they can be sufficiently remediated.

The use of data by our business and our business associates is highly regulated. Privacy and information-security laws and regulations change, and compliance with them may result in cost increases due to, among other things, systems changes and the development of new processes. If we or those with whom we share information fail to comply with laws and regulations, such as the California Consumer Privacy Act (CCPA), our reputation could be damaged, possibly resulting in lost business, and we could be subjected to additional legal risk or financial losses as a result of non-compliance.

PAYMENT SYSTEMS

We accept payments using a variety of methods, including cash and checks, and select credit and debit cards. As we offer new payment options to our customers, we may be subject to additional rules, regulations, compliance requirements, and higher fraud losses. For certain payment methods, we pay interchange and other related acceptance fees, along with additional transaction processing fees. We rely on third parties to provide payment transaction processing services for credit and debit cards. It could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to evolving payment card association and network operating rules, including data security rules, certification requirements and rules governing electronic funds transfers. For example, we are subject to Payment Card Industry Data Security Standards ("PCI DSS"), which contain compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. If our internal systems are breached or compromised, we may be liable for card re-issuance costs, subject to fines and higher transaction fees and lose our ability to accept card payments from our members, and our business, financial condition, results of operations, or cash flows could be adversely affected.

INDEBTEDNESS

Our indebtedness could reduce our ability to obtain additional financing for working capital, mergers and 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, or adjust their current views 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 two multi-employer pension plans in which we participate. In addition, we have been designated as the named fiduciary of these funds with sole investment authority of the assets of these funds. If investment results fail to meet our expectations, we could be required to make additional contributions to fund a portion of or the entire shortfall, which could have an adverse effect on our business, financial condition, results of operations, or cash flows.

INTEGRATION OF NEW BUSINESS AND STRATEGIC ALLIANCES

We enter into mergers, acquisitions and strategic alliances 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, capital requirements, 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 fuel, 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, disruptions to the economy, including but not limited to the COVID-19 pandemic, 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 or pandemics, such as the spread of the novel coronavirus, COVID-19, 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. 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.

COVID-19

On March 11, 2020, the World Health Organization announced that infections of the coronavirus (COVID-19) had become a pandemic, and on March 13, the U.S. President announced a National Emergency relating to the disease. There is a possibility of widespread infection in the United States and abroad, with the potential for catastrophic impact. National, state and local authorities have recommended social distancing and imposed or are considering quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures, while intended to protect human life, are expected to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts, including proposed government payments to affected citizens and industries, is uncertain. Some economists are predicting the United States may enter a recession as a result of the pandemic.

Our business may be negatively impacted by the fear of exposure to or actual effects of a disease outbreak, epidemic, pandemic or similar widespread public health concern, such as reduced travel or recommendations or mandates from governmental authorities to avoid large gatherings or to self-quarantine as a result of the coronavirus pandemic. These impacts include but are not limited to:

- Increased costs due to short-term significant increases in customer traffic and demand spikes;
- Failure of third parties on which we rely, including our suppliers, contract manufacturers, contractors, commercial banks, joint venture partners and external business partners to meet their obligations to the company, or significant disruptions in their ability to do so which may be caused by their own financial or operational difficulties and may adversely impact our operations;
- Supply chain risks such as scrutiny or embargoing of goods produced in infected areas;
- Reduced workforces which may be caused by, but not limited to, the temporary inability of the workforce to work due to illness, quarantine, or government mandates;
- Temporary store closures due to reduced workforces or government mandates; or
- Reduced consumer traffic and purchasing which may be caused by, but not limited to, the temporary inability of customers to shop with us due to illness, quarantine or other travel restrictions, or financial hardship, shifts in demand from discretionary or higher priced products to lower priced products, or stockpiling or similar pantry-loading activities.

Any of the foregoing factors, or other cascading effects of the coronavirus pandemic that are not currently foreseeable, could materially increase our costs, negatively impact our sales and damage the Company's financial condition, results of operations, cash flows and its liquidity position, possibly to a significant degree. The duration of any such impacts cannot be predicted because of the sweeping nature of the COVID-19 pandemic.

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, licensing for the sale of food, drugs, and alcoholic beverages, and new provisions relating to the COVID-19 pandemic. 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 February 1, 2020, we operated approximately 2,800 owned or leased supermarkets, distribution warehouses and food production plants through divisions, subsidiaries or affiliates. These facilities are located throughout the United States. While our current strategy emphasizes ownership of real estate, a substantial portion of the properties used to conduct our business are leased.

We generally own store equipment, fixtures and leasehold improvements, as well as processing and food production equipment. The total cost of our owned assets and finance leases at February 1, 2020, was $45.8 billion while the accumulated depreciation was $24.0 billion.

We lease certain store real estate, warehouses, distribution centers, office space and equipment. While our current strategy emphasizes ownership of store real estate, we operate in leased facilities in approximately half of our store locations. Lease terms generally range from 10 to 20 years with options to renew for varying terms at our sole discretion. Certain leases also include options to purchase the leased property. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Certain leases include escalation clauses or payment of executory costs such as property taxes, utilities or insurance and maintenance. Rent expense for leases with escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain properties or portions thereof are subleased to others for periods generally ranging from one to 20 years. 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.

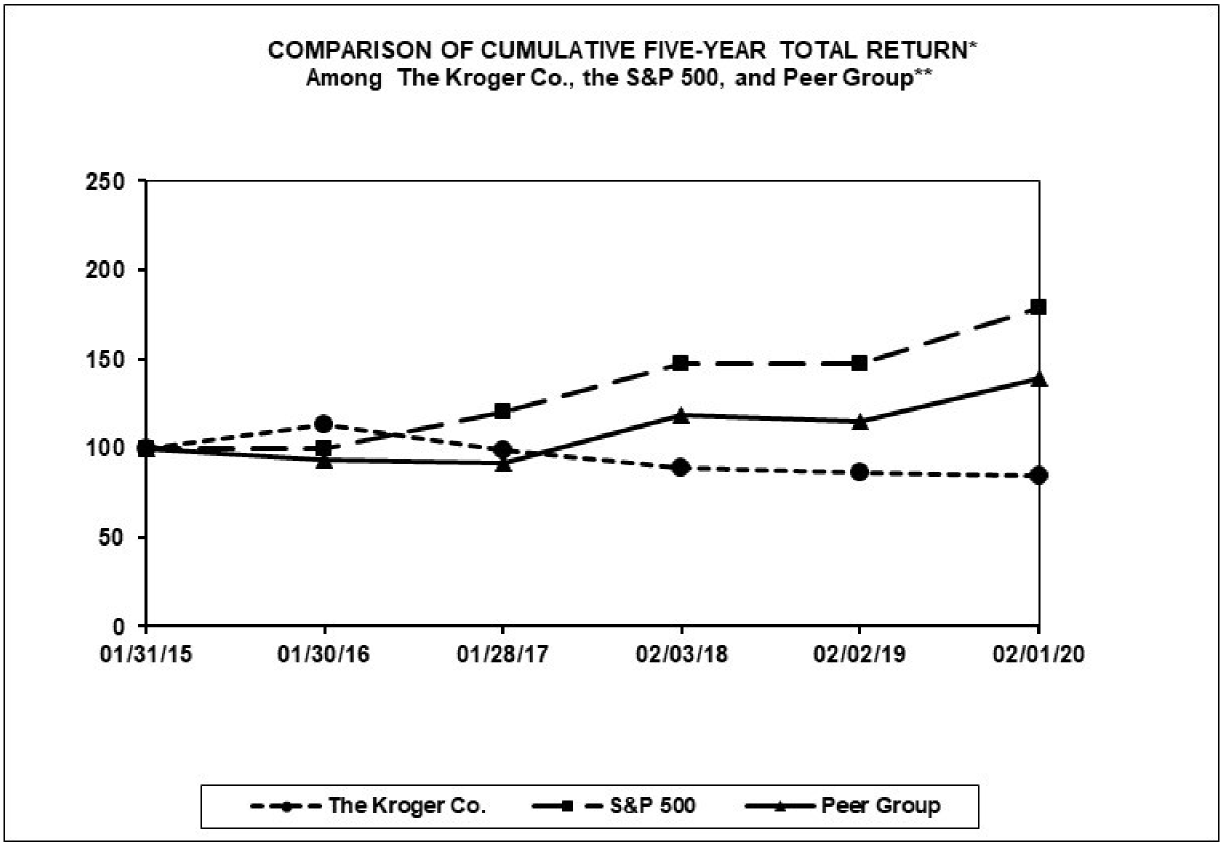
Our common stock is listed on the New York Stock Exchange under the symbol "KR." As of March 25, 2020, there were 26,407 shareholders of record.

During 2019, we paid two quarterly cash dividends of $0.14 per share and two quarterly cash dividends of $0.16 per share. During 2018, we paid two quarterly cash dividends of $0.125 per share and two quarterly cash dividends of $0.14 per share. On March 1, 2020, we paid a quarterly cash dividend of $0.16 per share. On March 12, 2020, we announced that our Board of Directors declared a quarterly cash dividend of $0.16 per share, payable on June 1, 2020, to shareholders of record at the close of business on May 15, 2020. We currently expect to continue to pay comparable cash dividends on a quarterly basis, that will increase over time, depending on our earnings and other factors, including approval by our Board.

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.



Company Name/Index	Base Period 2014	INDEXED RETURNS Years Ending 2015	2016	2017	2018	2019
The Kroger Co.	100	113.63	98.98	88.69	86.45	84.67
S&P 500 Index	100	99.33	120.06	147.48	147.40	179.17
Peer Group	100	93.30	91.76	118.54	115.13	138.93

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

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.

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* Total assumes $100 invested on January 31, 2015, 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 Health Corporation, Etablissements Delhaize Freres Et Cie Le Lion ("Groupe Delhaize", which is included through July 22, 2016 when it merged with Koninklijke Ahold), Koninklijke Ahold Delhaize NV (changed name from Koninklijke Ahold after merger with Groupe Delhaize), Supervalu Inc. (included through October 19, 2018 when it was acquired by United Natural Foods), Target Corp., Walmart Inc., Walgreens Boots Alliance Inc. (formerly, Walgreen Co.), Whole Foods Market Inc. (included through August 28, 2017 when it was acquired by Amazon.com, Inc.).

The following table presents information on our purchases of our common shares during the fourth quarter of 2019.

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)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (4) (in millions)
First period - four weeks				
November 10, 2019 to December 7, 2019	224,436	$ 26.95	211,551	$ 1,000
Second period - four weeks				
December 8, 2019 to January 4, 2020	7,844,559	$ 28.43	7,832,894	$ 787
Third period — four weeks				
January 5, 2020 to February 1, 2020	7,117,032	$ 28.49	7,117,032	$ 600
Total	15,186,027	$ 28.43	15,161,477	$ 600

(1) The reported periods conform to our fiscal calendar composed of thirteen 28-day periods. The fourth quarter of 2019 contained three 28-day periods.

(2) Includes (i) shares repurchased under the November 2019 Repurchase Program described below in (4), (ii) 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 ("1999 Repurchase Program") and (iii) 24,550 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 November 2019 Repurchase Program and the 1999 Repurchase Program.

(4) On November 5, 2019, our Board of Directors approved a $1.0 billion share repurchase program to reacquire shares via open market purchase or privately negotiated transactions, block trades, or pursuant to trades intending to comply with rule 10b5-1 of the Securities Exchange Act of 1934 (the "November 2019 Repurchase Program"). The amounts shown in this column reflect the amount remaining under the November 2019 Repurchase Program as of the specified period end dates. Amounts available under the 1999 Repurchase Program are dependent upon option exercise activity. The November 2019 Repurchase Program and the 1999 Repurchase Program do not have an expiration date but may be suspended or terminated by our Board of Directors at any time.

ITEM 6. SELECTED FINANCIAL DATA.

The following table presents our selected consolidated financial data for each of the last five fiscal years.

	Fiscal Years Ended				
	February 1, 2020 (52 weeks)	February 2, 2019 (52 weeks)	February 3, 2018 (53 weeks)	January 28, 2017 (52 weeks)	January 30, 2016 (52 weeks)
	(In millions, except per share amounts)				
Sales	$ 122,286	$ 121,852	$ 123,280	$ 115,337	$ 109,830
Net earnings including noncontrolling interests	$ 1,512	$ 3,078	$ 1,889	$ 1,957	$ 2,049
Net earnings attributable to The Kroger Co.	$ 1,659	$ 3,110	$ 1,907	$ 1,975	$ 2,039
Net earnings attributable to The Kroger Co. per diluted common share	$ 2.04	$ 3.76	$ 2.09	$ 2.05	$ 2.06
Total assets	$ 45,256	$ 38,118	$ 37,197	$ 36,505	$ 33,897
Long-term liabilities, including obligations under finance leases	$ 22,440	$ 16,009	$ 16,095	$ 16,935	$ 14,128
Total shareholders' equity — The Kroger Co.	$ 8,602	$ 7,886	$ 6,931	$ 6,698	$ 6,820
Cash dividends per common share	$ 0.600	$ 0.530	$ 0.490	$ 0.450	$ 0.395

Note: This information should be read in conjunction with MD&A and the Consolidated Financial Statements.

Fiscal year 2015, 2016, 2018 and 2019 each include 52 weeks. Fiscal year 2017 includes 53 weeks.

Total assets and long-term liabilities, including obligations under finance leases, were impacted in 2019 by the adoption of ASU 2016-02, "Leases," as further described in Notes 10 and 18 to the Consolidated Financial Statements. Prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting policies.

Products and services related primarily to Kroger Personal Finance and Media, which were historically accounted for as an offset to operating, general and administrative expenses ("OG&A"), are classified as a component of sales as of the beginning of fiscal year 2019, except for certain amounts in Media, which are netted against merchandise costs. The prior-year amounts have been reclassified to conform to current-year presentation with the exception of 2016 and 2015, which were not material and not adjusted for the sales reclassification. See Item 7, *Supplemental Information* for additional details.

Fiscal year ended February 2, 2019 includes the gain on sale of our convenience store business unit. Additionally, refer to Note 17 to the Consolidated Financial Statements for disclosure of disposals of businesses.

Refer to Note 2 to the Consolidated Financial Statements for disclosure of business combinations and their effect on the Consolidated Statements of Operations and the Consolidated Balance Sheets.

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 and the "Risk Factors" section set forth in Item 1A of Part I. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes thereto contained in Item 8 of this report, as well as Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K for the year ended February 2, 2019, which provides additional information on comparisons of fiscal years 2018 and 2017.

OUR BUSINESS

The Kroger Co. was founded in 1883 and incorporated in 1902. As of February 1, 2020, Kroger is one of the world's largest retailers, as measured by revenue, operating 2,757 supermarkets under a variety of local banner names in 35 states and the District of Columbia. Of these stores, 2,270 have pharmacies and 1,567 have fuel centers. We offer Pickup (also referred to as ClickList®) and Harris Teeter ExpressLane™ — personalized, order online, pick up at the store services — at 1,989 of our supermarkets and provide home delivery service to 97% of Kroger households. We also operate an online retailer.

We operate 35 food production plants, primarily bakeries and dairies, which supply approximately 31% of *Our Brands* units and 42% of the grocery category *Our Brands* units sold in our supermarkets; the remaining *Our Brands* items are produced to our strict specifications by outside manufacturers.

Our revenues are predominately earned and cash is generated as consumer products are sold to customers in our stores, fuel centers and via our online platforms. 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 97% of our consolidated sales, is our only reportable segment.

On January 27, 2020, Lucky's Market filed a voluntary petition in the Bankruptcy Court seeking relief under the Bankruptcy Code. Lucky's Market is included in our Consolidated Balance Sheet for 2018 and our Consolidated Statements of Operations in all periods in 2017 and 2018 and through January 26, 2020. Refer to Note 17 to the Consolidated Financial Statements for additional information.

On April 26, 2019, we completed the sale of our Turkey Hill Dairy business for total proceeds of $225 million. Turkey Hill Dairy is included in our Consolidated Balance Sheet for 2018 and our Consolidated Statements of Operations in all periods in 2017 and 2018 and through April 25, 2019.

On March 13, 2019, we completed the sale of our You Technology business to Inmar for total consideration of $565 million, including $396 million of cash and $64 million of preferred equity received upon closing. We are also entitled to receive other cash payments of $105 million over five years. The transaction includes a long-term service agreement for Inmar to provide us digital coupon services. You Technology is included in our Consolidated Balance Sheet for 2018 and our Consolidated Statements of Operations in all periods in 2017 and 2018 and through March 12, 2019.

On June 22, 2018, we closed our merger with Home Chef by purchasing 100% of the ownership interest in Home Chef, for $197 million net of cash and cash equivalents of $30 million, in addition to future earnout payments of up to $500 million over five years that are contingent on achieving certain milestones. Home Chef is included in our ending Consolidated Balance Sheet for 2018 and 2019 and in our Consolidated Statements of Operations from June 22, 2018 through February 2, 2019 and all periods in 2019. See Note 2 to the Consolidated Financial Statements for more information related to our merger with Home Chef.

On April 20, 2018, we completed the sale of our convenience store business unit for $2.2 billion. The convenience store business is included in our Consolidated Statements of Operations in all periods in 2017 and through April 19, 2018.

USE OF NON-GAAP FINANCIAL MEASURES

The accompanying Consolidated Financial Statements, including the related notes, are presented in accordance with generally accepted accounting principles ("GAAP"). We provide non-GAAP measures, including FIFO gross margin, FIFO operating profit, adjusted net earnings and adjusted net earnings per diluted share because management believes these metrics are useful to investors and analysts. These non-GAAP financial measures should not be considered as an alternative to gross margin, operating profit, net earnings and net earnings per diluted share or any other GAAP measure of performance. These measures should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP.

We calculate FIFO gross margin as FIFO gross profit divided by sales. FIFO gross profit is calculated as sales less merchandise costs, including advertising, warehousing, and transportation expenses, but excluding the Last-In, First-Out ("LIFO") charge. Merchandise costs exclude depreciation and rent expenses. FIFO gross margin is an important measure used by management as management believes FIFO gross margin is a useful metric to investors and analysts because it measures our day-to-day merchandising and operational effectiveness.

We calculate FIFO operating profit as operating profit excluding the LIFO charge. FIFO operating profit is an important measure used by management as management believes FIFO operating profit is a useful metric to investors and analysts because it measures our day-to-day operational effectiveness.

The adjusted net earnings and adjusted net earnings per diluted share metrics are important measures used by management to compare the performance of core operating results between periods. We believe adjusted net earnings and adjusted net earnings per diluted share are useful metrics to investors and analysts because they present more accurate year-over-year comparisons for our net earnings and net earnings per diluted share because adjusted items are not the result of our normal operations. Net earnings for 2019 include the following, which we define as the "2019 Adjusted Items:"

- Charges to operating, general and administrative expenses ("OG&A") of $135 million, $104 million net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension funds; $80 million, $61 million net of tax, for a severance charge and related benefits; $412 million including $305 million attributable to The Kroger Co., $225 million net of tax, for impairment of Lucky's Market; $52 million, $37 million net of tax, for transformation costs, primarily including 35 planned store closures; and a reduction to OG&A of $69 million, $49 million net of tax, for the revaluation of Home Chef contingent consideration (the "2019 OG&A Adjusted Items").

- Gains in other income (expense) of $106 million, $80 million net of tax, related to the sale of Turkey Hill Dairy; $70 million, $52 million net of tax, related to the sale of You Technology; and $157 million, $119 million net of tax, for the mark to market gain on Ocado Group plc ("Ocado") securities (the "2019 Other Income (Expense) Adjusted Items").

Net earnings for 2018 include the following, which we define as the "2018 Adjusted Items:"

- Charges to OG&A of $155 million, $121 million net of tax, for obligations related to withdrawal liabilities for certain local unions of the Central States multi-employer pension fund; $33 million, $26 million net of tax, for the revaluation of Home Chef contingent consideration; and $42 million, $33 million net of tax, for an impairment of financial instrument (the "2018 OG&A Adjusted Items"). We had initially received the financial instrument in 2016 with no cash outlay as part of the consideration for entering into agreements with a third party.

- A reduction to depreciation and amortization expenses of $14 million, $11 million net of tax, related to held for sale assets (the "2018 Depreciation Adjusted Item").

- Gains in other income (expense) of $1.8 billion, $1.4 billion net of tax, related to the sale of our convenience store business unit and $228 million, $174 million net of tax, for the mark to market gain on Ocado securities.

Net earnings for 2017 include the following, which we define as the “2017 Adjusted Items:”

- Charges to OG&A of $550 million, $360 million net of tax, for obligations related to withdrawing from and settlements of withdrawal liabilities for certain multi-employer pension funds; $184 million, $117 million net of tax, related to the voluntary retirement offering (“VRO”); and $110 million, $74 million net of tax, related to the Kroger Specialty Pharmacy goodwill impairment (the “2017 OG&A Adjusted Items”).

- A reduction to depreciation and amortization expenses of $19 million, $13 million net of tax, related to held for sale assets (the “2017 Depreciation Adjusted Item”).

- A reduction to income tax expense of $922 million primarily due to the re-measurement of deferred tax liabilities and the reduction of the statutory rate for the last five weeks of the fiscal year from the Tax Cuts and Jobs Act ("Tax Act") (the “2017 Tax Expense Adjusted Item”).

- A charge in other income (expense) of $502 million, $335 million net of tax, related to a company-sponsored pension plan termination.

In addition, net earnings for 2017 include $119 million, $79 million net of tax, due to a 53rd week in fiscal year 2017 (the “Extra Week”).

EXECUTIVE SUMMARY – OUR PATH TO DELIVERING CONSISTENT AND ATTRACTIVE TOTAL SHAREHOLDER RETURN

In 2019, we delivered on the total shareholder return model that we outlined at our Investor Day in November 2019 and are positioned to deliver on our total shareholder return model of the future. We also delivered on our guidance for identical sales without fuel, adjusted net earnings per diluted share and adjusted FIFO operating profit. We are using the power of Kroger’s stable and growing supermarket business to create meaningful incremental operating profit through the alternative profit stream businesses, positioning our business for long-term growth. By executing against the *Restock Kroger* framework, we are repositioning our business by widening and deepening our competitive moats. The four main areas of the *Restock Kroger* framework – Redefine the Customer Experience, Partner to Create Value, Develop Talent and Live Our Purpose – continue to be a top strategic priority for us. Our model is built upon a strong and durable base driven by our retail supermarket, fuel, and health and wellness businesses. We continue to generate strong free cash flow and are being disciplined in how we deploy it to deliver strong and attractive total shareholder returns.

Our financial strategy is to continue to use our strong free cash flow to invest in the business to drive long-term sustainable growth through the identification of high-return projects that support our strategy. We will allocate capital toward driving profitable sales growth in stores and digital, improving productivity, and building a seamless digital ecosystem and supply chain. At the same time, we are committed to maintaining our net debt to adjusted EBITDA range of 2.30 to 2.50 in order to keep our current investment-grade debt rating. We also expect to continue to grow our dividend over time, reflecting the confidence we have in our free cash flow, and will continue to return excess cash to investors via share repurchases. We expect our model to deliver improved operating results over time and continued strong free cash flow, which will translate into a consistently strong and attractive total shareholder return over the long-term of 8% to 11%. Our full-year 2019 results demonstrated clear progress toward delivering on this model. *Restock Kroger* is the right strategic framework to deliver both our 2020 guidance and to position Kroger for sustainable growth and total shareholder return.

The following table provides highlights of our financial performance:

Financial Performance Data
($ in millions, except per share amounts)

	2019	Percentage Change	2018
Sales	$ 122,286	0.4 %	$ 121,852
Net earnings attributable to The Kroger Co.	1,659	(46.7)%	3,110
Adjusted net earnings attributable to The Kroger Co.	1,786	2.3 %	1,745
Net earnings attributable to The Kroger Co. per diluted common share	2.04	(45.7)%	3.76
Adjusted net earnings attributable to The Kroger Co. per diluted common share	2.19	3.8 %	2.11
Operating profit	2,251	(13.9)%	2,614
Adjusted FIFO operating profit	2,995	4.0 %	2,880
Reduction in total debt, including obligations under finance leases	1,153	220.3 %	360
Share repurchases	465	(76.9)%	2,010
Dividends paid	486	11.2 %	437
Dividends paid per common share	0.600	13.2 %	0.530
Identical sales excluding fuel	2.0 %	N/A	1.8 %
FIFO gross margin rate, excluding fuel and Adjusted Items, bps decrease	(0.23)	N/A	(0.55)
OG&A rate, excluding fuel and Adjusted Items, bps increase (decrease)	(0.29)	N/A	0.07

OVERVIEW

Notable items for 2019 are:

Shareholder Return

- Net earnings attributable to The Kroger Co. per diluted common share of $2.04.
- Adjusted net earnings attributable to The Kroger Co. per diluted common share of $2.19.
- We returned $951 million to shareholders from share repurchases and dividend payments.
- Over the last 12 months, we decreased total debt, including obligations under finance leases, by $1.2 billion.

Other Financial Results

- Identical sales, excluding fuel, increased 2.0% in 2019.
- Digital revenue grew 29% in 2019, driven by Pickup and Delivery sales growth. Digital revenue growth has moderated primarily due to cycling our merger with the Home Chef business. Digital revenue primarily includes revenue from all curbside pickup locations, online sales delivered to customer locations and products shipped to customer locations.
- Alternative profit streams grew over $100 million in 2019 compared to 2018, meeting our expectations. Kroger's ecosystem fuels the growth of adjacent alternative profit streams like Kroger Personal Finance, customer data insights, and media businesses that are essential components of *Restock Kroger*. These businesses comprise a significant portion of Kroger's overall alternative profit stream portfolio. They are dependent on a core supermarket business to deliver sustainable, long-term growth and profitability.

Significant Events

- During the fourth quarter of 2019, we recognized transformation costs of $52 million, $37 million net of tax, primarily including 35 planned store closures.

- During the third quarter of 2019, we approved and implemented a plan to reorganize certain portions of our division management structure, resulting in a charge for severance and related benefits of $80 million, $61 million net of tax. This reorganization is expected to increase operational effectiveness and reduce overhead costs while maintaining a high quality customer experience.

- As a result of a portfolio review, we decided to divest our interest in Lucky's Market and we recognized a non-cash impairment charge of $238 million in the third quarter of 2019. The amount of the impairment charge attributable to The Kroger Co. is $131 million, $100 million net of tax. Subsequently, the decision was made by Lucky's Market to file for bankruptcy in January 2020, which led us to fully write off the value of our investment and deconsolidate Lucky's Market from our consolidated financial statements. This resulted in an additional non-cash charge of $174 million, $125 million net of tax, in the fourth quarter of 2019. The amount of the total 2019 charge attributable to The Kroger Co. is $305 million, $225 million net of tax. This impairment charge was a non-cash charge and reflects the write down of our initial investment in Lucky's Market, as well as additional funding provided to operate and grow the business. Kroger maintains liabilities associated with certain property related guarantees that will result in Kroger making payments to settle these over time.

- During the first quarter of 2019, we sold our You Technology business to Inmar for total consideration of $565 million, including $396 million of cash and $64 million of preferred equity received upon closing. We are also entitled to receive other cash payments of $105 million over five years. The transaction includes a long-term service agreement for Inmar to provide us digital coupon services.

- During the first quarter of 2019, we sold our Turkey Hill Dairy business to an affiliate of Peak Rock Capital for $225 million.

- In 2019, we recorded charges to OG&A of $135 million, $104 million net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension funds.

COVID-19

On March 11, 2020, the World Health Organization announced that infections of the coronavirus (COVID-19) had become a pandemic, and on March 13, the U.S. President announced a National Emergency relating to the disease. There is a possibility of widespread infection in the United States and abroad, with the potential for catastrophic impact. National, state and local authorities have recommended social distancing and imposed or are considering quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures, while intended to protect human life, are expected to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts, including proposed government payments to affected citizens and industries, is uncertain. Some economists are predicting the United States may enter a recession as a result of the pandemic.

We expect the ultimate significance of the impact on our financial condition, results of operations, or cash flows will be dictated by the length of time that such circumstances continue, which will depend on the currently unknowable extent and duration of the COVID-19 pandemic and any governmental and public actions taken in response. COVID-19 also makes it more challenging for management to estimate future performance of our businesses, particularly over the near term.

On April 1, 2020, we issued a press release announcing business updates in response to the impact from novel coronavirus (COVID-19).

The following table provides a reconciliation of net earnings attributable to The Kroger Co. to adjusted net earnings attributable to The Kroger Co. and a reconciliation of net earnings attributable to The Kroger Co. per diluted common share to adjusted net earnings attributable to The Kroger Co. per diluted common share, excluding the 2019, 2018 and 2017 Adjusted Items.

Net Earnings per Diluted Share excluding the Adjusted Items

($ in millions, except per share amounts)

	2019	2018	2017
Net earnings attributable to The Kroger Co.	$ 1,659	$ 3,110	$ 1,907
(Income) expense adjustments			
Adjustments for pension plan withdrawal liabilities(1)(2)	104	121	360
Adjustment for voluntary retirement offering(1)(3)	—	—	117
Adjustment for Kroger Specialty Pharmacy goodwill impairment(1)(4)	—	—	74
Adjustment for company-sponsored pension plan termination(1)(5)	—	—	335
Adjustment for gain on sale of convenience store business(1)(6)	—	(1,360)	—
Adjustment for gain on sale of Turkey Hill Dairy(1)(7)	(80)	—	—
Adjustment for gain on sale of You Technology(1)(8)	(52)	—	—
Adjustment for mark to market gain on Ocado securities(1)(9)	(119)	(174)	—
Adjustment for depreciation related to held for sale assets(1)(10)	—	(11)	(13)
Adjustment for severance charge and related benefits(1)(11)	61	—	—
Adjustment for deconsolidation and impairment of Lucky's Market attributable to The Kroger Co.(1)(12)	225	—	—
Adjustment for Home Chef contingent consideration(1)(13)	(49)	26	—
Adjustment for impairment of financial instrument(1)(14)	—	33	—
Adjustment for transformation costs, primarily including 35 planned store closures(1)(15)	37	—	—
Adjustment for Tax Act(1)(16)	—	—	(922)
Total Adjusted Items	127	(1,365)	(49)
Net earnings attributable to The Kroger Co. excluding the Adjusted Items	$ 1,786	$ 1,745	$ 1,858
Extra Week adjustment(1)(17)	—	—	(79)
Net earnings attributable to The Kroger Co. excluding the Adjusted Items and the Extra Week adjustment	$ 1,786	$ 1,745	$ 1,779
Net earnings attributable to The Kroger Co. per diluted common share	$ 2.04	$ 3.76	$ 2.09
(Income) expense adjustments			
Adjustments for pension plan withdrawal liabilities(18)	0.13	0.15	0.40
Adjustment for voluntary retirement offering(18)	—	—	0.13
Adjustment for Kroger Specialty Pharmacy goodwill impairment(18)	—	—	0.08
Adjustment for company-sponsored pension plan termination(18)	—	—	0.37
Adjustment for gain on sale of convenience store business(18)	—	(1.65)	—
Adjustment for gain on sale of Turkey Hill Dairy(18)	(0.10)	—	—
Adjustment for gain on sale of You Technology(18)	(0.06)	—	—
Adjustment for mark to market gain on Ocado securities(18)	(0.15)	(0.21)	—
Adjustment for depreciation related to held for sale assets(18)	—	(0.01)	(0.01)
Adjustment for severance charge and related benefits(18)	0.08	—	—
Adjustment for deconsolidation and impairment of Lucky's Market attributable to The Kroger Co.(18)	0.28	—	—
Adjustment for Home Chef contingent consideration(18)	(0.07)	0.03	—
Adjustment for impairment of financial instrument(18)	—	0.04	—
Adjustment for transformation costs, primarily including 35 planned store closures(18)	0.04	—	—
Adjustment for Tax Act(18)	—	—	(1.02)
Total Adjusted Items	0.15	(1.65)	(0.05)
Net earnings attributable to The Kroger Co. per diluted common share excluding the Adjusted Items	$ 2.19	$ 2.11	$ 2.04
Extra Week adjustment(18)	—	—	(0.09)
Net earnings attributable to The Kroger Co. per diluted common share excluding the Adjusted Items and the Extra Week adjustment	$ 2.19	$ 2.11	$ 1.95
Average numbers of common shares used in diluted calculation	805	818	904

Net Earnings per Diluted Share excluding the Adjusted Items (continued)
($ in millions, except per share amounts)

(1) The amounts presented represent the after-tax effect of each adjustment, which was calculated using discrete tax rates.
(2) The pre-tax adjustment for pension plan withdrawal liabilities was $135 in 2019, $155 in 2018 and $550 in 2017.
(3) The pre-tax adjustment for the voluntary retirement offering was $184.
(4) The pre-tax adjustment for Kroger Specialty Pharmacy goodwill impairment was $110.
(5) The pre-tax adjustment for the company-sponsored pension plan termination was $502.
(6) The pre-tax adjustment for gain on sale of convenience store business was ($1,782).
(7) The pre-tax adjustment for gain on sale of Turkey Hill Dairy was ($106).
(8) The pre-tax adjustment for gain on sale of You Technology was ($70).
(9) The pre-tax adjustment for mark to market gain on Ocado securities was ($157) in 2019 and ($228) in 2018.
(10) The pre-tax adjustment for depreciation related to held for sale assets was ($14) in 2018 and ($19) in 2017.
(11) The pre-tax adjustment for severance charge and related benefits was $80.
(12) The pre-tax adjustment for deconsolidation and impairment of Lucky's Market was $412 including $305 attributable to The Kroger Co.
(13) The pre-tax adjustment for Home Chef contingent consideration was ($69) in 2019 and $33 in 2018.
(14) The pre-tax adjustment for impairment of financial instrument was $42.
(15) The pre-tax adjustment for transformation costs, primarily including 35 planned store closures was $52.
(16) Due to the re-measurement of deferred tax liabilities and the reduction of the statutory income tax rate for the last few weeks of the fiscal year.
(17) The pre-tax Extra Week adjustment was ($119).
(18) The amount presented represents the net earnings per diluted common share effect of each adjustment.

RESULTS OF OPERATIONS

Sales

Total Sales
($ in millions)

	2019	Percentage Change(1)	2018	Percentage Change(2)	2017	2017 Adjusted(3)
Total sales to retail customers without fuel(4)	$ 107,487	2.2 %	$ 105,123	2.2 %	$ 104,817	$ 102,900
Supermarket fuel sales	14,052	(5.7)%	14,903	15.5 %	13,177	12,906
Convenience stores(5)	—	— %	944	(78.7)%	4,515	4,434
Other sales(6)	747	(15.3)%	882	15.9 %	771	761
Total sales	$ 122,286	0.4 %	$ 121,852	0.7 %	$ 123,280	$ 121,001

(1) This column represents the percentage change in 2019 compared to 2018.
(2) This column represents the percentage change in 2018 compared to 2017 adjusted sales, which removes the Extra Week.
(3) The 2017 Adjusted column represents the items presented in the 2017 column adjusted to remove the Extra Week.
(4) Digital sales, primarily including Pickup, Delivery, Ship and pharmacy e-commerce sales, grew approximately 29% in 2019, 58% in 2018 and 90% in 2017, adjusted to remove the Extra Week. These sales are included in the "total sales to retail customers without fuel" line above. Digital sales growth has moderated primarily due to cycling our merger with the Home Chef business.
(5) We completed the sale of our convenience store business unit during the first quarter of 2018.
(6) Other sales primarily relate to external sales at food production plants, data analytic services, third party media revenue and digital coupon services. The decrease in other sales in 2019, compared to 2018, is primarily due to the sale of You Technology and Turkey Hill Dairy during the first quarter of 2019, partially offset by an increase in data analytic services and third party media revenue.

Total sales increased in 2019, compared to 2018, by 0.4%. The increase was due to an increase in total sales to retail customers without fuel, partially offset by decreased supermarket fuel sales, a reduction in convenience store sales due to the sale of our convenience store business unit in the first quarter of 2018 and decreased sales due to the disposal of Turkey Hill Dairy and You Technology in the first quarter of 2019. Total sales, excluding fuel, dispositions and the merger with Home Chef increased 2.3% in 2019, compared to 2018. The increase in total sales to retail customers without fuel for 2019, compared to 2018, was primarily due to our merger with Home Chef and our identical sales increase, excluding fuel, of 2.0%. Identical sales, excluding fuel, for 2019, compared to 2018, increased primarily due to growth of loyal households, a higher customer basket value including retail inflation and Kroger Specialty Pharmacy sales growth, partially offset by continued investments in lower prices for our customers. Total supermarket fuel sales decreased 5.7% in 2019, compared to 2018, primarily due to a decrease in fuel gallons sold of 4.8% and a decrease in the average retail fuel price of 1.0%. The decrease in the average retail fuel price was caused by a decrease in the product cost of fuel.

Total sales decreased in 2018, compared to 2017, by 1.2%. The decrease in total sales in 2018, compared to 2017, is due to the Extra Week in 2017, partially offset by the increase in 2018 sales, compared to 2017 adjusted sales. Total sales increased in 2018, compared to 2017 adjusted sales, by 0.7%. This increase was primarily due to our increases in total sales to retail customers without fuel and supermarket fuel sales, partially offset by a reduction in convenience store sales due to the sale of our convenience store business unit in the first quarter of 2018. The increase in total sales to retail customers without fuel for 2018, compared to 2017 adjusted sales to retail customers without fuel, was primarily due to our merger with Home Chef and our identical sales increase, excluding fuel, of 1.8%. Identical sales, excluding fuel, for 2018, compared to 2017, increased primarily due to a higher customer basket value and Kroger Specialty Pharmacy sales growth, partially offset by our continued investments in lower prices for our customers. Total supermarket fuel sales increased 15.5% in 2018, compared to 2017 adjusted supermarket fuel sales, primarily due to an increase in the average retail fuel price of 13.6% and an increase in fuel gallons sold of 1.5%. The increase in the average retail fuel price was caused by an increase in the product cost of fuel.

We calculate identical sales, excluding fuel, as sales to retail customers, including sales from all departments at identical supermarket locations, Kroger Specialty Pharmacy businesses and ship-to-home solutions. We define a supermarket as identical when it has been in operation without expansion or relocation for five full quarters. Additionally, sales from all acquired businesses are treated as identical as if they were part of the Company in the prior year. Products and services related primarily to Kroger Personal Finance, which were historically accounted for as an offset to OG&A, are classified as a component of sales as of the beginning of fiscal year 2019. These prior-year amounts have been reclassified to conform to current-year presentation, which is consistent with our *Restock Kroger* initiative and our view of the products and services as part of our core business strategy. This is also more consistent with industry practice. These Kroger Personal Finance transactions represent sales to retail customers and, as such, are included in identical sales in 2019 and 2018. This change did not affect identical sales percentages for 2018. See “Supplemental Information” section below for more detail on the changes and the impact of the reclassification. Although identical sales is a relatively standard term, numerous methods exist for calculating identical sales growth. As a result, the method used by our management to calculate identical sales may differ from methods other companies use to calculate identical sales. We urge you to understand the methods used by other companies to calculate identical sales before comparing our identical sales to those of other such companies. Our identical sales results are summarized in the following table. We used the identical sales dollar figures presented below to calculate percentage changes for 2019.

Identical Sales
($ in millions)

	2019	2018
Excluding fuel	$ 106,037	$ 103,946
Excluding fuel	2.0 %	1.8 %

Gross Margin, LIFO and FIFO Gross Margin

We define gross margin as sales minus merchandise costs, including advertising, warehousing, and transportation. Rent expense, depreciation and amortization expense, and interest expense are not included in gross margin.

Our gross margin rates, as a percentage of sales, were 22.07% in 2019 and 21.95% in 2018. The increase in 2019, compared to 2018, resulted primarily from a higher gross margin rate on fuel sales, decreased shrink, as a percentage of sales, growth in our alternative profit stream portfolio and effective negotiations to achieve savings on the cost of products sold, partially offset by industry-wide lower gross margin rates in pharmacy, continued investments in lower prices for our customers, a higher LIFO charge and continued growth in the specialty pharmacy business.

Our LIFO charge was $105 million in 2019 and $29 million in 2018. Our LIFO charge reflects an increase in our product cost inflation for 2019, driven by dry grocery, pharmacy and dairy.

Our FIFO gross margin rate, which excludes the LIFO charge, was 22.16% in 2019, compared to 21.98% for 2018. Our fuel sales lower our FIFO gross margin rate due to the very low FIFO gross margin rate, as a percentage of sales, of fuel sales compared to non-fuel sales. Excluding the effect of fuel, our FIFO gross margin rate decreased 23 basis points in 2019, compared to 2018. This decrease resulted primarily from industry-wide lower gross margin rates in pharmacy, continued investments in lower prices for our customers and continued growth in the specialty pharmacy business, partially offset by decreased shrink, as a percentage of sales, growth in our alternative profit stream portfolio and effective negotiations to achieve savings on the cost of products sold.

Operating, General and Administrative Expenses

OG&A expenses consist primarily of employee-related costs such as wages, healthcare benefit costs, 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 17.34% in 2019 and 17.06% in 2018. The increase in 2019, compared to 2018 resulted primarily from the 2019 OG&A Adjusted Items, the effect of decreased supermarket fuel and convenience store sales, which increases our OG&A rate, as a percentage of sales, investments in our digital strategy and increases in hourly associate labor costs. The increase in hourly associate labor costs is attributable to investing in higher wages and other comprehensive benefits to improve employee retention, engagement and customer experience. The increase was partially offset by the 2018 OG&A Adjusted Items, broad based improvement of *Restock Kroger* cost savings initiatives that drive administrative efficiencies, store productivity and sourcing cost reductions, decreased incentive plan and healthcare costs and planned real estate transactions during the first quarter of 2019.

Excluding the effect of fuel, the 2019 OG&A Adjusted Items and the 2018 OG&A Adjusted Items, our OG&A rate decreased 29 basis points in 2019, compared to 2018. This decrease resulted primarily from broad based improvement of *Restock Kroger* cost savings initiatives that drive administrative efficiencies, store productivity and sourcing cost reductions, decreased incentive plan and healthcare costs and planned real estate transactions during the first quarter of 2019. The decrease was partially offset by investments in our digital strategy and increases in hourly associate labor costs attributed to investing in higher wages and other comprehensive benefits to improve employee retention, engagement and customer experience.

During the second quarter of 2019, we accepted an offer to sell an unused warehouse that had been on the market for some time. We used this gain as an opportunity to contribute a similar amount into the United Food and Commercial Workers ("UFCW") Consolidated Pension Plan, helping stabilize associates' future benefits. The net impact of these transactions had no effect to OG&A for 2019.

Rent Expense

Rent expense, as a percentage of sales, remained relatively consistent in 2019, compared to 2018.

Depreciation and Amortization Expense

Depreciation and amortization expense increased, as a percentage of sales, in 2019, compared to 2018. This increase is primarily due to the 2018 Depreciation Adjusted Item, additional depreciation on capital investments, excluding mergers and lease buyouts, of $3.0 billion during 2019 and a decrease in the average useful life on these capital investments, as we are investing more in technology projects and our digital ecosystem.

Operating Profit and FIFO Operating Profit

Operating profit was $2.3 billion, or 1.84% of sales, for 2019, compared to $2.6 billion, or 2.15% of sales, for 2018. Operating profit, as a percentage of sales, decreased 31 basis points in 2019, compared to 2018, due to increased OG&A and depreciation and amortization expenses, as a percentage of sales, partially offset by a higher gross margin rate.

FIFO operating profit was $2.4 billion, or 1.93% of sales, for 2019, compared to $2.6 billion, or 2.17% of sales, for 2018. FIFO operating profit excluding the 2019 and 2018 Adjusted Items was $3.0 billion, or 2.45% of sales, for 2019, compared to $2.9 billion, or 2.36% of sales, for 2018. FIFO operating profit excluding the 2019 and 2018 Adjusted Items increased 9 basis points in 2019, compared to 2018, due to increased fuel earnings, improved sales to retail customers without fuel and decreased OG&A expenses, as a percentage of sales, partially offset by decreased pharmacy gross profit and increased depreciation and amortization expense, as a percentage of sales.

Specific factors contributing to the operating trends for operating profit and FIFO operating profit above are discussed earlier in this section.

The following table provides a reconciliation of operating profit to FIFO operating profit, excluding the 2019 and 2018 Adjusted Items.

Operating Profit excluding the Adjusted Items
($ in millions)

	2019	2018
Operating profit	$ 2,251	$ 2,614
LIFO charge	105	29
FIFO Operating profit	2,356	2,643
Adjustments for pension plan withdrawal liabilities	135	155
Adjustment for depreciation related to held for sale assets	—	(14)
Adjustment for Home Chef contingent consideration	(69)	33
Adjustment for severance charge and related benefits	80	—
Adjustment for impairment of financial instrument	—	42
Adjustment for transformation costs, primarily including 35 planned store closures	52	—
Adjustment for deconsolidation and impairment of Lucky's Market[1]	412	—
Other	29	21
2019 and 2018 Adjusted items	639	237
Adjusted FIFO operating profit excluding the adjustment items above	$ 2,995	$ 2,880

(1) The adjustment for impairment of Lucky’s Market includes a $107 million net loss attributable to the minority interest of Lucky’s Market.

Interest Expense

Interest expense totaled $603 million in 2019 and $620 million in 2018. The decrease in interest expense in 2019, compared to 2018, resulted primarily from decreased borrowings and a lower weighted average interest rate. Over the last 12 months, we decreased total debt, including obligations under finance leases, by $1.2 billion.

Income Taxes

Our effective income tax rate was 23.7% in 2019 and 22.6% in 2018. The 2019 tax rate differed from the federal statutory rate primarily due to the effect of state income taxes and Lucky's Market losses attributable to the noncontrolling interest which reduced pre-tax income but did not impact tax expense. These 2019 items were partially offset by the utilization of tax credits and deductions. The 2018 tax rate differed from the federal statutory rate primarily due to the effect of state income taxes and an IRS audit that resulted in a reduction of prior year tax deductions at pre-Tax Act rates and an increase in future tax deductions at post-Tax Act rates. These 2018 items were partially offset by the utilization of tax credits and deductions, the remeasurement of uncertain tax positions and adjustments to provisional amounts that increased prior year deductions at pre-Tax Act rates and decreased future deductions at post-Tax Act rates.

Net Earnings and Net Earnings Per Diluted Share

Our net earnings are based on the factors discussed in the Results of Operations section.

Net earnings were $2.04 per diluted share for 2019 compared to net earnings of $3.76 per diluted share for 2018. Adjusted net earnings of $2.19 per diluted share for 2019 represented an increase of 3.8% compared to adjusted net earnings of $2.11 per diluted share for 2018. The increase in adjusted net earnings per diluted share resulted primarily from increased fuel earnings, decreased interest expense and lower weighted average common shares outstanding due to common share repurchases, partially offset by increased tax expense and a higher LIFO charge.

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. The share repurchase programs do not have an expiration date but may be suspended or terminated by our Board of Directors at any time. We made open market purchases of our common shares totaling $400 million in 2019 and $727 million in 2018. On April 20, 2018, we entered and funded a $1.2 billion ASR program to reacquire shares in privately negotiated transactions.

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 $65 million in 2019 and $83 million in 2018 of our common shares under the stock option program.

On March 15, 2018, our Board of Directors approved a $1.0 billion share repurchase program to reacquire shares via open market purchase or privately negotiated transactions, including accelerated stock repurchase transactions, block trades, or pursuant to trades intending to comply with rule 10b5-1 of the Securities Exchange Act of 1934 (the "March 2018 Repurchase Program"). On November 5, 2019, our Board of Directors approved a $1.0 billion share repurchase program to reacquire shares via open market purchase or privately negotiated transactions, block trades, or pursuant to trades intending to comply with rule 10b5-1 of the Securities Exchange Act of 1934 (the "November 2019 Repurchase Program"). The November 2019 Repurchase Program authorization replaced the existing March 2018 Repurchase Program that had approximately $546 million remaining.

The shares repurchased in 2019 were reacquired under the following share repurchase programs:

- The November 2019 Repurchase program.

- 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 ("1999 Repurchase Program").

As of February 1, 2020, there was $600 million remaining under the November 2019 Repurchase Program.

During the first quarter through March 25, 2020, we repurchased an additional $39 million of our common shares under the stock option program and $355 million additional shares under the November 2019 Repurchase Program. As of March 25, 2020, we have $245 million remaining under the November 2019 Repurchase Program. To maintain financial flexibility, we have decided to pause on additional share repurchases during the first quarter of 2020.

CAPITAL INVESTMENTS

Capital investments, including changes in construction-in-progress payables and excluding mergers and the purchase of leased facilities, totaled $3.0 billion in 2019 and 2018. Capital investments for mergers were $197 million in 2018 related to the merger with Home Chef. Refer to Note 2 to the Consolidated Financial Statements for more information on these mergers. Capital investments for the purchase of leased facilities totaled $82 million in 2019 and $5 million in 2018. The table below shows our supermarket storing activity and our total supermarket square footage:

Supermarket Storing Activity

	2019	2018	2017
Beginning of year	2,764	2,782	2,796
Opened	10	10	24
Opened (relocation)	9	4	15
Acquired	6	10	3
Closed (operational)	(19)	(38)	(41)
Closed (relocation)	(13)	(4)	(15)
End of year	2,757	2,764	2,782
Total supermarket square footage (in millions)	180	179	179

RETURN ON INVESTED CAPITAL

We calculate return on invested capital ("ROIC") by dividing adjusted ROIC operating profit for the prior four quarters by the average invested capital. Adjusted operating profit for ROIC purposes is calculated by excluding certain items included in operating profit, and adding back our LIFO charge, depreciation and amortization and rent to our U.S. GAAP operating profit of the prior four quarters. 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, (iv) for 2018, a rent factor equal to total rent for the last four quarters multiplied by a factor of eight and (v) for 2019, an adjustment due to the adoption of ASU 2016-02, "Leases," at the beginning of 2019 as further described in Notes 10 and 18 to the Consolidated Financial Statements; minus (i) the average taxes receivable, (ii) the average trade accounts payable, (iii) the average accrued salaries and wages, (iv) the average other current liabilities, excluding accrued income taxes, (v) the average liabilities held for sale and (vi) certain other adjustments. Averages are calculated for ROIC 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. For 2018, we used a factor of eight for our total rent as we believe this is a common factor used by our investors, analysts and rating agencies. 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.

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 2019 and 2018 on a 52 week basis ($ in millions). The 2019 calculation of ROIC excludes the financial position and results of operations of You Technology and Turkey Hill Dairy, due to the sales in 2019, and Lucky's Market, due to the deconsolidation in 2019. The 2018 calculation of ROIC excludes the financial position and results of operations of Home Chef, due to the merger in 2018, and the convenience store business, due to the sale in 2018.

	Fiscal Year Ended	
	February 1, 2020	February 2, 2019
Return on Invested Capital		
Numerator		
Operating profit	$ 2,251	$ 2,614
LIFO charge	105	29
Depreciation and amortization	2,649	2,465
Rent	884	884
Adjustment for merger with Home Chef	—	28
Adjustment for operating profit of convenience store business	—	(21)
Adjustment for Home Chef contingent consideration	(69)	33
Adjustment for impairment of financial instrument	—	42
Adjustments for pension plan withdrawal liabilities	135	155
Adjustment for depreciation related to held for sale assets	—	(14)
Adjustment for severance charge and related benefits	80	—
Adjustment for transformation costs, primarily including 35 planned store closures	52	—
Adjustment for deconsolidation and impairment of Lucky's Market	412	—
Adjustment for operating losses of Lucky's Market	75	—
Adjustment for disposal of You Technology	(49)	—
Adjusted ROIC operating profit	$ 6,525	$ 6,215
Denominator		
Average total assets	$ 41,687	$ 37,658
Average taxes receivable(1)	(41)	(115)
Average LIFO reserve	1,329	1,263
Average accumulated depreciation and amortization	23,404	21,703
Average trade accounts payable	(6,204)	(5,959)
Average accrued salaries and wages	(1,198)	(1,163)
Average other current liabilities(2)	(3,942)	(3,571)
Average liabilities held for sale	(26)	(155)
Adjustment for merger with Home Chef	—	(145)
Adjustment for disposal of convenience store business	—	(198)
Adjustment for disposal of Turkey Hill Dairy	(45)	—
Adjustment for disposal of You Technology	(13)	—
Adjustment for deconsolidation of Lucky's Market	(25)	—
Rent x 8	—	7,072
Initial operating lease assets at adoption of ASU 2016-02, "Leases" (see Notes 10 and 18)	3,406	—
Average invested capital	$ 58,332	$ 56,390
Return on Invested Capital	11.19 %	11.02 %

(1) Taxes receivable were $82 as of February 1, 2020 and $229 as of February 3, 2018. We did not have any taxes receivable as of February 2, 2019.

(2) Other current liabilities included accrued income taxes of $60 as of February 2, 2019. We did not have any accrued income taxes as of February 1, 2020 or February 3, 2018. Accrued income taxes are removed from other current liabilities in the calculation of average invested capital.

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 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.

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.

As discussed previously in the Overview section, we recognized an impairment charge related to Lucky's Market in the third quarter of 2019 totaling $238 million. The Lucky's Market impairment charge consists of property, plant and equipment of $200 million; goodwill of $19 million; operating lease assets of $11 million; and other charges of $8 million. Additionally, we recorded asset impairments totaling $120 million in 2019, including $70 million of operating lease assets. This 2019 impairment charge includes the 35 planned store closures across our footprint in 2020 related to our *Restock Kroger* transformation efforts. We recorded asset impairments in the normal course of business totaling $56 million in 2018. We record costs to reduce the carrying value of long-lived assets in the Consolidated Statements of Operations as OG&A 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.

Business Combinations

We account for business combinations using the acquisition method of accounting. All the assets acquired, liabilities assumed and amounts attributable to noncontrolling interests are recorded at their respective fair values at the date of acquisition once we obtain control of an entity. The determination of fair values of identifiable assets and liabilities involves estimates and the use of valuation techniques when market value is not readily available. We use various techniques to determine fair value in such instances, including the income approach. Significant estimates used in determining fair value include, but are not limited to, the amount and timing of future cash flows, growth rates, discount rates and useful lives. The excess of the purchase price over fair values of identifiable assets and liabilities is recorded as goodwill. See Note 3 for further information about goodwill.

Goodwill

Our goodwill totaled $3.1 billion as of February 1, 2020. 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 other consolidated entities (collectively, “reporting units”) that have goodwill balances. Generally, 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. We recognize goodwill impairment for any excess of a reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

Our annual evaluation of goodwill is performed for our reporting units during the fourth quarter. In 2017, we recorded goodwill impairment for our Kroger Specialty Pharmacy (“KSP”) reporting unit totaling $110 million, $74 million net of tax, resulting in a remaining goodwill balance of $243 million. The 2019 fair value of our KSP reporting unit was estimated using multiple valuation techniques: a discounted cash flow model (income approach), a market multiple model and a comparable mergers and acquisition model (market approaches), with each method weighted in the calculation. The income approach relies on management’s projected future cash flows, estimates of revenue growth rates, margin assumptions and an appropriate discount rate. The market approaches require the determination of an appropriate peer group, which is utilized to derive estimated fair values based on selected market multiples. The annual evaluation of goodwill performed in 2019 and 2018 did not result in impairment for any of our reporting units. Based on current and future expected cash flows, we believe additional 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 2019, 2018 and 2017, 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 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, market competition and our ability to successfully integrate recently acquired businesses.

Multi-Employer Pension Plans

We contribute to various multi-employer pension plans based on obligations arising from collective bargaining agreements. 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.

We recognize expense in connection with these plans as contributions are funded or when commitments are probable and reasonably estimable, in accordance with GAAP. We made cash contributions to these plans of $461 million in 2019, $358 million in 2018 and $954 million in 2017. The increase in 2017, compared to 2019 and 2018 is due to the $467 million pre-tax payment we made in 2017 to satisfy withdrawal obligations for certain local unions of the Central States Pension Fund and the 2017 UFCW contribution.

We continue to evaluate and address our potential exposure to under-funded multi-employer pension plans as it relates to our associates who are beneficiaries of these plans. These under-fundings are not our liability. When an opportunity arises that is economically feasible and beneficial to us and our associates, we may negotiate the restructuring of under-funded multi-employer pension plan obligations to help stabilize associates' future benefits and become the fiduciary of the restructured multi-employer pension plan. The commitments from these restructurings do not change our debt profile as it relates to our credit rating since these off-balance sheet commitments are typically considered in our investment grade debt rating. We are currently designated as the named fiduciary of the UFCW Consolidated Pension Plan and the International Brotherhood of Teamsters ("IBT") Consolidated Pension Fund and have sole investment authority over these assets. We became the fiduciary of the IBT Consolidated Pension Fund in 2017 due to the ratification of a new labor contract with the IBT that provided for the withdrawal of certain local unions from the Central States Pension Fund. Significant effects of these restructuring agreements recorded in our Consolidated Financial Statements are:

- In 2019, we incurred a $135 million charge, $104 million net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension funds.

- In 2018, we incurred a $155 million charge, $121 million net of tax, for obligations related to withdrawal liabilities for certain local unions of the Central States multi-employer pension fund.

- In 2017, we incurred a $550 million charge, $360 million net of tax, for obligations related to withdrawing from and settlements for withdrawal liabilities for certain multi-employer pension plan obligations, of which $467 million was contributed to the Central States Pension Fund in 2017.

- In 2017, we contributed an incremental $111 million, $71 million net of tax, to the UFCW Consolidated Pension Plan.

As we continue to work to find solutions to under-funded multi-employer pension plans, it is possible we could incur withdrawal liabilities for certain funds.

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, 2019. 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.

As of December 31, 2019, we estimate our share of the underfunding of multi-employer pension plans to which we contribute was approximately $2.3 billion, $1.8 billion net of tax. This represents a decrease in the estimated amount of underfunding of approximately $800 million, $600 million net of tax, as of December 31, 2019, compared to December 31, 2018. The decrease in the amount of underfunding is primarily attributable to higher expected returns on assets in the funds during 2019. 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 the event we were to exit certain markets or otherwise cease making contributions to these plans, 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 pension plans, benefit payments or future restructuring agreements. 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 pension 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.

NEW ACCOUNTING STANDARDS

Refer to Note 18 and Note 19 to the Consolidated Financial Statements for recently adopted accounting standards and recently issued accounting standards not yet adopted as of February 1, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Information

Net cash provided by operating activities

We generated $4.7 billion of cash from operations in 2019 compared to $4.2 billion in 2018. Net earnings including noncontrolling interests, adjusted for non-cash items and other impacts, generated approximately $4.9 billion of operating cash flow in 2019 compared to $3.8 billion in 2018. Cash provided (used) by operating activities for changes in working capital was ($259) million in 2019 compared to $395 million in 2018. The decrease in cash provided by operating activities for changes in working capital in 2019, compared to 2018, was primarily due to the following:

- The change in prepaid and other current assets decreased in 2019, compared to 2018, due to a decrease in the amount of prepaid medical benefit costs at the end of 2018 compared to the end of 2017;
- Cash flows from income taxes were favorable in 2018, compared to 2019, because of income tax overpayments made in 2017 that reduced payments made in 2018; and
- Payments on operating lease liabilities; partially offset by
- Proceeds from a contract associated with the sale of a business;
- Decreased contributions to the company-sponsored pension plan in 2019, compared to 2018; and
- Higher third-party payor receivables at the end of 2018 due to the timing of third-party payments, which resulted in a reduction in cash provided by operating activities in 2018. Receivable balances were similar in 2019 compared to 2018.

Cash paid for taxes increased in 2019, compared to 2018, primarily due to the payment of estimated taxes on the gain on sale of the You Technology and Turkey Hill Dairy businesses in 2019 and an overpayment of our fourth quarter 2017 estimated taxes that resulted in lower tax payments in 2018.

Cash paid for interest decreased in 2019, compared to 2018, primarily due to an increase in accrued interest related to certain semi-annual senior notes interest payments that were paid subsequent to February 1, 2020.

Net cash used by investing activities

Investing activities used cash of $2.6 billion in 2019 compared to $1.2 billion in 2018. The amount of cash used by investing activities increased in 2019, compared to 2018, primarily due to the following:

- A lower amount of net proceeds from the sale of businesses, since the proceeds from the sale of the convenience store business exceeded the proceeds from the sales of the Turkey Hill Dairy and You Technology businesses;
- A lower amount of net proceeds from the settlement of a financial instrument; partially offset by
- Increased proceeds from the sale of assets due to the sale of an unused warehouse and proceeds from sale leaseback transactions;
- No payments for purchases of Ocado securities in 2019; and
- No acquisitions in 2019.

Net cash used by financing activities

We used $2.1 billion of cash for financing activities in 2019 compared to $2.9 billion during 2018. The amount of cash used for financing activities for 2019, compared to 2018, decreased primarily due to decreased payments on commercial paper and share repurchases, partially offset by increased payments on long-term debt including obligations under finance leases and a reduction of proceeds from the issuance of long-term debt.

Debt Management

Total debt, including both the current and long-term portions of obligations under finance leases, decreased $1.2 billion to $14.1 billion as of year-end 2019 compared to 2018. The decrease in 2019, compared to 2018, resulted primarily from payment of $500 million of senior notes bearing an interest rate of 1.50%, payment of $750 million of senior notes bearing an interest rate of 6.15% and the repayment of our $1.0 billion term loan, partially offset by the issuance of $750 million of senior notes bearing an interest rate of 3.95% and an increase in outstanding commercial paper borrowings of $350 million at the end of 2019 compared to 2018.

Dividends

The following table provides dividend information ($ in millions, except per share amounts):

	2019	2018
Cash dividends paid	$ 486	$ 437
Cash dividends paid per common share	$ 0.600	$ 0.530

Liquidity Needs

We estimate our liquidity needs over the next twelve-month period to approximate $5.5 billion, which includes anticipated requirements for working capital, capital investments, interest payments and scheduled principal payments of debt and commercial paper, offset by cash and temporary cash investments on hand at the end of 2019. We generally operate with a working capital deficit due to our efficient use of cash in funding operations and because we have consistent access to the capital markets. 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 $700 million of senior notes and $1.2 billion of commercial paper maturing in fiscal year 2020, which are included in the $5.5 billion of estimated liquidity needs. We expect to satisfy these obligations using cash generated from operations and through issuing additional senior notes or commercial paper. We believe we have adequate coverage of our debt covenants to continue to maintain our current investment grade 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 program. At February 1, 2020, we had $1.2 billion of commercial paper borrowings outstanding. Commercial paper 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 commercial paper program could be adversely affected for a period of time and increase our interest cost on daily borrowings under our commercial paper 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 commercial paper 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 and applicable margin on borrowings under the credit facility could be affected by a downgrade in our Public Debt Rating. “Public Debt Rating” means, as of any date, the rating that has been most recently announced by either S&P or Moody’s, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Company. On March 18, 2020, we proactively borrowed $1 billion from our revolving credit facility. This was a precautionary measure in order to preserve financial flexibility, reduce reliance on the commercial paper market and maintain liquidity in response to the coronavirus pandemic. Cash and temporary cash investments immediately following the borrowing were approximately $2.3 billion. As of March 25, 2020, we had no commercial paper borrowings outstanding.

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 are described below:

- Our Leverage Ratio (the ratio of Net Debt to Adjusted EBITDA, as defined in the credit facility) was 2.30 to 1 as of February 1, 2020. 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.

- Our Fixed Charge Coverage Ratio (the ratio of Adjusted EBITDA plus Consolidated Rental Expense to Consolidated Cash Interest Expense plus Consolidated Rental Expense, as defined in the credit facility) was 4.39 to 1 as of February 1, 2020. 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 facility is more fully described in Note 6 to the Consolidated Financial Statements. We were in compliance with our financial covenants at year-end 2019.

The tables below illustrate our significant contractual obligations and other commercial commitments, based on year of maturity or settlement, as of February 1, 2020 (in millions of dollars):

	2020	2021	2022	2023	2024	Thereafter	Total
Contractual Obligations[(1)(2)]							
Long-term debt[(3)]	$ 1,926	$ 804	$ 894	$ 594	$ 495	$ 8,543	$ 13,256
Interest on long-term debt[(4)]	488	489	442	421	410	5,301	7,551
Finance lease obligations	84	95	80	86	81	757	1,183
Operating lease obligations	932	884	772	758	637	6,353	10,336
Self-insurance liability[(5)]	216	141	99	66	41	126	689
Construction commitments[(6)]	670	—	—	—	—	—	670
Purchase obligations[(7)]	814	360	163	109	37	10	1,493
Total	$ 5,130	$ 2,773	$ 2,450	$ 2,034	$ 1,701	$ 21,090	$ 35,178
Other Commercial Commitments							
Standby letters of credit	$ 347	$ —	$ —	$ —	$ —	$ —	$ 347
Surety bonds	401	—	—	—	—	—	401
Total	$ 748	$ —	$ —	$ —	$ —	$ —	$ 748

(1) The contractual obligations table excludes funding of pension and other postretirement benefit obligations, which totaled approximately $34 million in 2019. This table also excludes contributions under various multi-employer pension plans, which totaled $461 million in 2019. This table also excludes the March 18, 2020 $1 billion borrowing under our revolving credit facility since the borrowing occurred subsequent to February 1, 2020.
(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 February 1, 2020, we had $1.2 billion of commercial paper and no borrowings under our credit facility.
(4) Amounts include contractual interest payments using the interest rate as of February 1, 2020, 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 food production plants and several contracts to purchase energy to be used in our stores and food production plants. 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 February 1, 2020, we maintained a $2.75 billion (with the ability to increase by $1 billion), unsecured revolving credit facility that, unless extended, terminates on August 29, 2022. Outstanding borrowings under the credit facility, commercial paper borrowings, and some outstanding letters of credit reduce funds available under the credit facility. As of February 1, 2020, we had $1.2 billion of outstanding commercial paper and no borrowings under our revolving credit facility. The outstanding letters of credit that reduce funds available under our credit facility totaled $2 million as of February 1, 2020.

In addition to the available credit mentioned above, as of February 1, 2020, we had authorized for issuance $4.3 billion of securities remaining under a shelf registration statement filed with the SEC and effective on May 24, 2019.

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 multi-employer pension plan 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.

SUPPLEMENTAL INFORMATION

Sales Reclassification

Products and services related primarily to Kroger Personal Finance and Media, which were historically accounted for as an offset to OG&A, are classified as a component of sales as of the beginning of fiscal year 2019, except for certain amounts in Media, which are netted against merchandise costs. These prior-year amounts have been reclassified to conform to current-year presentation, which is consistent with our *Restock Kroger* initiative and our view of the products and services as part of our core business strategy. This is also more consistent with industry practice.

The following tables summarize the Company's 2018 sales reclassifications ($ in millions):

	Fiscal Year Ended		
	Previously Stated February 2, 2019	Reclassification 2018	Reclassified February 2, 2019
Sales	$ 121,162	$ 690	$ 121,852
Operating expenses			
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	94,894	209	95,103
Operating, general and administrative	20,305	481	20,786
Rent	884	—	884
Depreciation and amortization	2,465	—	2,465
Operating profit	$ 2,614	$ —	$ 2,614

The following tables summarize the Company's 2017 sales reclassifications ($ in millions):

	Fiscal Year Ended		
	Previously Stated February 3, 2018	Reclassification 2017	Reclassified February 3, 2018
Sales	$ 122,662	$ 618	$ 123,280
Operating expenses			
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	95,662	149	95,811
Operating, general and administrative	21,041	469	21,510
Rent	911	—	911
Depreciation and amortization	2,436	—	2,436
Operating profit	$ 2,612	$ —	$ 2,612

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. 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 subject to interest rate reset and the amount of floating rate debt to a combined total amount that represents 25% of the carrying value of our debt portfolio 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 February 1, 2020, we maintained seven forward-starting interest rate swap agreements with a maturity date of January 15, 2021 with an aggregate notional amount totaling $350 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 January 2021. The fixed interest rates for these forward-starting interest rate swaps range from 1.57% to 2.45%. 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 February 1, 2020, the fair value of the interest rate swaps was recorded in “Other long-term liabilities” for $19 million and accumulated other comprehensive loss for $17 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 underlying debt portfolio as of February 1, 2020 and February 2, 2019. The amounts shown for each year represent the contractual maturities of long-term debt, excluding finance leases, as of February 1, 2020 and February 2, 2019. Interest rates reflect the weighted average rate for the outstanding instruments. The variable rate debt is based on U.S. dollar LIBOR using the forward yield curve as of February 1, 2020 and February 2, 2019. The Fair Value column includes the fair value of our debt instruments as of February 1, 2020 and February 2, 2019. We have no outstanding interest rate derivatives classified as fair value hedges as of February 1, 2020 or February 2, 2019. See Notes 6, 7 and 8 to the Consolidated Financial Statements.

	February 1, 2020 Expected Year of Maturity							
	2020	**2021**	**2022**	**2023**	**2024**	**Thereafter**	**Total**	**Fair Value**
	(in millions)							
Debt								
Fixed rate	$ (705)	$ (804)	$ (894)	$ (594)	$ (495)	$ (8,462)	$ (11,954)	$ (13,347)
Average interest rate	4.39 %	4.56 %	4.47 %	4.69 %	4.86 %	4.65 %		
Variable rate	$ (1,221)	$ —	$ —	$ —	$ —	$ (81)	$ (1,302)	$ (1,302)
Average interest rate	1.88 %	—	—	—	—	1.65 %		

	February 2, 2019 Expected Year of Maturity							
	2019	**2020**	**2021**	**2022**	**2023**	**Thereafter**	**Total**	**Fair Value**
	(in millions)							
Debt								
Fixed rate	$ (1,251)	$ (695)	$ (793)	$ (896)	$ (595)	$ (8,163)	$ (12,393)	$ (12,232)
Average interest rate	4.51 %	4.47 %	4.47 %	4.56 %	4.74 %	4.70 %		
Variable rate	$ (1,852)	$ (25)	$ —	$ —	$ —	$ (81)	$ (1,958)	$ (1,958)
Average interest rate	3.09 %	4.26 %	—	—	—	1.75 %		

Based on our year-end 2019 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements of The Kroger Co.
For the Fiscal Year Ended February 1, 2020

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Report of Independent Registered Public Accounting Firm

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

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Kroger Co. and its subsidiaries (the "Company") as of February 1, 2020 and February 2, 2019, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended February 1, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of February 1, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 1, 2020 and February 2, 2019, and the results of its operations and its cash flows for each of the three years in the period ended February 1, 2020 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 February 1, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Note 18 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated 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 the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Goodwill Impairment Assessment – Kroger Specialty Pharmacy ("KSP") Reporting Unit

As described in Notes 1 and 3 to the consolidated financial statements, the Company's consolidated goodwill balance was $3.1 billion as of February 1, 2020, and the goodwill associated with the KSP reporting unit was $243 million. Management reviews goodwill annually for impairment in the fourth quarter of each year, and also upon the occurrence of triggering events. The fair value of a reporting unit is compared to its carrying value for purposes of identifying potential impairment. Goodwill impairment is recognized for any excess of the reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. As disclosed by management, the fair value of the Company's KSP reporting unit was estimated using multiple valuation techniques, a discounted cash flow model (income approach), a market multiple model and comparable mergers and acquisition model (market approaches), with each method weighted in the calculation. The income approach relies on management's estimates of revenue growth rates, margin assumptions, and discount rate to estimate future cash flows. The market approaches require the determination of an appropriate peer group, which is utilized to derive estimated fair values based on selected market multiples.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the KSP reporting unit is a critical audit matter are there was significant judgment by management when developing the fair value measurement of the reporting unit. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate management's cash flow projections and significant assumptions, including revenue growth rates, margin assumptions, discount rate, peer group determination, and market multiple selection. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the valuation of the Company's KSP reporting unit. These procedures also included, among others, testing management's process for developing the fair value estimate, evaluating the appropriateness of the income and market approach models, testing the completeness, accuracy, and relevance of the underlying data used in the models and evaluating the significant assumptions used by management, including the revenue growth rates, margin assumptions, discount rate, peer group determination, and market multiple selection. Evaluating management's assumptions relating to revenue growth rates and margin assumptions involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit, (ii) the consistency with external market and industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Evaluating the Company's peer group determinations included evaluating the appropriateness of the identified peer companies. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discounted cash flow and market models, and certain significant assumptions, including the discount rate, peer group determination, and market multiples.

/s/ PricewaterhouseCoopers LLP
Cincinnati, Ohio
April 1, 2020

We have served as the Company's auditor since 1929.

THE KROGER CO.
CONSOLIDATED BALANCE SHEETS

(In millions, except par amounts)	February 1, 2020	February 2, 2019
ASSETS		
Current assets		
Cash and temporary cash investments	$ 399	$ 429
Store deposits in-transit	1,179	1,181
Receivables	1,706	1,589
FIFO inventory	8,464	8,123
LIFO reserve	(1,380)	(1,277)
Assets held for sale	—	166
Prepaid and other current assets	522	592
Total current assets	10,890	10,803
Property, plant and equipment, net	21,871	21,635
Operating lease assets	6,814	—
Intangibles, net	1,066	1,258
Goodwill	3,076	3,087
Other assets	1,539	1,335
Total Assets	$ 45,256	$ 38,118
LIABILITIES		
Current liabilities		
Current portion of long-term debt including obligations under finance leases	$ 1,965	$ 3,157
Current portion of operating lease liabilities	597	—
Trade accounts payable	6,349	6,059
Accrued salaries and wages	1,168	1,227
Liabilities held for sale	—	51
Other current liabilities	4,164	3,780
Total current liabilities	14,243	14,274
Long-term debt including obligations under finance leases	12,111	12,072
Noncurrent operating lease liabilities	6,505	—
Deferred income taxes	1,466	1,562
Pension and postretirement benefit obligations	608	494
Other long-term liabilities	1,750	1,881
Total Liabilities	36,683	30,283
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, 2,000 shares authorized; 1,918 shares issued in 2019 and 2018	1,918	1,918
Additional paid-in capital	3,337	3,245
Accumulated other comprehensive loss	(640)	(346)
Accumulated earnings	20,978	19,681
Common shares in treasury, at cost, 1,130 shares in 2019 and 1,120 shares in 2018	(16,991)	(16,612)
Total Shareholders' Equity - The Kroger Co.	8,602	7,886
Noncontrolling interests	(29)	(51)
Total Equity	8,573	7,835
Total Liabilities and Equity	$ 45,256	$ 38,118

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

THE KROGER CO.
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended February 1, 2020, February 2, 2019 and February 3, 2018

(In millions, except per share amounts)	**2019 (52 weeks)**	**2018 (52 weeks)**	**2017 (53 weeks)**
Sales	$ 122,286	$ 121,852	$ 123,280
Operating expenses			
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	95,294	95,103	95,811
Operating, general and administrative	21,208	20,786	21,510
Rent	884	884	911
Depreciation and amortization	2,649	2,465	2,436
Operating profit	2,251	2,614	2,612
Other income (expense)			
Interest expense	(603)	(620)	(601)
Non-service component of company-sponsored pension plan costs	—	(26)	(527)
Mark to market gain on Ocado securities	157	228	—
Gain on sale of businesses	176	1,782	—
Net earnings before income tax (benefit) expense	1,981	3,978	1,484
Income tax (benefit) expense	469	900	(405)
Net earnings including noncontrolling interests	1,512	3,078	1,889
Net loss attributable to noncontrolling interests	(147)	(32)	(18)
Net earnings attributable to The Kroger Co.	$ 1,659	$ 3,110	$ 1,907
Net earnings attributable to The Kroger Co. per basic common share	$ 2.05	$ 3.80	$ 2.11
Average number of common shares used in basic calculation	799	810	895
Net earnings attributable to The Kroger Co. per diluted common share	$ 2.04	$ 3.76	$ 2.09
Average number of common shares used in diluted calculation	805	818	904

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

THE KROGER CO.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended February 1, 2020, February 2, 2019 and February 3, 2018

(In millions)	2019 (52 weeks)	2018 (52 weeks)	2017 (53 weeks)
Net earnings including noncontrolling interests	$ 1,512	$ 3,078	$ 1,889
Other comprehensive income (loss)			
Realized gains on available for sale securities, net of income tax(1)	—	(4)	4
Change in pension and other postretirement defined benefit plans, net of income tax(2)	(105)	147	214
Unrealized gains and losses on cash flow hedging activities, net of income tax(3)	(47)	(23)	23
Amortization of unrealized gains and losses on cash flow hedging activities, net of income tax(4)	4	5	3
Cumulative effect of accounting change(5)	(146)	—	—
Total other comprehensive income (loss)	(294)	125	244
Comprehensive income	1,218	3,203	2,133
Comprehensive loss attributable to noncontrolling interests	(147)	(32)	(18)
Comprehensive income attributable to The Kroger Co.	$ 1,365	$ 3,235	$ 2,151

(1) Amount is net of tax expense (benefit) of ($1) in 2018 and $1 in 2017.
(2) Amount is net of tax expense (benefit) of ($33) in 2019, $45 in 2018 and $83 in 2017.
(3) Amount is net of tax expense (benefit) of ($17) in 2019, ($8) in 2018 and $0 in 2017.
(4) Amount is net of tax expense of $3 in 2019 and $3 in 2018 and $3 in 2017.
(5) Related to the adoption of Accounting Standards Update ("ASU") 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," (see Note 18 for additional details).

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

THE KROGER CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended February 1, 2020, February 2, 2019 and February 3, 2018

(In millions)	2019 (52 weeks)	2018 (52 weeks)	2017 (53 weeks)
Cash Flows from Operating Activities:			
Net earnings including noncontrolling interests	$ 1,512	$ 3,078	$ 1,889
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	2,649	2,465	2,436
Asset impairment charge	120	56	71
Operating lease asset amortization	640	—	—
LIFO charge (credit)	105	29	(8)
Stock-based employee compensation	155	154	151
Expense for company-sponsored pension plans	39	76	591
Goodwill impairment charge	—	—	110
Deferred income taxes	(56)	(45)	(694)
Gain on sale of businesses	(176)	(1,782)	—
(Gain) loss on the sale of assets	(158)	2	(31)
Mark to market gain on Ocado securities	(157)	(228)	—
Loss on deconsolidation and impairment of Lucky's Market	412	—	—
Other	(109)	58	39
Changes in operating assets and liabilities net of effects from mergers and disposals of businesses:			
Store deposits in-transit	3	(20)	(265)
Receivables	(36)	(208)	61
Inventories	(351)	(354)	(23)
Prepaid and other current assets	(33)	244	41
Trade accounts payable	342	213	158
Accrued expenses	302	416	(40)
Income taxes receivable and payable	(142)	289	(96)
Contribution to company-sponsored pension plan	—	(185)	(1,000)
Operating lease liabilities	(639)	—	—
Proceeds from contract associated with sale of business	295	—	—
Other	(53)	(94)	23
Net cash provided by operating activities	4,664	4,164	3,413
Cash Flows from Investing Activities:			
Payments for property and equipment, including payments for lease buyouts	(3,128)	(2,967)	(2,809)
Proceeds from sale of assets	273	85	138
Proceeds on settlement of financial instrument	—	235	—
Payments for acquisitions, net of cash acquired	—	(197)	(16)
Purchases of stores	—	(44)	—
Net proceeds from sale of businesses	327	2,169	—
Purchases of Ocado securities	—	(392)	—
Other	(83)	(75)	(20)
Net cash used by investing activities	(2,611)	(1,186)	(2,707)
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt	813	2,236	1,523
Payments on long-term debt including obligations under finance leases	(2,304)	(1,372)	(788)
Net proceeds (payments) on commercial paper	350	(1,321)	696
Dividends paid	(486)	(437)	(443)
Proceeds from issuance of capital stock	55	65	51
Treasury stock purchases	(465)	(2,010)	(1,633)
Other	(46)	(57)	(87)
Net cash used by financing activities	(2,083)	(2,896)	(681)
Net (decrease) increase in cash and temporary cash investments	(30)	82	25
Cash and temporary cash investments:			
Beginning of year	429	347	322
End of year	$ 399	$ 429	$ 347
Reconciliation of capital investments:			
Payments for property and equipment, including payments for lease buyouts	$ (3,128)	$ (2,967)	$ (2,809)
Payments for lease buyouts	82	5	13
Changes in construction-in-progress payables	2	(56)	(188)
Total capital investments, excluding lease buyouts	$ (3,044)	$ (3,018)	$ (2,984)
Disclosure of cash flow information:			
Cash paid during the year for interest	$ 523	$ 614	$ 656
Cash paid during the year for income taxes	$ 706	$ 600	$ 348

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

THE KROGER CO.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended February 1, 2020, February 2, 2019 and February 3, 2018

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Accumulated Earnings	Noncontrolling Interest	Total
(In millions, except per share amounts)	**Shares**	**Amount**		**Shares**	**Amount**				
Balances at January 28, 2017	1,918	$ 1,918	$ 3,070	994	$ (13,118)	$ (715)	$ 15,543	$ 12	$ 6,710
Issuance of common stock:									
Stock options exercised	—	—	—	(4)	51	—	—	—	51
Restricted stock issued	—	—	(119)	(2)	85	—	—	—	(34)
Treasury stock activity:									
Treasury stock purchases, at cost	—	—	—	58	(1,567)	—	—	—	(1,567)
Stock options exchanged	—	—	—	2	(66)	—	—	—	(66)
Share-based employee compensation	—	—	151	—	—	—	—	—	151
Other comprehensive income net of tax of $87	—	—	—	—	—	244	—	—	244
Other	—	—	59	—	(69)	—	—	(20)	(30)
Cash dividends declared ($0.495 per common share)	—	—	—	—	—	—	(443)	—	(443)
Net earnings (loss) including non-controlling interests	—	—	—	—	—	—	1,907	(18)	1,889
Balances at February 3, 2018	1,918	$ 1,918	$ 3,161	1,048	$ (14,684)	$ (471)	$ 17,007	$ (26)	$ 6,905
Issuance of common stock:									
Stock options exercised	—	—	—	(4)	65	—	—	—	65
Restricted stock issued	—	—	(119)	(3)	74	—	—	—	(45)
Treasury stock activity:									
Treasury stock purchases, at cost	—	—	—	76	(1,927)	—	—	—	(1,927)
Stock options exchanged	—	—	—	3	(83)	—	—	—	(83)
Share-based employee compensation	—	—	154	—	—	—	—	—	154
Other comprehensive income net of tax of $39	—	—	—	—	—	125	—	—	125
Other	—	—	49	—	(57)	—	—	7	(1)
Cash dividends declared ($0.545 per common share)	—	—	—	—	—	—	(436)	—	(436)
Net earnings (loss) including non-controlling interests	—	—	—	—	—	—	3,110	(32)	3,078
Balances at February 2, 2019	1,918	$ 1,918	$ 3,245	1,120	$ (16,612)	$ (346)	$ 19,681	$ (51)	$ 7,835
Issuance of common stock:									
Stock options exercised	—	—	—	(3)	55	—	—	—	55
Restricted stock issued	—	—	(128)	(3)	92	—	—	—	(36)
Treasury stock activity:									
Treasury stock purchases, at cost	—	—	—	14	(400)	—	—	—	(400)
Stock options exchanged	—	—	—	2	(65)	—	—	—	(65)
Share-based employee compensation	—	—	155	—	—	—	—	—	155
Other comprehensive loss net of tax of ($47)	—	—	—	—	—	(294)	—	—	(294)
Cumulative effect of accounting change (see Note 18)	—	—	—	—	—	—	146	—	146
Deconsolidation of Lucky's Market	—	—	—	—	—	—	—	168	168
Other	—	—	65	—	(61)	—	(5)	1	—
Cash dividends declared ($0.62 per common share)	—	—	—	—	—	—	(503)	—	(503)
Net earnings (loss) including non-controlling interests	—	—	—	—	—	—	1,659	(147)	1,512
Balances at February 1, 2020	1,918	$ 1,918	$ 3,337	1,130	$ (16,991)	$ (640)	$ 20,978	$ (29)	$ 8,573

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in the Notes to Consolidated Financial Statements are in millions except per share amounts.

1. ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in preparing these financial statements.

Description of Business, Basis of Presentation and Principles of Consolidation

The Kroger Co. (the "Company") was founded in 1883 and incorporated in 1902. As of February 1, 2020, the Company was one of the largest retailers in the world based on annual sales. The Company also manufactures and processes food for sale by its supermarkets. The accompanying financial statements include the consolidated accounts of the Company, its wholly-owned subsidiaries and other consolidated entities. Intercompany transactions and balances have been eliminated.

Refer to Note 18 for a description of changes to the Consolidated Balance Sheet for recently adopted accounting standards regarding the recognition of lease agreements and reclassification of stranded tax effects.

Products and services related primarily to Kroger Personal Finance and Media, which were historically accounted for as an offset to operating, general and administrative expenses ("OG&A"), are classified as a component of sales as of the beginning of fiscal year 2019, except for certain amounts in Media, which are netted against merchandise costs. These prior-year amounts have been reclassified to conform to current-year presentation.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest January 31. The last three fiscal years consist of the 52-week period ended February 1, 2020, 52-week period ended February 2, 2019 and 53-week period ended February 3, 2018.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of consolidated revenues and expenses during the reporting period is also required. Actual results could differ from those estimates.

Cash, Temporary Cash Investments and Book Overdrafts

Cash and temporary cash investments represent store cash and short-term investments with original maturities of less than three months. Book overdrafts are included in "Trade accounts payable" and "Accrued salaries and wages" in the Consolidated Balance Sheets.

Deposits In-Transit

Deposits in-transit generally represent funds deposited to the Company's bank accounts at the end of the year related to sales, a majority of which were paid for with debit cards, credit cards and checks, to which the Company does not have immediate access but settle within a few days of the sales transaction.

Inventories

Inventories are stated at the lower of cost (principally on a last-in, first-out "LIFO" basis) or market. In total, approximately 91% of inventories in 2019 and 90% of inventories in 2018 were valued using the LIFO method. The remaining inventories, including substantially all fuel inventories, are stated at the lower of cost (on a FIFO basis) or net realizable value. Replacement cost was higher than the carrying amount by $1,380 at February 1, 2020 and $1,277 at February 2, 2019. The Company follows the Link-Chain, Dollar-Value LIFO method for purposes of calculating its LIFO charge or credit.

The item-cost method of accounting to determine inventory cost before the LIFO adjustment is followed for substantially all store inventories at the Company's 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 the Company's inventory consists of finished goods and is recorded at actual purchase costs (net of vendor allowances and cash discounts).

The Company evaluates inventory shortages throughout the year based on actual physical counts in its facilities. Allowances for inventory shortages are recorded based on the results of these counts to provide for estimated shortages as of the financial statement date.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, in the case of assets acquired in a business combination, at fair value. Depreciation and amortization expense, which includes the depreciation of assets recorded under finance leases, is computed principally using the straight-line method over the estimated useful lives of individual assets. Buildings and land improvements are depreciated based on lives varying from 10 to 40 years. All new purchases of store equipment are assigned lives varying from three to nine years. Leasehold improvements are amortized over the shorter of the lease term to which they relate, which generally varies from four to 25 years, or the useful life of the asset. Food production plant and distribution center equipment is depreciated over lives varying from three to 15 years. Information technology assets are generally depreciated over three to five years. Depreciation and amortization expense was $2,649 in 2019, $2,465 in 2018 and $2,436 in 2017.

Interest costs on significant projects constructed for the Company's own use are capitalized as part of the costs of the newly constructed facilities. Upon retirement or disposal of assets, the cost and related accumulated depreciation and amortization are removed from the balance sheet and any gain or loss is reflected in net earnings. Refer to Note 4 for further information regarding the Company's property, plant and equipment.

Leases

The Company leases certain store real estate, warehouses, distribution centers, office space and equipment. The Company determines if an arrangement is a lease at inception. Finance and operating lease assets and liabilities are recognized at the lease commencement date. Finance and operating lease liabilities represent the present value of minimum lease payments not yet paid. Operating lease assets represent the right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments, lease incentives and impairment, if any. To determine the present value of lease payments, the Company estimates an incremental borrowing rate which represents the rate used for a secured borrowing of a similar term as the lease.

Lease terms generally range from 10 to 20 years with options to renew for varying terms at the Company's sole discretion. The lease term includes the initial contractual term as well as any options to extend the lease when it is reasonably certain that the Company will exercise that option. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Certain leases include escalation clauses or payment of executory costs such as property taxes, utilities or insurance and maintenance. Operating lease payments are charged on a straight-line basis to rent expense over the lease term and finance lease payments are charged to interest expense and depreciation and amortization expense over the lease term. Assets under finance leases are amortized in accordance with the Company's normal depreciation policy for owned assets or over the lease term, if shorter. The Company's lease agreements do not contain any residual value guarantees or material restrictive covenants. For additional information on leases, see Note 10 to the Consolidated Financial Statements.

Goodwill

The Company reviews goodwill for impairment during the fourth quarter of each year, and also upon the occurrence of a triggering event. The Company performs reviews of each of its operating divisions and other consolidated entities (collectively, "reporting units") that have goodwill balances. Generally, fair value is determined using a market multiple model, or discounted projected future cash flows, and is compared to the carrying value of a reporting unit for purposes of identifying potential impairment. Projected future cash flows are based on management's knowledge of the current operating environment and expectations for the future. Goodwill impairment is recognized for any excess of the reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Results of the goodwill impairment reviews performed during 2019, 2018 and 2017 are summarized in Note 3.

Impairment of Long-Lived Assets

The Company monitors 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, an impairment calculation is performed, comparing projected undiscounted future cash flows, utilizing current cash flow information and expected growth rates related to specific stores, to the carrying value for those stores. If the Company identifies impairment for long-lived assets to be held and used, the Company compares the assets' current carrying value to the assets' fair value. Fair value is based on current market values or discounted future cash flows. The Company records impairment when the carrying value exceeds fair market value. With respect to owned property and equipment held for disposal, the value of the property and equipment is adjusted to reflect recoverable values based on previous efforts to dispose of similar assets and current economic conditions. Impairment is recognized for the excess of the carrying value over the estimated fair market value, reduced by estimated direct costs of disposal. The Company recorded asset impairments totaling $120 in 2019, including $70 of operating lease assets. This 2019 impairment charge includes 35 planned store closures across the Company's footprint in 2020. The Company recorded asset impairments in the normal course of business totaling $56 and $71 in 2018 and 2017, respectively. Costs to reduce the carrying value of long-lived assets for each of the years presented have been included in the Consolidated Statements of Operations as Operating, general and administrative ("OG&A") expense.

Accounts Payable

The Company has an agreement with a third party to provide an accounts payable tracking system which facilitates participating suppliers' ability to finance payment obligations from the Company with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not affected by suppliers' decisions to finance amounts under this arrangement.

Contingent Consideration

The Company's Home Chef business combination involves potential payment of future consideration that is contingent upon the achievement of certain performance milestones. The Company records contingent consideration at fair value at the date of acquisition based on the consideration expected to be transferred, estimated as the probability-weighted future cash flows, discounted back to present value using a discount rate determined in accordance with accepted valuation methods. The liability for contingent consideration is remeasured to fair value at each reporting period using Level 3 inputs, and the change in fair value, including accretion for the passage of time, is recognized in earnings until the contingency is resolved. In 2019, an adjustment to decrease the contingent consideration liability as of year-end 2019 was recorded for ($69) in OG&A expense. In 2018, an adjustment to increase the contingent consideration liability as of year-end 2018 was recorded for $33 in OG&A expense.

Store Closing Costs

The Company provides for closed store liabilities relating to the present value of the estimated remaining non-cancellable lease payments after the closing date, net of estimated subtenant income. The Company estimates the net lease liabilities using a discount rate to calculate the present value of the remaining net rent payments on closed stores. The closed store lease liabilities usually are paid 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. Adjustments are made for changes in estimates in the period in which the change becomes known. Store closing liabilities are reviewed quarterly to ensure that any accrued amount that is not a sufficient estimate of future costs is adjusted to income in the proper period.

Owned stores held for disposal are reduced to their estimated net realizable value. Costs to reduce the carrying values of property, equipment and leasehold improvements are accounted for in accordance with the Company's policy on impairment of long-lived assets. Inventory write-downs, if any, in connection with store closings, are classified in the Consolidated Statements of Operations as "Merchandise costs." Costs to transfer inventory and equipment from closed stores are expensed as incurred.

The current portion of the future lease obligations of stores is included in "Other current liabilities," and the long-term portion is included in "Other long-term liabilities" in the Consolidated Balance Sheets.

Interest Rate Risk Management

The Company uses derivative instruments primarily to manage its exposure to changes in interest rates. The Company's current program relative to interest rate protection and the methods by which the Company accounts for its derivative instruments are described in Note 7.

Benefit Plans and Multi-Employer Pension Plans

The Company recognizes the funded status of its retirement plans on the Consolidated Balance Sheets. Actuarial gains or losses, prior service costs or credits and transition obligations that have not yet been recognized as part of net periodic benefit cost are required to be recorded as a component of Accumulated Other Comprehensive Income ("AOCI"). The Company has elected to measure defined benefit plan assets and obligations as of January 31, which is the month-end that is closest to its fiscal year-ends, which were February 1, 2020 for fiscal 2019 and February 2, 2019 for fiscal 2018.

The determination of the obligation and expense for company-sponsored pension plans and other post-retirement benefits is dependent on the selection of assumptions used by actuaries and the Company in calculating those amounts. Those assumptions are described in Note 15 and include, among others, the discount rate, the expected long-term rate of return on plan assets, mortality and the rates of increase in compensation and health care costs. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in future periods. While the Company believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension and other post-retirement obligations and future expense.

The Company also participates in various multi-employer plans for substantially all union employees. Pension expense for these plans is recognized as contributions are funded or when commitments are probable and reasonably estimable, in accordance with GAAP. Refer to Note 16 for additional information regarding the Company's participation in these various multi-employer pension plans.

The Company administers and makes contributions to the employee 401(k) retirement savings accounts. Contributions to the employee 401(k) retirement savings accounts are expensed when contributed or over the service period in the case of automatic contributions. Refer to Note 15 for additional information regarding the Company's benefit plans.

Share Based Compensation

The Company accounts for stock options under fair value recognition provisions. Under this method, the Company recognizes compensation expense for all share-based payments granted. The Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. In addition, the Company records expense for restricted stock awards in an amount equal to the fair market value of the underlying stock on the grant date of the award, over the period the awards lapse. Excess tax benefits related to share-based payments are recognized in the provision for income taxes. Refer to Note 12 for additional information regarding the Company's stock based compensation.

Deferred Income Taxes

Deferred income taxes are recorded to reflect the tax consequences of differences between the tax basis of assets and liabilities and their financial reporting basis. Refer to Note 5 for the types of differences that give rise to significant portions of deferred income tax assets and liabilities.

Uncertain Tax Positions

The Company reviews 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 its consolidated financial statements. Refer to Note 5 for the amount of unrecognized tax benefits and other related disclosures related to uncertain tax positions.

Various taxing authorities periodically audit the Company's income tax returns. These audits include questions regarding the Company's 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 tax filing positions, including state and local taxes, the Company records 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 February 1, 2020, the Internal Revenue Service had concluded its examination of all federal tax returns up to and including the return for the year ending January 30, 2016.

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

Self-Insurance Costs

The Company is primarily self-insured for costs related to workers' compensation and general liability claims. Liabilities are actuarially determined and are recognized based on claims filed and an estimate of claims incurred but not reported. The liabilities for workers' compensation claims are accounted for on a present value basis. The Company has purchased stop-loss coverage to limit its exposure to any significant exposure on a per claim basis. The Company is insured for covered costs in excess of these per claim limits.

The following table summarizes the changes in the Company's self-insurance liability through February 1, 2020.

	2019	2018	2017
Beginning balance	$ 696	$ 695	$ 682
Expense	209	229	247
Claim payments	(216)	(228)	(234)
Ending balance	689	696	695
Less: Current portion	(216)	(228)	(234)
Long-term portion	$ 473	$ 468	$ 461

The current portion of the self-insured liability is included in "Other current liabilities," and the long-term portion is included in "Other long-term liabilities" in the Consolidated Balance Sheets.

The Company maintains surety bonds related to self-insured workers' compensation claims. These bonds are required by most states in which the Company is self-insured for workers' compensation and are placed with third-party insurance providers to insure payment of the Company's obligations in the event the Company is unable to meet its claim payment obligations up to its self-insured retention levels. These bonds do not represent liabilities of the Company, as the Company has recorded reserves for the claim costs.

The Company is similarly self-insured for property-related losses. The Company maintains stop loss coverage to limit its property loss exposures including coverage for earthquake, wind, flood and other catastrophic events.

Revenue Recognition

Sales

The Company recognizes revenues from the retail sale of products, net of sales taxes, at the point of sale. Pharmacy sales are recorded when the product is provided to the customer. Digital channel originated sales are recognized either upon pickup in store or upon delivery to the customer and may include shipping revenue. Discounts provided to customers by the Company at the time of sale, including those provided in connection with loyalty cards, are recognized as a reduction in sales as the products are sold. Discounts provided by vendors, usually in the form of coupons, are not recognized as a reduction in sales provided the coupons are redeemable at any retailer that accepts coupons. The Company records a receivable from the vendor for the difference in sales price and cash received. For merchandise sold in one of the Company's stores or online, tender is accepted at the point of sale. The Company acts as principal in certain vendor arrangements where the purchase and sale of inventory are virtually simultaneous. The Company records revenue and related costs on a gross basis for these arrangements. Effective February 4, 2018, the Company prospectively reclassified certain pharmacy fees of $250 for 2018 from merchandise costs to be recorded as a reduction to sales on the Company's Consolidated Statements of Operations. For pharmacy sales, collection of third party receivables is typically expected within three months or less from the time of purchase. The third-party receivables from pharmacy sales are recorded in Receivables in the Company's Consolidated Balance Sheets and were $646 as of February 1, 2020 and $645 as of February 2, 2019.

Gift Cards and Gift Certificates

The Company does not recognize a sale when it sells its own gift cards and gift certificates (collectively "gift cards"). Rather, it records a deferred revenue liability equal to the amount received. A sale is then recognized when the gift cards are redeemed to purchase the Company's products. The Company's gift cards do not expire. While gift cards are generally redeemed within 12 months, some are never fully redeemed. The Company recognizes gift card breakage under the proportional method, where recognition of breakage income is based upon the historical run-off rate of unredeemed gift cards. The Company's gift card deferred revenue liability was $114 as of February 1, 2020 and $100 as of February 2, 2019.

Disaggregated Revenues

The following table presents sales revenue by type of product for the year-ended February 1, 2020, February 2, 2019, and February 3, 2018:

	2019		2018		2017	
	Amount	% of total	Amount	% of total	Amount	% of total
Non Perishable [(1)(5)]	$ 61,464	50.3 %	$ 60,649	49.8 %	$ 60,872	49.4 %
Fresh [(2)(5)]	29,452	24.1 %	29,089	23.9 %	29,141	23.6 %
Supermarket Fuel	14,052	11.5 %	14,903	12.2 %	13,177	10.7 %
Pharmacy [(5)]	11,015	9.0 %	10,617	8.7 %	10,724	8.7 %
Convenience Stores [(3)]	—	- %	944	0.8 %	4,515	3.7 %
Other [(4)(5)(6)]	6,303	5.1 %	5,650	4.6 %	4,851	3.9 %
Total Sales	$ 122,286	100 %	$ 121,852	100 %	$ 123,280	100 %

(1) Consists primarily of grocery, general merchandise, health and beauty care and natural foods.

(2) Consists primarily of produce, floral, meat, seafood, deli, bakery and fresh prepared.

(3) The Company completed the sale of its convenience store business unit during the first quarter of 2018.

(4) Consists primarily of sales related to food production plants to outside parties, data analytic services, third party media revenue, other consolidated entities, specialty pharmacy, in-store health clinics, digital coupon services and other online sales not included in the categories above.

(5) Digital sales, primarily including Pickup, Delivery and pharmacy e-commerce sales, grew approximately 29%, 58% and 90% in 2019, 2018 and 2017, respectively, adjusted to remove the impact of the 53rd week in 2017. These sales are included in the non perishable, fresh, pharmacy, and other line items above.

(6) Products and services related primarily to Kroger Personal Finance and Media, which were historically accounted for as an offset to OG&A, are classified as a component of sales as of the beginning of fiscal year 2019, except for certain amounts in Media, which are netted against merchandise costs. These prior-year amounts have been reclassified to conform to current-year presentation.

Merchandise Costs

The “Merchandise costs” line item of the Consolidated Statements of Operations includes product costs, net of discounts and allowances; advertising costs (see separate discussion below); inbound freight charges; warehousing costs, including receiving and inspection costs; transportation costs; and food production and operational costs. Warehousing, transportation and manufacturing management salaries are also included in the “Merchandise costs” line item; however, purchasing management salaries and administration costs are included in the OG&A line item along with most of the Company’s other managerial and administrative costs. Rent expense and depreciation and amortization expense are shown separately in the Consolidated Statements of Operations.

Warehousing and transportation costs include distribution center direct wages, transportation direct wages, repairs and maintenance, utilities, inbound freight and, where applicable, third party warehouse management fees. These costs are recognized in the periods the related expenses are incurred.

The Company believes the classification of costs included in merchandise costs could vary widely throughout the industry. The Company’s approach is to include in the “Merchandise costs” line item the direct, net costs of acquiring products and making them available to customers in its stores. The Company believes this approach most accurately presents the actual costs of products sold.

The Company recognizes all vendor allowances as a reduction in merchandise costs when the related product is sold. When possible, vendor allowances are applied to the related product cost by item and, therefore, reduce the carrying value of inventory by item. When the items are sold, the vendor allowance is recognized. When it is not possible, due to systems constraints, to allocate vendor allowances to the product by item, vendor allowances are recognized as a reduction in merchandise costs based on inventory turns and, therefore, recognized as the product is sold.

Advertising Costs

The Company's advertising costs are recognized in the periods the related expenses are incurred and are included in the "Merchandise costs" line item of the Consolidated Statements of Operations. The Company's advertising costs totaled $854 in 2019, $752 in 2018 and $707 in 2017. The Company does not record vendor allowances for co-operative advertising as a reduction of advertising expense.

Operating, General and Administrative Expenses

OG&A expenses consist primarily of employee-related costs such as wages, healthcare benefit costs, retirement plan costs, utilities, and credit card fees. Rent expense, depreciation and amortization expense and interest expense are shown separately in the Consolidated Statement of Operations.

Consolidated Statements of Cash Flows

For purposes of the Consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be temporary cash investments.

Segments

The Company operates supermarkets and multi-department stores throughout the United States. The Company's retail operations, which represent 97% of the Company's consolidated sales, are its only reportable segment. The Company aggregated its operating divisions into one reportable segment due to the operating divisions having similar economic characteristics with similar long-term financial performance. In addition, the Company's operating divisions offer 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. Operating divisions are organized primarily on a geographical basis so that the operating division management team can be responsive to local needs of the operating division and can execute company strategic plans and initiatives throughout the locations in their operating division. This geographical separation is the primary differentiation between these retail operating divisions. The geographical basis of organization reflects how the business is managed and how the Company's Chief Executive Officer, who acts as the Company's chief operating decision maker, assesses performance internally. All of the Company's operations are domestic.

2. MERGERS AND PARTNERSHIP AGREEMENTS

Merger Agreement

On June 22, 2018, the Company finalized the merger with Home Chef, a meal kit delivery company. The merger allows the Company to increase the availability of meal kits and expand its offerings to customers. The Company completed the merger by purchasing 100% of the ownership interest in Home Chef, for $197 net of cash and cash equivalents of $30, in addition to future earnout payments of up to $500 over five years that are contingent on achieving certain milestones. The contingent consideration is based on future performance of both the online and offline business and the related customer engagement. The fair value of the earnout liability in the amount of $91 recognized on the acquisition date was measured using unobservable (Level 3) inputs and was included in "Other long-term liabilities" within the Consolidated Balance Sheet. The Company estimated the fair value of the earnout liability by applying a Monte-Carlo simulation method using the Company's projection of future operating results for both the online and offline businesses related to the Home Chef merger and the estimated probability of achievement of the earnout target metrics. The Monte-Carlo simulation is a generally accepted statistical technique used to generate a defined number of valuation paths in order to develop a reasonable estimate of the fair value of the earnout liability. Changes in the fair value of the earnout liability in future periods will be recorded in the Company's results in the period of the change, refer to Note 8 for additional details.

The merger was accounted for under the purchase method of accounting and was financed through the issuance of commercial paper. In a business combination, the purchase price is allocated to assets acquired and liabilities assumed based on their fair values, with any excess of purchase price over fair value recognized as goodwill. In addition to recognizing assets and liabilities on the acquired company's balance sheet, the Company reviews supply contracts, leases, financial instruments, employment agreements and other significant agreements to identify potential assets or liabilities that require recognition in connection with the application of acquisition accounting under Accounting Standards Codification ("ASC") 805. Intangible assets are recognized apart from goodwill when the asset arises from contractual or other legal rights, or are separable from the acquired entity such that they may be sold, transferred, licensed, rented or exchanged either on a standalone basis or in combination with a related contract, asset or liability.

The Company's purchase price allocation was finalized in the second quarter of 2019. The changes in the fair values assumed from the preliminary amounts determined as of June 22, 2018 were an increase of goodwill of $8 and an increase of deferred income tax liability of $8. The table summarizes the final fair values of the assets acquired and liabilities assumed at the acquisition date.

	June 22, 2018
ASSETS	
Total current assets	$ 36
Property, plant and equipment	6
Other assets	1
Intangibles	143
Total Assets, excluding Goodwill	186
LIABILITIES	
Total current liabilities	(28)
Other long-term liabilities	(94)
Deferred income taxes	(8)
Total Liabilities	(130)
Total Identifiable Net Assets	56
Goodwill	171
Total Purchase Price	$ 227

Of the $143 allocated to intangible assets, the Company recorded $99 and $44 related to customer relationships and the trade name, respectively. The Company will amortize the customer relationships, using the cash flow trended method over seven years. The goodwill recorded as part of the merger was attributable to the assembled workforce of Home Chef and operational synergies expected from the merger. The merger was treated as a 30% stock purchase and 70% partnership interest purchase for income tax purposes. The tax basis of the assets acquired and liabilities assumed for the portion of the transaction treated as a partnership interest purchase was stepped up, and the related goodwill is deductible for tax purposes. The assets acquired and liabilities assumed for the portion treated as a stock purchase did not result in a step up of tax basis, and goodwill is not expected to be deductible for tax purposes. The Company determined the Home Chef results of operations are not material. Therefore, the pro forma information is not required for fiscal year 2018 and 2017.

Partnership Agreement

On May 17, 2018, the Company entered into a Partnership Framework Agreement with Ocado International Holdings Limited and Ocado Group plc ("Ocado"). Under this agreement, Ocado will partner exclusively with the Company in the U.S., enhancing the Company's digital and robotics capabilities in its distribution networks. As part of the agreement, the Company provided a letter of credit for $180, which supports its commitment to contract with Ocado to build a number of fulfilment centers. The balance of the letter of credit will reduce over time with the construction of each fulfilment center.

In addition, on May 17, 2018, the Company entered into a Share Subscription Agreement with Ocado, pursuant to which the Company agreed to purchase 33.1 million ordinary shares of Ocado for an aggregate purchase price of $243. The Company completed the purchase of these 33.1 million shares on May 29, 2018. This is in addition to 8.1 million Ocado shares purchased earlier in the first quarter of 2018, and 6.5 million additional shares purchased in the second quarter of 2018. The equity investment in Ocado is measured at fair value through earnings. The fair value of all shares owned, which is measured using Level 1 inputs, was $776 as of February 1, 2020 and $620 as of February 2, 2019 and is included in "Other assets" in the Company's Consolidated Balance Sheets. The Company recorded an unrealized gain of $157 in 2019 and $228 in 2018, none of which was realized during the period as the Company did not sell any Ocado securities.

3. GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the changes in the Company's net goodwill balance through February 1, 2020.

	2019	2018
Balance beginning of year		
Goodwill	$ 5,729	$ 5,567
Accumulated impairment losses	(2,642)	(2,642)
Subtotal	3,087	2,925
Activity during the year		
Mergers	8	163
Impairment losses	(19)	—
Held for sale adjustment	—	(1)
Balance end of year		
Goodwill	5,737	5,729
Accumulated impairment losses	(2,661)	(2,642)
Total Goodwill	$ 3,076	$ 3,087

In 2019, the Company finalized the purchase accounting for the Home Chef acquisition (see Note 2) resulting in an increase of goodwill and deferred taxes of $8. The Company also recorded an impairment charge of $19 as a result of the Lucky's Market impairment.

In 2018, the Company acquired all of the outstanding shares of Home Chef (see Note 2) resulting in additional goodwill totaling $163. Certain assets and liabilities including goodwill totaling $1 for 2018 was classified as held for sale in the Consolidated Balance Sheet (see Note 17).

Testing for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or a change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The annual evaluation of goodwill and indefinite-lived intangible assets was performed during the fourth quarter of 2019 and 2018 and did not result in impairment.

Based on the results of the Company's impairment assessment in the fourth quarter of 2017, the Kroger Specialty Pharmacy reporting unit was the only reporting unit for which there was a potential impairment. In the fourth quarter of 2017, the operating performance of the Kroger Specialty Pharmacy reporting unit began to be affected by reduced margins as a result of compression in reimbursement by third party payers and a reduction of certain types of revenue. As a result of this decline, particularly in future expected cash flows, along with comparable fair value information, management concluded that the carrying value of goodwill for Kroger Specialty Pharmacy reporting unit exceeded its fair value, resulting in a pre-tax impairment charge of $110, $74 net of tax. The pre-impairment goodwill balance for Kroger Specialty Pharmacy was $353, as of the fourth quarter 2017.

The following table summarizes the Company's intangible assets balance through February 1, 2020.

	2019		2018	
	Gross carrying amount	Accumulated amortization(1)	Gross carrying amount	Accumulated amortization(1)
Definite-lived favorable leasehold interests(2)	$ —	$ —	$ 160	$ (47)
Definite-lived pharmacy prescription files	320	(133)	316	(92)
Definite-lived customer relationships	186	(120)	186	(88)
Definite-lived other	106	(68)	103	(55)
Indefinite-lived trade name	685	—	685	—
Indefinite-lived liquor licenses	90	—	90	—
Total	$ 1,387	$ (321)	$ 1,540	$ (282)

(1) Favorable leasehold interests are amortized to rent expense, pharmacy prescription files are amortized to merchandise costs, customer relationships are amortized to depreciation and amortization expense and other intangibles are amortized to OG&A expense and depreciation and amortization expense.

(2) Due to the adoption of ASU 2016-02 "Leases," favorable leasehold interests were reclassified and included in the measurement of new lease assets, refer to Note 10 and 18 for further description of the impact of adoption.

In 2018, the Company acquired definite and indefinite lived intangible assets totaling approximately $143, excluding goodwill, as a result of the merger with Home Chef (see Note 2). Additionally, the majority of the Company's pharmacy prescription file purchases for 2018 were completed in a single transaction for $75.

Amortization expense associated with intangible assets totaled approximately $85, $80 and $59, during fiscal years 2019, 2018 and 2017, respectively. Future amortization expense associated with the net carrying amount of definite-lived intangible assets for the years subsequent to 2019 is estimated to be approximately:

2020	$ 73
2021	58
2022	51
2023	42
2024	39
Thereafter	28
Total future estimated amortization associated with definite-lived intangible assets	$ 291

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of:

	2019	2018
Land	$ 3,299	$ 3,254
Buildings and land improvements	12,553	12,245
Equipment	15,031	14,277
Leasehold improvements	10,832	10,306
Construction-in-progress	3,166	2,716
Leased property under finance leases	966	1,066
Total property, plant and equipment	45,847	43,864
Accumulated depreciation and amortization	(23,976)	(22,229)
Property, plant and equipment, net	$ 21,871	$ 21,635

Accumulated depreciation and amortization for leased property under finance leases was $276 at February 1, 2020 and $345 at February 2, 2019. This decrease was primarily related to the reclassification of certain finance leases to operating leases due to the adoption of ASU 2016-02 "Leases."

Approximately $162 and $169, net book value, of property, plant and equipment collateralized certain mortgages at February 1, 2020 and February 2, 2019, respectively.

5. TAXES BASED ON INCOME

The provision for taxes based on income consists of:

	2019	2018	2017
Federal			
Current	$ 454	$ 775	$ 309
Deferred	(50)	(3)	(747)
Subtotal federal	404	772	(438)
State and local			
Current	70	108	15
Deferred	(5)	20	18
Subtotal state and local	65	128	33
Total	$ 469	$ 900	$ (405)

A reconciliation of the statutory federal rate and the effective rate follows:

	2019	2018	2017
Statutory rate	21.0 %	21.0 %	33.7 %
State income taxes, net of federal tax benefit	2.6	2.6	1.7
Credits	(1.5)	(1.3)	(2.5)
Resolution of issues	(0.1)	0.5	—
Domestic manufacturing deduction	—	—	(1.1)
Excess tax benefits from share-based payments	(0.2)	(0.3)	(0.4)
Effect of Tax Cuts and Jobs Act	—	—	(60.8)
Impairment of goodwill	—	—	2.3
Impairment losses attributable to noncontrolling interest	1.2	—	—
Other changes, net	0.7	0.1	(0.2)
	23.7 %	22.6 %	(27.3)%

The 2019 tax rate differed from the federal statutory rate primarily due to the effect of state income taxes and Lucky's Market losses attributable to the noncontrolling interest which reduced pre-tax income but did not impact tax expense, partially offset by the utilization of tax credits and deductions.

The 2018 tax rate differed from the federal statutory rate primarily due to the effect of state income taxes and an IRS audit that resulted in a reduction of prior year tax deductions at pre-Tax Act rates and an increase in future tax deductions at post-Tax Act rates. These 2018 items were partially offset by the utilization of tax credits and deductions, the remeasurement of uncertain tax positions and adjustments to provisional amounts that increased prior year deductions at pre-Tax Act rates and decreased future deductions at post-Tax Act rates.

The tax effects of significant temporary differences that comprise tax balances were as follows:

	2019	2018
Deferred tax assets:		
Compensation related costs	$ 406	$ 350
Lease liabilities	1,872	81
Closed store reserves	55	41
Net operating loss and credit carryforwards	100	110
Deferred Income	172	84
Allowance for uncollectible receivables	93	18
Other	—	9
Subtotal	2,698	693
Valuation allowance	(55)	(54)
Total deferred tax assets	2,643	639
Deferred tax liabilities:		
Depreciation and amortization	(1,942)	(1,850)
Operating lease assets	(1,782)	—
Insurance related costs	(28)	(38)
Inventory related costs	(252)	(257)
Equity investments in excess of tax basis	(94)	(56)
Other	(11)	—
Total deferred tax liabilities	(4,109)	(2,201)
Deferred taxes	$ (1,466)	$ (1,562)

At February 1, 2020, the Company had net operating loss carryforwards for state income tax purposes of $1,197. These net operating loss carryforwards expire from 2020 through 2039. The utilization of certain of the Company's state net operating loss carryforwards may be limited in a given year. Further, based on the analysis described below, the Company has recorded a valuation allowance against some of the deferred tax assets resulting from its state net operating losses.

At February 1, 2020, the Company had state credit carryforwards of $47, most of which expire from 2020 through 2027. The utilization of certain of the Company's credits may be limited in a given year. Further, based on the analysis described below, the Company has recorded a valuation allowance against some of the deferred tax assets resulting from its state credits.

The Company regularly reviews all deferred tax assets on a tax filer and jurisdictional basis to estimate whether these assets are more likely than not to be realized based on all available evidence. This evidence includes historical taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Projected future taxable income is based on expected results and assumptions with respect to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based on current tax law and the Company's tax methods of accounting. Unless deferred tax assets are more likely than not to be realized, a valuation allowance is established to reduce the carrying value of the deferred tax asset until such time that realization becomes more likely than not. Increases and decreases in these valuation allowances are included in "Income tax expense" in the Consolidated Statements of Operations. As of February 1, 2020, February 2, 2019 and February 3, 2018 the total valuation allowance was $55, $54 and $62, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, including positions impacting only the timing of tax benefits, is as follows:

	2019	2018	2017
Beginning balance	$ 174	$ 180	$ 177
Additions based on tax positions related to the current year	13	7	11
Reductions based on tax positions related to the current year	—	(1)	(1)
Additions for tax positions of prior years	8	23	6
Reductions for tax positions of prior years	(1)	(22)	(8)
Settlements	(19)	(10)	—
Lapse of statute	(1)	(3)	(5)
Ending balance	$ 174	$ 174	$ 180

The Company does not anticipate that changes in the amount of unrecognized tax benefits over the next twelve months will have a significant impact on its results of operations or financial position.

As of February 1, 2020, February 2, 2019 and February 3, 2018 the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $74, $72 and $88, respectively.

To the extent interest and penalties would be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and classified as a component of income tax expense. During the years ended February 1, 2020, February 2, 2019 and February 3, 2018, the Company recognized approximately $7, $2 and $8, respectively, in interest and penalties. The Company had accrued approximately $30, $30 and $28 for the payment of interest and penalties as of February 1, 2020, February 2, 2019 and February 3, 2018.

As of February 1, 2020, the Internal Revenue Service had concluded its examination of all federal tax returns up to and including the return for the year ended January 30, 2016.

6. DEBT OBLIGATIONS

Long-term debt consists of:

	February 1, 2020	February 2, 2019
1.50% to 8.00% Senior Notes due through 2049	$ 11,598	$ 12,097
5.63% to 12.75% Mortgages due through 2027	12	14
1.77% to 2.63% Commercial paper borrowings due through February 2020	1,150	800
3.37% Term Loan	—	1,000
Other	496	440
Total debt, excluding obligations under finance leases	13,256	14,351
Less current portion	(1,926)	(3,103)
Total long-term debt, excluding obligations under finance leases	$ 11,330	$ 11,248

In 2019, the Company issued $750 of senior notes due in fiscal year 2049 bearing an interest rate of 3.95%. In connection with the senior note issuances, the Company also terminated forward-starting interest rate swap agreements with an aggregate notional amount of $300. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the fourth quarter of 2019. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized loss of $12, $10 net of tax, has been deferred in Accumulated Other Comprehensive Loss and will continue to amortize to earnings as the interest payments are made. The Company repaid $750 of senior notes bearing an interest rate of 6.15%, with proceeds from the senior notes issuances. During 2019, the Company also repaid, upon maturity, $1,000 term loan bearing an interest rate of 3.37% and $500 of senior notes bearing an interest rate of 1.50%, using cash generated by operations and proceeds from issuing commercial paper.

In 2018, the Company issued $600 of senior notes due in fiscal year 2029 bearing an interest rate of 4.50% and $600 of senior notes due in fiscal year 2049 bearing an interest rate of 5.40%. In connection with the senior note issuances, the Company also terminated forward-starting interest rate swap agreements with an aggregate notional amount of $750. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the fourth quarter of 2018. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized gain of $39, $30 net of tax, has been deferred in Accumulated Other Comprehensive Loss and will continue to amortize to earnings as the interest payments are made. The Company also repaid, upon maturity, $300 of senior notes bearing an interest rate of 6.80%, $300 of senior notes bearing an interest rate of 2.00%, $200 of senior notes bearing an interest rate of 7.00% and $500 of senior notes bearing an interest rate of 2.30%, with proceeds from the senior notes issuances.

In 2018, the Company obtained a $1,000 term loan with a maturity date of March 16, 2019. The funds were drawn on March 26, 2018 and were used to reduce outstanding commercial paper borrowings. Under the terms of the agreement, interest rates are adjusted monthly based on the Company's Public Debt Rating and prevailing LIBOR rates. On March 15, 2019, the Company paid the $1,000 term loan through increased commercial paper borrowings.

On August 29, 2017, the Company entered into an amended, extended and restated $2,750 unsecured revolving credit facility (the "Credit Agreement"), with a termination date of August 29, 2022, unless extended as permitted under the Credit Agreement. This Credit Agreement amended the Company's $2,750 credit facility that would otherwise have terminated on June 30, 2019. The Company has the ability to increase the size of the Credit Agreement by up to an additional $1,000, subject to certain conditions.

Borrowings under the Credit Agreement bear interest, at the Company's option, at either (i) LIBOR plus a market spread, based on the Company's Public Debt Rating or (ii) the base rate, defined as the highest of (a) the Federal Funds Rate plus 0.5%, (b) the Bank of America prime rate, and (c) one-month LIBOR plus 1.0%, plus a market rate spread based on the Company's Public Debt Rating. The Company will also pay a Commitment Fee based on its Public Debt Rating and Letter of Credit fees equal to a market rate spread based on the Company's Public Debt Rating. "Public Debt Rating" means, as of any date, the rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Company.

The Credit Agreement contains covenants, which, among other things, require the maintenance of a Leverage Ratio of not greater than 3.50:1.00 and a Fixed Charge Coverage Ratio of not less than 1.70:1.00. The Company may repay the Credit Agreement in whole or in part at any time without premium or penalty. The Credit Agreement is not guaranteed by the Company's subsidiaries.

As of February 1, 2020, the Company had $1,150 of commercial paper borrowings, with a weighted average interest rate of 1.77% and no borrowings under the Credit Agreement. As of February 2, 2019, the Company had $800 of commercial paper borrowings, with a weighted average interest rate of 2.63% and no borrowings under the Credit Agreement.

As of February 1, 2020, the Company had outstanding letters of credit in the amount of $362, of which $2 reduces funds available under the Credit Agreement. As of February 2, 2019, the Company had outstanding letters of credit in the amount of $363, of which $3 reduces funds available under the Credit Agreement. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company.

Most of the Company's outstanding public debt is subject to early redemption at varying times and premiums, at the option of the Company. In addition, subject to certain conditions, some of the Company's publicly issued debt will be subject to redemption, in whole or in part, at the option of the holder upon the occurrence of a redemption event, upon not less than five days' notice prior to the date of redemption, at a redemption price equal to the default amount, plus a specified premium. "Redemption Event" is defined in the indentures as the occurrence of (i) any person or group, together with any affiliate thereof, beneficially owning 50% or more of the voting power of the Company, (ii) any one person or group, or affiliate thereof, succeeding in having a majority of its nominees elected to the Company's Board of Directors, in each case, without the consent of a majority of the continuing directors of the Company or (iii) both a change of control and a below investment grade rating.

The aggregate annual maturities and scheduled payments of long-term debt, as of year-end 2019, and for the years subsequent to 2019 are:

2020	$ 1,926
2021	804
2022	894
2023	594
2024	495
Thereafter	8,543
Total debt	$ 13,256

7. DERIVATIVE FINANCIAL INSTRUMENTS

GAAP requires that derivatives be carried at fair value on the balance sheet, and provides for hedge accounting when certain conditions are met. The Company's derivative financial instruments are recognized on the balance sheet at fair value. Changes in the fair value of derivative instruments designated as "cash flow" hedges, to the extent the hedges are highly effective, are recorded in other comprehensive income, net of tax effects. Ineffective portions of cash flow hedges, if any, are recognized in current period earnings. Other comprehensive income or loss is reclassified into current period earnings when the hedged transaction affects earnings. Changes in the fair value of derivative instruments designated as "fair value" hedges, along with corresponding changes in the fair values of the hedged assets or liabilities, are recorded in current period earnings. Ineffective portions of fair value hedges, if any, are recognized in current period earnings.

The Company assesses, both at the inception of the hedge and on an ongoing basis, whether derivatives used as hedging instruments are highly effective in offsetting the changes in the fair value or cash flow of the hedged items. If it is determined that a derivative is not highly effective as a hedge or ceases to be highly effective, the Company discontinues hedge accounting prospectively.

Interest Rate Risk Management

The Company is exposed to market risk from fluctuations in interest rates. The Company manages its exposure to interest rate fluctuations through the use of a commercial paper program, interest rate swaps (fair value hedges) and forward-starting interest rate swaps (cash flow hedges). The Company's 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, the Company uses 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 subject to interest rate reset and the amount of floating rate debt to a combined total amount that represents 25% of the carrying value of the Company's debt portfolio or less, (iii) include no leveraged products, and (iv) hedge without regard to profit motive or sensitivity to current mark-to-market status.

The Company reviews compliance with these guidelines annually with the Financial Policy Committee of the Board of Directors. These guidelines may change as the Company's needs dictate.

<u>Fair Value Interest Rate Swaps</u>

The Company did not have any outstanding interest rate derivatives classified as fair value hedges as of February 1, 2020 and February 2, 2019.

Cash Flow Forward-Starting Interest Rate Swaps

As of February 1, 2020, the Company had seven forward-starting interest rate swap agreements with a maturity date of January 2021 with an aggregate notional amount totaling $350. 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. The Company entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on its forecasted issuance of debt in January 2021. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of February 1, 2020, the fair value of the interest rate swaps was recorded in other long-term liabilities for $19 and accumulated other comprehensive loss for $17 net of tax.

As of February 2, 2019, the Company had five forward-starting interest rate swap agreements with a maturity date of January 2020 with an aggregate notional amount totaling $250. The Company entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on its forecasted issuance of debt in January 2020. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of February 2, 2019, the fair value of the interest rate swaps was recorded in other assets for $33 and accumulated other comprehensive income for $20 net of tax.

During 2019, the Company terminated six forward-starting interest rate swaps with maturity dates of January 2020 with an aggregate notional amount totaling $300. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the fourth quarter of 2019. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized loss of $12, $10 net of tax, has been deferred in AOCI and will be amortized to earnings as the interest payments are made.

During 2018, the Company terminated nine forward-starting interest rate swaps with maturity dates of January 2019 with an aggregate notional amount totaling $750. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the fourth quarter of 2018. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized gain of $39, $30 net of tax, has been deferred in AOCI and will be amortized to earnings as the interest payments are made.

The following table summarizes the effect of the Company's derivative instruments designated as cash flow hedges for 2019, 2018 and 2017:

	Year-To-Date						
	Amount of Gain/(Loss) in AOCI on Derivative (Effective Portion)			Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)			
Derivatives in Cash Flow Hedging Relationships	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**	**Location of Gain/(Loss) Reclassified into Income (Effective Portion)**
Forward-Starting Interest Rate Swaps, net of tax*	$ (42)	$ 6	$ 24	$ (4)	$ (5)	$ (3)	Interest expense

* The amounts of Gain/(Loss) in AOCI on derivatives include unamortized proceeds and payments from forward-starting interest rate swaps once classified as cash flow hedges that were terminated prior to end of 2019, 2018 and 2017, respectively.

For the above cash flow interest rate swaps, the Company has entered into International Swaps and Derivatives Association master netting agreements that permit the net settlement of amounts owed under their respective derivative contracts. Under these master netting agreements, net settlement generally permits the Company or the counterparty to determine the net amount payable for contracts due on the same date and in the same currency for similar types of derivative transactions. These master netting agreements generally also provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event.

Collateral is generally not required of the counterparties or of the Company under these master netting agreements. As of February 1, 2020 and February 2, 2019, no cash collateral was received or pledged under the master netting agreements.

The effect of the net settlement provisions of these master netting agreements on the Company's derivative balances upon an event of default or termination event is as follows as of February 1, 2020 and February 2, 2019:

February 1, 2020	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash Collateral	Net Amount
Liabilities						
Cash Flow Forward-Starting Interest Rate Swaps	$ 19	$ —	$ 19	$ —	$ —	$ 19

February 2, 2019	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash Collateral	Net Amount
Assets						
Cash Flow Forward-Starting Interest Rate Swaps	$ 33	$ —	$ 33	$ —	$ —	$ 33

8. FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy defined in the standards are as follows:

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

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

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

For items carried at (or adjusted to) fair value in the consolidated financial statements, the following tables summarize the fair value of these instruments at February 1, 2020 and February 2, 2019:

February 1, 2020 Fair Value Measurements Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading Securities	$ 840	$ —	$ —	$ 840
Other Investment	—	—	41	41
Interest Rate Hedges	—	(19)	—	(19)
Total	$ 840	$ (19)	$ 41	$ 862

February 2, 2019 Fair Value Measurements Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading Securities	$ 671	$ —	$ —	$ 671
Other Investment	—	—	22	22
Interest Rate Hedges	—	33	—	33
Total	$ 671	$ 33	$ 22	$ 726

In 2018, realized gains on Level 1, available-for-sale securities totaled $5.

The Company values interest rate hedges using observable forward yield curves. These forward yield curves are classified as Level 2 inputs.

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analysis of goodwill, other intangible assets, long-lived assets and in the valuation of store lease exit costs. The Company reviews goodwill and indefinite-lived intangible assets for impairment annually, during the fourth quarter of each fiscal year, and as circumstances indicate the possibility of impairment. See Note 3 for further discussion related to the Company's carrying value of goodwill. Long-lived assets and store lease exit costs were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. See Note 1 for further discussion of the Company's policies and recorded amounts for impairments of long-lived assets and valuation of store lease exit costs. In 2019, long-lived assets with a carrying amount of $152 were written down to their fair value of $32, resulting in an impairment charge of $120, which included the 35 planned store closures. In 2018, long-lived assets with a carrying amount of $85 were written down to their fair value of $29, resulting in an impairment charge of $56. In 2018, the Company entered into an agreement with a third party. As part of the consideration for entering the agreement, the Company received a financial instrument of $22.

Mergers are accounted for using the acquisition method of accounting, which requires that the purchase price paid for a merger be allocated to the assets and liabilities acquired based on their estimated fair values as of the effective date of the merger, with the excess of the purchase price over the net assets being recorded as goodwill. See Note 2 for further discussion related to accounting for mergers.

Fair Value of Other Financial Instruments

Current and Long-term Debt

The fair value of the Company's long-term debt, including current maturities, was estimated based on the quoted market prices for the same or similar issues adjusted for illiquidity based on available market evidence. If quoted market prices were not available, the fair value was based upon the net present value of the future cash flow using the forward interest rate yield curve in effect at respective year-ends. At February 1, 2020, the fair value of total debt excluding obligation under finance leases was $14,649 compared to a carrying value of $13,256. At February 2, 2019, the fair value of total debt excluding obligation under finance leases was $14,190 compared to a carrying value of $14,351.

Contingent Consideration

As a result of the Home Chef merger, the Company recognized a contingent liability of $91 on the acquisition date. The contingent consideration was measured using unobservable (Level 3) inputs and is included in "Other long-term liabilities" within the Consolidated Balance Sheet. The liability is remeasured to fair value at each reporting period, and the change in fair value, including accretion for the passage of time, is recognized in net earnings until the contingency is resolved. In 2019, an adjustment to decrease the contingent consideration liability as of year-end 2019 was recorded for ($69) in OG&A expense. In 2018, an adjustment to increase the contingent consideration liability as of year-end 2018 was recorded for $33 in OG&A expense.

Cash and Temporary Cash Investments, Store Deposits In-Transit, Receivables, Prepaid and Other Current Assets, Trade Accounts Payable, Accrued Salaries and Wages and Other Current Liabilities

The carrying amounts of these items approximated fair value.

Other Assets

In 2016, the Company entered into agreements with a third party. As part of the consideration for entering these agreements, the Company received a financial instrument that derives its value from the third party's business operations. The Company used the Monte-Carlo simulation method to determine the fair value of this financial instrument. The Monte-Carlo simulation is a generally accepted statistical technique used to generate a defined number of valuation paths in order to develop a reasonable estimate of the fair value of this financial instrument. The assumptions used in the Monte-Carlo simulation are classified as Level 3 inputs. The financial instrument was valued at $335 and recorded in "Other assets" within the Consolidated Balance Sheets. As the financial instrument was obtained in exchange for certain obligations, the Company also recognized offsetting deferred revenue liabilities in "Other current liabilities" and "Other long-term liabilities" within the Consolidated Balance Sheets. The deferred revenue will be amortized to "Sales" within the Consolidated Statements of Operations over the term of the agreements. Post inception, the Company received a distribution of $58, which was recorded as a reduction of the cost method investment. In the fourth quarter of 2018, a transaction occurred that resulted in the settlement of the financial instrument. As a result of the settlement, the Company received cash proceeds of $235. The Company recognized an impairment of financial instrument of $42 in OG&A in the fourth quarter of 2018.

The fair values of certain investments recorded in "other assets" within the Consolidated Balance Sheets were estimated based on quoted market prices for those or similar investments, or estimated cash flows, if appropriate. At February 1, 2020 and February 2, 2019, the carrying and fair value of long-term investments for which fair value is determinable was $278 and $155, respectively. At February 1, 2020 and February 2, 2019, the carrying value of notes receivable for which fair value is determinable was $210 and $146, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table represents the changes in AOCI by component for the years ended February 1, 2020 and February 2, 2019:

	Cash Flow Hedging Activities[1]	Available for sale Securities[1]	Pension and Postretirement Defined Benefit Plans[1]	Total[1]
Balance at February 3, 2018	$ 24	$ 4	$ (499)	$ (471)
OCI before reclassifications[2]	(23)	(4)	104	77
Amounts reclassified out of AOCI[3]	5	—	43	48
Net current-period OCI	(18)	(4)	147	125
Balance at February 2, 2019	$ 6	$ —	$ (352)	$ (346)
Balance at February 2, 2019	$ 6	$ —	$ (352)	$ (346)
Cumulative effect of accounting change[4]	(5)	—	(141)	(146)
OCI before reclassifications[2]	(47)	—	(134)	(181)
Amounts reclassified out of AOCI[3]	4	—	29	33
Net current-period OCI	(48)	—	(246)	(294)
Balance at February 1, 2020	$ (42)	$ —	$ (598)	$ (640)

(1) All amounts are net of tax.

(2) Net of tax of $(8), $(1) and $32 for cash flow hedging activities, available for sale securities and pension and postretirement defined benefit plans, respectively, as of February 2, 2019. Net of tax of ($17) and ($42) for cash flow hedging activities and pension and postretirement defined benefit plans, respectively, as of February 1, 2020.

(3) Net of tax of $13 and $3 for pension and postretirement defined benefit plans and cash flow hedging activities, respectively, as of February 2, 2019. Net of tax of $9 and $3 for pension and postretirement defined benefit plans and cash flow hedging activities, respectively, as of February 1, 2020.

(4) Related to the adoption of ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," (see Note 18 for additional details).

The following table represents the items reclassified out of AOCI and the related tax effects for the years ended February 1, 2020, February 2, 2019 and February 3, 2018:

	For the year ended February 1, 2020	For the year ended February 2, 2019	For the year ended February 3, 2018
Cash flow hedging activity items			
Amortization of gains and losses on cash flow hedging activities(1)	$ 7	$ 8	$ 6
Tax expense	(3)	(3)	(3)
Net of tax	4	5	3
Pension and postretirement defined benefit plan items			
Amortization of amounts included in net periodic pension cost(2)	38	56	69
Tax expense	(9)	(13)	(20)
Net of tax	29	43	49
Total reclassifications, net of tax	$ 33	$ 48	$ 52

(1) Reclassified from AOCI into interest expense.

(2) Reclassified from AOCI into non-service component of company-sponsored pension plan costs. These components are included in the computation of net periodic pension expense.

10. LEASES AND LEASE-FINANCED TRANSACTIONS

The Company leases certain store real estate, warehouses, distribution centers, office space and equipment. While the Company's current strategy emphasizes ownership of store real estate, the Company operates in leased facilities in approximately half of its store locations. Lease terms generally range from 10 to 20 years with options to renew for varying terms at the Company's sole discretion. Certain leases also include options to purchase the leased property. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Certain leases include escalation clauses or payment of executory costs such as property taxes, utilities or insurance and maintenance. Rent expense for leases with escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain properties or portions thereof are subleased to others for periods generally ranging from one to 20 years.

The following table provides supplemental balance sheet classification information related to leases:

	Classification	February 1, 2020	February 2, 2019
Assets			
Operating	Operating lease assets	$ 6,814	$ —
Finance	Property, plant and equipment, net[1]	690	721
Total leased assets		$ 7,504	$ 721
Liabilities			
Current			
Operating	Current portion of operating lease liabilities	$ 597	$ —
Finance	Current portion of long-term debt including obligations under finance leases	39	54
Noncurrent			
Operating	Noncurrent operating lease liabilities	6,505	—
Finance	Long-term debt including obligations under finance leases	781	824
Total lease liabilities		$ 7,922	$ 878

(1) Finance lease assets are recorded net of accumulated amortization of $276 and $345 as of February 1, 2020 and February 2, 2019.

The following table provides the components of lease cost:

Lease Cost	Classification	Year-To-Date February 1, 2020
Operating lease cost[1]	Rent Expense	$ 1,000
Sublease and other rental income	Rent Expense	(116)
Finance lease cost		
Amortization of leased assets	Depreciation and Amortization	53
Interest on lease liabilities	Interest Expense	48
Net lease cost		$ 985

(1) Includes short-term leases and variable lease costs, which are immaterial.

Maturities of operating and finance lease liabilities are listed below. Amounts in the table include options to extend lease terms that are reasonably certain of being exercised.

	Operating Leases	Finance Leases	Total
2020	$ 932	$ 84	$ 1,016
2021	884	95	979
2022	772	80	852
2023	758	86	844
2024	637	81	718
Thereafter	6,353	757	7,110
Total lease payments	10,336	1,183	$ 11,519
Less amount representing interest	3,234	363	
Present value of lease liabilities[1]	$ 7,102	$ 820	

(1) Includes the current portion of $597 for operating leases and $39 for finance leases.

Total future minimum rentals under non-cancellable subleases at February 1, 2020 were $296.

The following table provides the weighted-average lease term and discount rate for operating and finance leases:

	February 1, 2020
Weighted-average remaining lease term (years)	
Operating leases	16.0
Finance leases	15.3
Weighted-average discount rate	
Operating leases	4.3 %
Finance leases	5.4 %

The following table provides supplemental cash flow information related to leases:

	Year-To-Date February 1, 2020
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 942
Operating cash flows from finance leases	48
Financing cash flows from finance leases	45
Leased assets obtained in exchange for new operating lease liabilities	849
Leased assets obtained in exchange for new finance lease liabilities	233
Net gain recognized from sale and leaseback transactions[1]	58
Impairment of operating lease assets[2]	81
Impairment of finance lease assets	40

(1) In 2019, the Company entered into sale leaseback transactions related to nine properties, which resulted in total proceeds of $113.
(2) Impairment of operating lease assets includes $11 related to Lucky's Market.

The Company adopted new lease accounting guidance in the first quarter of 2019 as discussed in Note 1 and Note 18, and as required, the following disclosure is provided for periods prior to adoption. Minimum annual rentals and payments under capital leases and lease-financed transactions for the five years subsequent to February 2, 2019 and in the aggregate are listed below. Amounts in the table below only include payments through the noncancelable lease term.

	Capital Leases	Operating Leases	Lease-Financed Transactions
2019	$ 103	$ 948	$ 5
2020	89	880	6
2021	86	773	5
2022	82	649	5
2023	81	556	5
Thereafter	766	3,197	17
Total	1,207	$ 7,003	$ 43
Less estimated executory costs included in capital leases	—		
Net minimum lease payments under capital leases	1,207		
Less amount representing interest	372		
Present value of net minimum lease payments under capital leases	$ 835		

11. EARNINGS PER COMMON SHARE

Net earnings attributable to The Kroger Co. per basic common share equals net earnings attributable to The Kroger Co. less income allocated to participating securities divided by the weighted average number of common shares outstanding. Net earnings attributable to The Kroger Co. per diluted common share equals net earnings attributable to The Kroger Co. less income allocated to participating securities divided by the weighted average number of common shares outstanding, after giving effect to dilutive stock options. The following table provides a reconciliation of net earnings attributable to The Kroger Co. and shares used in calculating net earnings attributable to The Kroger Co. per basic common share to those used in calculating net earnings attributable to The Kroger Co. per diluted common share:

	For the year ended February 1, 2020			For the year ended February 2, 2019			For the year ended February 3, 2018		
(in millions, except per share amounts)	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Net earnings attributable to The Kroger Co. per basic common share	$ 1,640	799	$ 2.05	$ 3,076	810	$ 3.80	$ 1,890	895	$ 2.11
Dilutive effect of stock options		6			8			9	
Net earnings attributable to The Kroger Co. per diluted common share	$ 1,640	805	$ 2.04	$ 3,076	818	$ 3.76	$ 1,890	904	$ 2.09

The Company had combined undistributed and distributed earnings to participating securities totaling $19, $34 and $17 in 2019, 2018 and 2017, respectively.

The Company had stock options outstanding for approximately 18.4 million, 10.1 million and 15.6 million shares, respectively, for the years ended February 1, 2020, February 2, 2019, and February 3, 2018, which were excluded from the computations of net earnings per diluted common share because their inclusion would have had an anti-dilutive effect on net earnings per diluted share.

12. STOCK-BASED COMPENSATION

The Company recognizes compensation expense for all share-based payments granted. The Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award based on the fair value at the date of the grant.

The Company grants options for common shares ("stock options") to employees under various plans at an option price equal to the fair market value of the stock option at the date of grant. The Company accounts for stock options under the fair value recognition provisions. Stock options typically expire 10 years from the date of grant. Stock options vest between one and five years from the date of grant.

In addition to the stock options described above, the Company awards restricted stock to employees and nonemployee directors under various plans. The restrictions on these awards generally lapse between one and five years from the date of the awards. The Company determines the fair value for restricted stock awards in an amount equal to the fair market value of the underlying shares on the grant date of the award.

At February 1, 2020, approximately 58 million common shares were available for future options or restricted stock grants under the 2011, 2014, and 2019 Long-Term Incentive Plans (the "Plans"). Options granted reduce the shares available under the Plans at a ratio of one to one. Restricted stock grants reduce the shares available under the Plans at a ratio of 2.83 to one.

Equity awards granted are based on the aggregate value of the award on grant date. This can affect the number of shares granted in a given year as equity awards. Excess tax benefits related to equity awards are recognized in the provision for income taxes. Equity awards may be approved at one of four meetings of its Board of Directors occurring shortly after the Company's release of quarterly earnings. The 2019 primary grants were made in conjunction with the March and June meetings of the Company's Board of Directors.

All awards become immediately exercisable upon certain changes of control of the Company.

Stock Options

Changes in options outstanding under the stock option plans are summarized below:

	Shares subject to option (in millions)	Weighted-average exercise price
Outstanding, year-end 2016	34.3	$ 21.32
Granted	7.0	$ 23.00
Exercised	(3.8)	$ 14.08
Canceled or Expired	(0.8)	$ 28.29
Outstanding, year-end 2017	36.7	$ 22.23
Granted	2.7	$ 27.88
Exercised	(4.4)	$ 15.34
Canceled or Expired	(0.9)	$ 28.05
Outstanding, year-end 2018	34.1	$ 23.42
Granted	3.1	$ 24.63
Exercised	(4.0)	$ 14.17
Canceled or Expired	(1.0)	$ 28.87
Outstanding, year-end 2019	32.2	$ 24.52

A summary of options outstanding, exercisable and expected to vest at February 1, 2020 follows:

	Number of shares	Weighted-average remaining contractual life	Weighted-average exercise price	Aggregate intrinsic value
	(in millions)	(in years)		(in millions)
Options Outstanding	32.2	5.35	$ 24.52	153
Options Exercisable	22.5	4.24	$ 23.50	134
Options Expected to Vest	9.5	7.90	$ 26.89	19

Restricted stock

Changes in restricted stock outstanding under the restricted stock plans are summarized below:

	Restricted shares outstanding (in millions)	Weighted-average grant-date fair value
Outstanding, year-end 2016	7.4	$ 32.09
Granted	5.8	$ 23.04
Lapsed	(3.6)	$ 31.05
Canceled or Expired	(0.4)	$ 29.26
Outstanding, year-end 2017	9.2	$ 26.78
Granted	4.6	$ 27.99
Lapsed	(4.4)	$ 25.93
Canceled or Expired	(0.6)	$ 26.57
Outstanding, year-end 2018	8.8	$ 27.86
Granted	5.4	$ 22.72
Lapsed	(4.1)	$ 28.07
Canceled or Expired	(0.8)	$ 25.68
Outstanding, year-end 2019	9.3	$ 24.85

The weighted-average grant date fair value of stock options granted during 2019, 2018 and 2017 was $6.00, $6.78 and $4.71, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model, based on the assumptions shown in the table below. The Black-Scholes model utilizes accounting judgment and financial estimates, including the term option holders are expected to retain their stock options before exercising them, the volatility of the Company's share price over that expected term, the dividend yield over the term and the number of awards expected to be forfeited before they vest. Using alternative assumptions in the calculation of fair value would produce fair values for stock option grants that could be different than those used to record stock-based compensation expense in the Consolidated Statements of Operations. The decrease in the fair value of the stock options granted during 2019, compared to 2018, resulted primarily from a decrease in the Company's share price, partially offset by an increase in the weighted average expected volatility. The increase in the fair value of the stock options granted during 2018, compared to 2017, resulted primarily from an increase in the Company's share price, which decreased the expected dividend yield, an increase in the weighted average expected volatility and the weighted average risk-free interest rate also contributed to the increase in fair value.

The following table reflects the weighted-average assumptions used for grants awarded to option holders:

	2019	2018	2017
Weighted average expected volatility	25.37 %	24.50 %	22.78 %
Weighted average risk-free interest rate	2.54 %	2.82 %	2.21 %
Expected dividend yield	2.00 %	2.00 %	2.20 %
Expected term (based on historical results)	7.2 years	7.2 years	7.2 years

The weighted-average risk-free interest rate was based on the yield of a treasury note as of the grant date, continuously compounded, which matures at a date that approximates the expected term of the options. The dividend yield was based on our history and expectation of dividend payouts. Expected volatility was determined based upon historical stock volatilities; however, implied volatility was also considered. Expected term was determined based upon historical exercise and cancellation experience.

Total stock compensation recognized in 2019, 2018 and 2017 was $155, $154 and $151, respectively. Stock option compensation recognized in 2019, 2018 and 2017 was $24, $25 and $32, respectively. Restricted shares compensation recognized in 2019, 2018 and 2017 was $131, $129 and $119, respectively.

The total intrinsic value of stock options exercised was $51, $58 and $55 in 2019, 2018 and 2017, respectively. The total amount of cash received in 2019 by the Company from the exercise of stock options granted under share-based payment arrangements was $55. As of February 1, 2020, there was $194 of total unrecognized compensation expense remaining related to non-vested share-based compensation arrangements granted under Plans. This cost is expected to be recognized over a weighted-average period of approximately two years. The total fair value of options that vested was $26, $30 and $29 in 2019, 2018 and 2017, respectively.

Shares issued as a result of stock option exercises may be newly issued shares or reissued treasury shares. Proceeds received from the exercise of options, and the related tax benefit, may be utilized to repurchase the Company's common shares under a stock repurchase program adopted by the Company's Board of Directors. During 2019, the Company repurchased approximately two million common shares in such a manner.

13. COMMITMENTS AND CONTINGENCIES

The Company continuously evaluates contingencies based upon the best available evidence.

The Company believes that allowances for loss have been provided to the extent necessary and that its assessment of contingencies is reasonable. To the extent that resolution of contingencies results in amounts that vary from the Company's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Insurance — The Company's workers' compensation risks are self-insured in most states. In addition, other workers' compensation risks and certain levels of insured general liability risks are based on retrospective premium plans, deductible plans, and self-insured retention plans. The liability for workers' compensation risks is accounted for on a present value basis. Actual claim settlements and expenses incident thereto may differ from the provisions for loss. Property risks have been underwritten by a subsidiary and are all reinsured with unrelated insurance companies. Operating divisions and subsidiaries have paid premiums, and the insurance subsidiary has provided loss allowances, based upon actuarially determined estimates.

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

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

Assignments — The Company is contingently liable for leases that have been assigned to various third parties in connection with facility closings and dispositions. The Company could be required to satisfy the obligations under the leases if any of the assignees is unable to fulfill its lease obligations. Due to the wide distribution of the Company's assignments among third parties, and various other remedies available, the Company believes the likelihood that it will be required to assume a material amount of these obligations is remote.

14. STOCK

Preferred Shares

The Company has authorized five million shares of voting cumulative preferred shares; two million shares were available for issuance at February 1, 2020. The shares have a par value of $100 per share and are issuable in series.

Common Shares

The Company has authorized two billion common shares, $1 par value per share.

Common Stock Repurchase Program

The Company maintains stock repurchase programs that comply with Rule 10b5-1 of the Securities Exchange Act of 1934 to allow for the orderly repurchase of The Kroger Co. common shares, from time to time. The Company made open market purchases totaling $400, $727 and $1,567 under these repurchase programs in 2019, 2018 and 2017, respectively.

On April 20, 2018 the Company entered and funded a $1,200 accelerated stock repurchase ("ASR") program to reacquire shares in privately negotiated transactions. The final delivery under the ASR program occurred during the second quarter of 2018, which included the settlement of the remaining 2.3 million Kroger Common shares. In total, the Company invested $1,200 to repurchase 46.3 million Kroger common shares at an average price of $25.91 per share.

In addition to these repurchase programs, in December 1999, the Company began a program to repurchase common shares to reduce dilution resulting from its employee stock option plans. This program is solely funded by proceeds from stock option exercises and the related tax benefit. The Company repurchased approximately $65, $83 and $66 under the stock option program during 2019, 2018 and 2017, respectively.

15. COMPANY- SPONSORED BENEFIT PLANS

The Company administers non-contributory defined benefit retirement plans for some non-union employees and union-represented employees as determined by the terms and conditions of collective bargaining agreements. These include several qualified pension plans (the "Qualified Plans") and non-qualified pension plans (the "Non-Qualified Plans"). The Non-Qualified Plans pay benefits to any employee that earns in excess of the maximum allowed for the Qualified Plans by Section 415 of the Internal Revenue Code. The Company only funds obligations under the Qualified Plans. Funding for the company-sponsored pension plans is based on a review of the specific requirements and on evaluation of the assets and liabilities of each plan.

In addition to providing pension benefits, the Company provides certain health care benefits for retired employees. The majority of the Company's employees may become eligible for these benefits if they reach normal retirement age while employed by the Company. Funding of retiree health care benefits occurs as claims or premiums are paid.

The Company recognizes the funded status of its retirement plans on the Consolidated Balance Sheets. Actuarial gains or losses, prior service costs or credits and transition obligations that have not yet been recognized as part of net periodic benefit cost are required to be recorded as a component of AOCI. The Company has elected to measure defined benefit plan assets and obligations as of January 31, which is the month-end that is closest to its fiscal year-ends, which were February 1, 2020 for fiscal 2019 and February 2, 2019 for fiscal 2018.

Amounts recognized in AOCI as of February 1, 2020 and February 2, 2019 consists of the following (pre-tax):

	Pension Benefits		**Other Benefits**		**Total**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Net actuarial loss (gain)	$ 955	$ 837	$ (109)	$ (130)	$ 846	$ 707
Prior service credit	—	—	(68)	(66)	(68)	(66)
Total	$ 955	$ 837	$ (177)	$ (196)	$ 778	$ 641

Amounts in AOCI expected to be recognized as components of net periodic pension or postretirement benefit costs in the next fiscal year are as follows (pre-tax):

	Pension Benefits	Other Benefits	Total
	2020	2020	2020
Net actuarial loss (gain)	$ 35	$ (9)	$ 26
Prior service credit	—	(12)	(12)
Total	$ 35	$ (21)	$ 14

Other changes recognized in other comprehensive income (loss) in 2019, 2018 and 2017 were as follows (pre-tax):

	Pension Benefits			**Other Benefits**			**Total**		
	2019	**2018**	**2017**	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Incurred net actuarial loss (gain)	$ 179	$ (126)	$ 322	$ 9	$ (10)	$ (20)	$ 188	$ (136)	$ 302
Amortization of prior service credit	—	—	—	11	11	8	11	11	8
Amortization of net actuarial gain (loss)	(61)	(77)	(88)	12	10	11	(49)	(67)	(77)
Settlement recognition of net actuarial loss	—	—	(502)	—	—	—	—	—	(502)
Other	(1)	—	—	(12)	—	(28)	(13)	—	(28)
Total recognized in other comprehensive income (loss)	117	(203)	(268)	20	11	(29)	137	(192)	(297)
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ 165	$ (127)	$ 323	$ 11	$ 5	$ (30)	$ 176	$ (122)	$ 293

Information with respect to change in benefit obligation, change in plan assets, the funded status of the plans recorded in the Consolidated Balance Sheets, net amounts recognized at the end of fiscal years, weighted average assumptions and components of net periodic benefit cost follow:

	Pension Benefits				Other Benefits	
	Qualified Plans		Non-Qualified Plans			
	2019	2018	2019	2018	2019	2018
Change in benefit obligation:						
Benefit obligation at beginning of fiscal year	$ 2,994	$ 3,235	$ 298	$ 328	$ 200	$ 202
Service cost	32	35	1	2	6	7
Interest cost	124	124	12	12	8	8
Plan participants’ contributions	—	—	—	—	13	13
Actuarial (gain) loss	545	(134)	41	(13)	9	(9)
Plan curtailments	—	(92)	—	(6)	—	—
Benefits paid	(180)	(174)	(21)	(24)	(26)	(21)
Other	3	—	(3)	(1)	(12)	—
Benefit obligation at end of fiscal year	$ 3,518	$ 2,994	$ 328	$ 298	$ 198	$ 200
Change in plan assets:						
Fair value of plan assets at beginning of fiscal year	$ 3,010	$ 2,943	$ —	$ —	$ —	$ —
Actual return on plan assets	590	46	—	—	—	—
Employer contributions	—	185	21	25	13	8
Plan participants’ contributions	—	—	—	—	13	13
Benefits paid	(180)	(174)	(21)	(24)	(26)	(21)
Other	2	10	—	(1)	—	—
Fair value of plan assets at end of fiscal year	$ 3,422	$ 3,010	$ —	$ —	$ —	$ —
Funded status and net asset and liability recognized at end of fiscal year	$ (96)	$ 16	$ (328)	$ (298)	$ (198)	$ (200)

As of February 1, 2020, other assets and other current liabilities include $19 and $33, respectively, of the net asset and liability recognized for the above benefit plans. As of February 2, 2019, other assets and other current liabilities include $47 and $35, respectively, of the net asset and liability recognized for the above benefit plans.

In 2018, the Company contributed $185, $117 net of tax, to the company-sponsored pension plan. This contribution was designated to the 2017 tax year in order to deduct the contributions at the previous year tax rate. The Company announced changes to certain non-union company-sponsored pension plans. The Company froze the compensation and service periods used to calculate pension benefits for active employees who participate in the affected pension plans as of December 31, 2019. Beginning January 1, 2020, the affected active employees no longer accrue additional benefits for future service and eligible compensation received under these plans.

As of February 1, 2020 and February 2, 2019, pension plan assets do not include common shares of The Kroger Co.

	Pension Benefits			Other Benefits		
Weighted average assumptions	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
Discount rate — Benefit obligation	3.01 %	4.23 %	4.00 %	2.97 %	4.19 %	3.93 %
Discount rate — Net periodic benefit cost	4.23 %	4.00 %	4.25 %	4.19 %	3.93 %	4.18 %
Expected long-term rate of return on plan assets	6.00 %	5.90 %	7.50 %			
Rate of compensation increase — Net periodic benefit cost	3.04 %	3.03 %	3.07 %			
Rate of compensation increase — Benefit obligation	3.03 %	3.04 %	3.03 %			

The Company's discount rate assumptions were intended to reflect the rates at which the pension benefits could be effectively settled. They take into account the timing and amount of benefits that would be available under the plans. The Company's policy is 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 3.01% and 2.97% discount rates as of year-end 2019 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. A 100 basis point increase in the discount rate would decrease the projected pension benefit obligation as of February 1, 2020, by approximately $401.

The Company's 2019 assumed pension plan investment return rate was 6.00% compared to 5.90% in 2018 and 7.50% in 2017. The value of all investments in the company-sponsored defined benefit pension plans during the calendar year ended December 31, 2019, net of investment management fees and expenses, increased 18.3% and for fiscal year 2019 investments increased 19.7%. Historically, the Company's pension plans' average rate of return was 7.6% for the 10 calendar years ended December 31, 2019, net of all investment management fees and expenses. For the past 20 years, the Company's pension plans' average annual rate of return has been 6.70%. At the beginning of 2018, to determine the expected rate of return on pension plan assets held by the Company for 2018, the Company considered current and forecasted plan asset allocations as well as historical and forecasted rates of return on various asset categories.

The Company calculates its expected return on plan assets by using the market-related value of plan assets. The market-related value of plan assets is determined by adjusting the actual fair value of plan assets for gains or losses on plan assets. Gains or losses represent the difference between actual and expected returns on plan investments for each plan year. Gains or losses on plan assets are recognized evenly over a five-year period. Using a different method to calculate the market-related value of plan assets would provide a different expected return on plan assets.

On February 1, 2020, the Company adopted an updated assumption for generational mortality improvement, based on additional years of published mortality experience.

The pension benefit unfunded status increased in 2019, compared to 2018, due to the decrease in discount rate from 2018 to 2019, assumption changes related to the Company's experience study, partially offset by higher than anticipated asset returns.

The following table provides the components of the Company's net periodic benefit costs for 2019, 2018 and 2017:

	Pension Benefits								
	Qualified Plans			Non-Qualified Plans			Other Benefits		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Components of net periodic benefit cost:									
Service cost	$ 32	$ 35	$ 53	$ 1	$ 2	$ 2	$ 6	$ 7	$ 8
Interest cost	124	124	163	12	12	13	8	8	9
Expected return on plan assets	(182)	(174)	(233)	—	—	—	—	—	—
Amortization of:									
Prior service credit	—	—	—	—	—	—	(11)	(11)	(8)
Actuarial (gain) loss	55	69	79	6	8	9	(12)	(10)	(11)
Settlement loss recognized	—	—	502	—	—	—	—	—	—
Other	—	—	—	—	—	3	—	—	1
Net periodic benefit cost	$ 29	$ 54	$ 564	$ 19	$ 22	$ 27	$ (9)	$ (6)	$ (1)

The following table provides the projected benefit obligation ("PBO"), accumulated benefit obligation ("ABO") and the fair value of plan assets for those company-sponsored pension plans with accumulated benefit obligations in excess of plan assets.

	Qualified Plans		Non-Qualified Plans	
	2019	2018	2019	2018
PBO at end of fiscal year	$ 3,272	$ 295	$ 328	$ 298
ABO at end of fiscal year	$ 3,271	$ 293	$ 328	$ 291
Fair value of plan assets at end of year	$ 3,157	$ 263	$ —	$ —

The following table provides information about the Company's estimated future benefit payments.

	Pension Benefits	Other Benefits
2020	$ 208	$ 12
2021	$ 215	$ 12
2022	$ 224	$ 13
2023	$ 213	$ 13
2024	$ 217	$ 13
2025 —2029	$1,104	$ 69

The following table provides information about the target and actual pension plan asset allocations as of February 1, 2020.

	Target allocations	Actual Allocations	
	2019	2019	2018
Pension plan asset allocation			
Global equity securities	2.0 %	4.3 %	4.2 %
Emerging market equity securities	1.0	2.3	2.3
Investment grade debt securities	80.0	77.8	73.2
High yield debt securities	4.0	2.9	3.5
Private equity	10.0	8.1	9.5
Hedge funds	—	2.8	4.5
Real estate	3.0	1.8	2.8
Total	100.0 %	100.0 %	100.0 %

Investment objectives, policies and strategies are set by the Retirement Benefit Plan Management Committee (the "Committee"). The primary objectives include holding and investing the assets and distributing benefits to participants and beneficiaries of the pension plans. Investment objectives have been established based on a comprehensive review of the capital markets and each underlying plan's current and projected financial requirements. The time horizon of the investment objectives is long-term in nature and plan assets are managed on a going-concern basis.

Investment objectives and guidelines specifically applicable to each manager of assets are established and reviewed annually. Derivative instruments may be used for specified purposes, including rebalancing exposures to certain asset classes. Any use of derivative instruments for a purpose or in a manner not specifically authorized is prohibited, unless approved in advance by the Committee.

The target allocations shown for 2019 were established in 2019 in conjunction with the continuation of the Company's transition to a LDI strategy, which began in 2017. A LDI strategy focuses on maintaining a close to fully-funded status over the long-term with minimal funded status risk. This is achieved by investing more of the plan assets in fixed income instruments to more closely match the duration of the plan liability. This LDI strategy will be phased in over time as the Company is able to transition out of illiquid investments. During this transition, the Company's target allocation will change by increasing the Company's fixed income instruments. Cash flow from employer contributions and redemption of plan assets to fund participant benefit payments can be used to fund underweight asset classes and divest overweight asset classes, as appropriate. The Company expects that cash flow will be sufficient to meet most rebalancing needs.

The Company did not make any contributions to its company-sponsored pension plans in 2019 and the Company is not required to make any contributions to these plans in 2020. If the Company does make any contributions in 2020, the Company expects these contributions will decrease its required contributions in future years. Among other things, investment performance of plan assets, the interest rates required to be used to calculate the pension obligations, and future changes in legislation, will determine the amounts of any contributions. The Company expects 2020 benefit costs for company-sponsored pension plans to be approximately ($16).

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The Company used a 5.70% initial health care cost trend rate, which is assumed to decrease on a linear basis to a 4.50% ultimate health care cost trend rate in 2037, to determine its expense. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	$ 2	$ (1)
Effect on postretirement benefit obligation	$ 22	$ (18)

The following tables, set forth by level, within the fair value hierarchy, the Qualified Plans' assets at fair value as of February 1, 2020 and February 2, 2019:

Assets at Fair Value as of February 1, 2020

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets Measured at NAV	Total
Cash and cash equivalents	$ 186	$ —	$ —	$ —	$ 186
Corporate Stocks	78	—	—	—	78
Corporate Bonds	—	1,157	—	—	1,157
U.S. Government Securities	—	194	—	—	194
Mutual Funds	305	—	—	—	305
Collective Trusts	—	—	—	945	945
Hedge Funds	—	—	43	51	94
Private Equity	—	—	—	275	275
Real Estate	—	—	43	17	60
Other	—	128	—	—	128
Total	$ 569	$ 1,479	$ 86	$ 1,288	$ 3,422

Assets at Fair Value as of February 2, 2019

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets Measured at NAV	Total
Cash and cash equivalents	$ 126	$ —	$ —	$ —	$ 126
Corporate Stocks	66	—	—	—	66
Corporate Bonds	—	896	—	—	896
U.S. Government Securities	—	240	—	—	240
Mutual Funds	257	—	—	—	257
Collective Trusts	—	—	—	805	805
Hedge Funds	—	—	49	85	134
Private Equity	—	—	—	285	285
Real Estate	—	—	67	19	86
Other	—	115	—	—	115
Total	$ 449	$ 1,251	$ 116	$ 1,194	$ 3,010

Certain investments that are measured at fair value using the NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented for these investments in the preceding tables are intended to permit reconciliation of the fair value hierarchies to the total fair value of plan assets.

For measurements using significant unobservable inputs (Level 3) during 2019 and 2018, a reconciliation of the beginning and ending balances is as follows:

	Hedge Funds	Real Estate
Ending balance, February 3, 2018	$ 56	68
Contributions into Fund	—	9
Realized gains	1	12
Unrealized losses	4	(5)
Distributions	(16)	(15)
Other	4	(2)
Ending balance, February 2, 2019	49	67
Contributions into Fund	2	3
Realized gains	(2)	23
Unrealized gains	—	(17)
Distributions	(11)	(33)
Other	5	—
Ending balance, February 1, 2020	$ 43	$ 43

See Note 8 for a discussion of the levels of the fair value hierarchy. The assets' fair value measurement level above is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methods used for the Qualified Plans' assets measured at fair value in the above tables:

- Cash and cash equivalents: The carrying value approximates fair value.
- Corporate Stocks: The fair values of these securities are based on observable market quotations for identical assets and are valued at the closing price reported on the active market on which the individual securities are traded.
- Corporate Bonds: The fair values of these securities are primarily based on observable market quotations for similar bonds, valued at the closing price reported on the active market on which the individual securities are traded. When such quoted prices are not available, the bonds are valued using a discounted cash flow approach using current yields on similar instruments of issuers with similar credit ratings, including adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- U.S. Government Securities: Certain U.S. Government securities are valued at the closing price reported in the active market in which the security is traded. Other U.S. government securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for similar securities, the security is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- Mutual Funds: The fair values of these securities are based on observable market quotations for identical assets and are valued at the closing price reported on the active market on which the individual securities are traded.
- Collective Trusts: The collective trust funds are public investment vehicles valued using a Net Asset Value (NAV) provided by the manager of each fund. These assets have been valued using NAV as a practical expedient.

- Hedge Funds: The Hedge funds classified as Level 3 include investments that are not readily tradeable and have valuations that are not based on readily observable data inputs. The fair value of these assets is estimated based on information provided by the fund managers or the general partners. Therefore, these assets are classified as Level 3. Certain other hedge funds are private investment vehicles valued using a NAV provided by the manager of each fund. These assets have been valued using NAV as a practical expedient.

- Private Equity: Private Equity investments are valued based on the fair value of the underlying securities within the fund, which include investments both traded on an active market and not traded on an active market. For those investments that are traded on an active market, the values are based on the closing price reported on the active market on which those individual securities are traded. For investments not traded on an active market, or for which a quoted price is not publicly available, a variety of unobservable valuation methodologies, including discounted cash flow, market multiple and cost valuation approaches, are employed by the fund manager to value investments. Fair values of all investments are adjusted annually, if necessary, based on audits of the private equity fund financial statements; such adjustments are reflected in the fair value of the plan's assets.

- Real Estate: Real estate investments include investments in real estate funds managed by a fund manager. These investments are valued using a variety of unobservable valuation methodologies, including discounted cash flow, market multiple and cost valuation approaches. The valuations for these investments are not based on readily observable inputs and are classified as Level 3 investments. Certain other real estate investments are valued using a NAV provided by the manager of each fund. These assets have been valued using NAV as a practical expedient.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement.

The Company contributed and expensed $264, $263 and $219 to employee 401(k) retirement savings accounts in 2019, 2018 and 2017, respectively. The 401(k) retirement savings account plans provide to eligible employees both matching contributions and automatic contributions from the Company based on participant contributions, compensation as defined by the plan and length of service.

In 2019, the Company approved and implemented a plan to reorganize certain portions of its division management structure. This reorganization is expected to increase operational effectiveness and reduce overhead costs while maintaining a high quality customer experience. The Company recorded a charge for severance and related benefits of $80, $61 net of tax, in 2019, which is included in the OG&A caption within the Consolidated Statements of Operations. Of the total charge, $42 remains unpaid as of February 1, 2020 and is included in Other Current Liabilities within the Consolidated Balance Sheet.

16. MULTI-EMPLOYER PENSION PLANS

The Company contributes to various multi-employer pension plans based on obligations arising from collective bargaining agreements. 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.

The Company recognizes expense in connection with these plans as contributions are funded or when commitments are probable and reasonably estimable, in accordance with GAAP. The Company made cash contributions to these plans of $461 in 2019, $358 in 2018 and $954 in 2017. The increase in 2017, compared to 2019 and 2018, is primarily due to the $467 pre-tax payment to satisfy withdrawal obligations of certain local unions of the Central States Pension Fund and the 2017 United Food and Commercial Workers ("UFCW") contribution.

The Company continues to evaluate and address potential exposure to under-funded multi-employer pension plans as it relates to the Company's associates who are beneficiaries of these plans. These under-fundings are not a liability of the Company. When an opportunity arises that is economically feasible and beneficial to the Company and its associates, the Company may negotiate the restructuring of under-funded multi-employer pension plan obligations to help stabilize associates' future benefits and become the fiduciary of the restructured multi-employer pension plan. The commitments from these restructurings do not change the Company's debt profile as it relates to its credit rating since these off balance sheet commitments are typically considered in the Company's investment grade debt rating.

The Company is currently designated as the named fiduciary of the UFCW Consolidated Pension Plan and the International Brotherhood of Teamsters ("IBT") Consolidated Pension Fund and has sole investment authority over these assets. The Company became the fiduciary of the IBT Consolidated Pension Fund in 2017 due to the ratification of a new labor contract with the IBT that provided certain local unions of the Company to withdraw from the Central States Pension Fund. Significant effects of these restructuring agreements recorded in our Consolidated Financial Statements are:

- In 2019, the Company incurred a $135 charge, $104 net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension plan funds.

- In 2018, the Company incurred a $155 charge, $121 net of tax, for obligations related to withdrawal liabilities for certain local unions of the Central States multi-employer pension plan fund.

- In 2017, the Company incurred a $550 charge, $360 net of tax, for obligations related to withdrawals from and settlements of withdrawal liabilities for certain multi-employer pension plan funds, of which $467 was contributed to the Central States Pension Plan in 2017.

- In 2017, the Company contributed $111, $71 net of tax, to the UFCW Consolidated Pension Plan.

The risks of participating in multi-employer pension plans are different from the risks of participating in single-employer pension plans in the following respects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan allocable to such withdrawing employer may be borne by the remaining participating employers.

c. If the Company stops participating in some of its multi-employer pension plans, the Company may be required to pay those plans an amount based on its allocable share of the unfunded vested benefits of the plan, referred to as a withdrawal liability.

The Company's participation in multi-employer plans is outlined in the following tables. The EIN / Pension Plan Number column provides the Employer Identification Number ("EIN") and the three-digit pension plan number. The most recent Pension Protection Act Zone Status available in 2019 and 2018 is for the plan's year-end at December 31, 2018 and December 31, 2017, respectively. Among other factors, generally, plans in the red zone are less than 65 percent funded, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent funded. The FIP/RP Status Pending / Implemented Column indicates plans for which a funding improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. Unless otherwise noted, the information for these tables was obtained from the Forms 5500 filed for each plan's year-end at December 31, 2018 and December 31, 2017. The multi-employer contributions listed in the table below are the Company's multi-employer contributions made in fiscal years 2019, 2018 and 2017.

The following table contains information about the Company's multi-employer pension plans:

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status 2019	Pension Protection Act Zone Status 2018	FIP/RP Status Pending/ Implemented	Multi-Employer Contributions 2019	Multi-Employer Contributions 2018	Multi-Employer Contributions 2017	Surcharge Imposed [5]
SO CA UFCW Unions & Food Employers Joint Pension Trust Fund[1][2]	95-1939092 - 001	Yellow	Yellow	Implemented	$ 75	$ 71	$ 66	No
Desert States Employers & UFCW Unions Pension Plan[1]	84-6277982 - 001	Green	Green	No	19	19	18	No
Sound Retirement Trust (formerly Retail Clerks Pension Plan)[1][3]	91-6069306 – 001	Yellow	Green	Implemented	25	23	20	No
Rocky Mountain UFCW Unions and Employers Pension Plan[1]	84-6045986 - 001	Green	Green	No	23	20	19	No
Oregon Retail Employees Pension Plan[1]	93-6074377 - 001	Green	Green	No	9	9	9	No
Bakery and Confectionary Union & Industry International Pension Fund[1]	52-6118572 - 001	Red	Red	Implemented	10	11	11	No
Retail Food Employers & UFCW Local 711 Pension[1]	51-6031512 - 001	Yellow	Yellow	Implemented	10	10	10	No
United Food & Commercial Workers Intl Union — Industry Pension Fund[1][4]	51-6055922 - 001	Green	Green	No	32	32	33	No
Western Conference of Teamsters Pension Plan	91-6145047 - 001	Green	Green	No	34	34	34	No
Central States, Southeast & Southwest Areas Pension Plan	36-6044243 - 001	Red	Red	Implemented	—	18	492	No
UFCW Consolidated Pension Plan[1]	58-6101602 – 001	Green	Green	No	174	55	201	No
IBT Consolidated Pension Plan[1][6]	82-2153627 - 001	N/A	N/A	No	33	37	—	No
Other[7]					17	19	41	
Total Contributions					$ 461	$ 358	$ 954	

(1) The Company's multi-employer contributions to these respective funds represent more than 5% of the total contributions received by the pension funds.
(2) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at March 31, 2019 and March 31, 2018.
(3) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at September 30, 2018 and September 30, 2017.
(4) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at June 30, 2018 and June 30, 2017.
(5) Under the Pension Protection Act, a surcharge may be imposed when employers make contributions under a collective bargaining agreement that is not in compliance with a rehabilitation plan. As of February 1, 2020, the collective bargaining agreements under which the Company was making contributions were in compliance with rehabilitation plans adopted by the applicable pension fund.
(6) The plan was formed after 2006, and therefore is not subject to zone status certifications.
(7) The increase in 2017, compared to 2019 and 2018, in the "Other" funds is due primarily to withdrawal settlement payments for certain multi-employer funds in 2017.

The following table describes (a) the expiration date of the Company's collective bargaining agreements and (b) the expiration date of the Company's most significant collective bargaining agreements for each of the material multi-employer funds in which the Company participates.

Pension Fund	Expiration Date of Collective Bargaining Agreements	Most Significant Collective Bargaining Agreements[1] (not in millions)	
		Count	Expiration
SO CA UFCW Unions & Food Employers Joint Pension Trust Fund	June 2020 to March 2022	2	June 2020 to March 2022
UFCW Consolidated Pension Plan	March 2020 to May 2023	4	April 2020 to August 2022
Desert States Employers & UFCW Unions Pension Plan	October 2020 to February 2022	1	October 2020
Sound Retirement Trust (formerly Retail Clerks Pension Plan)	April 2020 to February 2023	4	May 2022 to August 2022
Rocky Mountain UFCW Unions and Employers Pension Plan	January 2022	1	January 2022
Oregon Retail Employees Pension Plan [2]	August 2021 to March 2023	3	August 2021 to July 2022
Bakery and Confectionary Union & Industry International Pension Fund	December 2019 (2) to July 2022	4	May 2020 to October 2021
Retail Food Employers & UFCW Local 711 Pension	June 2017 (2) to April 2020	1	March 2019 (2)
United Food & Commercial Workers Intl Union — Industry Pension Fund	November 2019 (2) to August 2023	2	July 2023 to August 2023
Western Conference of Teamsters Pension Plan	September 2020 to April 2022	4	September 2020 to April 2022
International Brotherhood of Teamsters Consolidated Pension Fund	September 2019 (2) to September 2022	3	September 2019 (2) to September 2022

(1) This column represents the number of significant collective bargaining agreements and their expiration date for each of the Company's pension funds listed above. For purposes of this table, the "significant collective bargaining agreements" are the largest based on covered employees that, when aggregated, cover the majority of the employees for which we make multi-employer contributions for the referenced pension fund.
(2) Certain collective bargaining agreements for each of these pension funds are operating under an extension.

Based on the most recent information available to it, the Company believes the present value of actuarial accrued liabilities in most of these multi-employer plans substantially exceeds the value of the assets held in trust to pay benefits. Moreover, if the Company were to exit certain markets or otherwise cease making contributions to these funds, the Company 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.

The Company also contributes to various other multi-employer benefit plans that provide health and welfare benefits to active and retired participants. Total contributions made by the Company to these other multi-employer health and welfare plans were approximately $1,252 in 2019, $1,282 in 2018 and $1,247 in 2017.

17. HELD FOR SALE AND DISPOSAL OF BUSINESS

During the second quarter of 2018, the Company announced that as a result of a review of its assets, the Company had decided to explore strategic alternatives for its Turkey Hill Dairy business, including a potential sale. Additionally during the fourth quarter of 2018, the Company announced that it had entered into a definitive agreement to sell its You Technology business.

The following table presents information related to the major classes of assets and liabilities of all business that were classified as assets and liabilities held for sale in the Consolidated Balance Sheet as of February 2, 2019:

(In millions)		**February 2, 2019**
Assets held for sale:		
Cash and temporary cash investments	$	1
Receivables		64
FIFO inventory		21
LIFO reserve		(1)
Prepaid and other current assets		3
Property, plant and equipment, net		77
Goodwill		1
Total assets held for sale	$	166
Liabilities held for sale:		
Trade accounts payable	$	26
Accrued salaries and wages		8
Other current liabilities		17
Total liabilities held for sale	$	51

On March 13, 2019, the Company completed the sale of its You Technology business to Inmar for total consideration of $565, including $396 of cash and $64 of preferred equity received upon closing. The Company is also entitled to receive other cash payments of $105 over five years. The transaction includes a long-term service agreement for Inmar to provide the Company digital coupon services. The sale resulted in a gain of $70, $52 net of tax, which is included in “Gain on sale of businesses” in the Consolidated Statement of Operations. The Company recorded the fair value of the long-term service agreement of $358 in “Other current liabilities” and “Other long-term liabilities” in the Consolidated Balance Sheets and such amount is being recorded as sales over the 10-year agreement.

On April 26, 2019, the Company completed the sale of its Turkey Hill Dairy business to an affiliate of Peak Rock Capital for total proceeds of $225. The sale resulted in a gain of $106, $80 net of tax, which is included in “Gain on sale of businesses” in the Consolidated Statements of Operations.

In the third quarter of 2019, as a result of a portfolio review, the Company decided to divest its interest in Lucky’s Market. The Company recognized an impairment charge of $238 in the third quarter of 2019, which is included in OG&A in the Consolidated Statements of Operations. The impairment charge consists of property, plant and equipment of $200, which includes $40 of finance lease assets; goodwill of $19; operating lease assets of $11; and other charges of $8. The amount of the impairment charge attributable to The Kroger Co. is $131, $100 net of tax, with the remaining amount attributable to the minority interest. Subsequently, the decision was made by Lucky’s Market to file for bankruptcy in January 2020, which led the Company to fully write off the value of its investment and deconsolidate Lucky’s Market from the consolidated financial statements. This resulted in an additional non-cash charge of $174, $125 net of tax, in the fourth quarter of 2019, which is included in OG&A in the Consolidated Statements of Operations. The amount of the total 2019 charge attributable to The Kroger Co. is $305, $225 net of tax. The Company maintains liabilities associated with certain property related guarantees that will result in the Company making payments to settle these over time.

18. RECENTLY ADOPTED ACCOUNTING STANDARDS

On February 4, 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” which superseded previous revenue recognition guidance. Topic 606 is a comprehensive new revenue recognition model that requires a company to recognize revenue when goods and services are transferred to the customer in an amount that is proportionate to what has been delivered at that point and that reflects the consideration to which the company expects to be entitled for those goods or services. The Company adopted the standard using a modified retrospective approach with the adoption primarily involving the evaluation of whether the Company acts as principal or agent in certain vendor arrangements where the purchase and sale of inventory are virtually simultaneous. The Company will continue to record revenue and related costs on a gross basis for the arrangements. The adoption of the standard did not have a material effect on the Company’s Consolidated Statements of Operations, Consolidated Balance Sheets or Consolidated Statements of Cash Flows.

On February 3, 2019, the Company adopted ASU 2016-02, “Leases,” which provides guidance for the recognition of lease agreements. The Company adopted the standard using the modified retrospective approach, which provides a method for recording existing leases at adoption that approximates the results of a full retrospective approach. In addition, the Company elected the transition package of practical expedients permitted within the standard, which allowed it to carry forward the historical lease classification, and applied the transition option which does not require application of the guidance to comparative periods in the year of adoption.

The adoption of the standard resulted in the recognition of operating lease assets and operating lease liabilities of approximately $6,800 and $7,000, respectively, as of February 3, 2019. Included in the measurement of the new lease assets is the reclassification of certain balances including those historically recorded as prepaid or deferred rent and favorable and unfavorable leasehold interests. Several other asset and liability line items in the Consolidated Balance Sheets were also impacted by immaterial amounts. The adoption of this standard also resulted in a change in naming convention for leases classified historically as capital leases. These leases are now referred to as finance leases. The adoption of this standard did not materially affect the Company’s consolidated net earnings or cash flows.

In February 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-02, "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This amendment allows companies to reclassify stranded tax effects resulting from the Tax Act from accumulated other comprehensive income (AOCI) to retained earnings. The Company adopted ASU 2018-02 on February 3, 2019, which resulted in a decrease to AOCI and an increase to accumulated earnings of $146, primarily related to deferred taxes previously recorded for pension and other postretirement benefits and cash flow hedges. The adoption of this standard did not have an effect on the Company’s consolidated results of operations or cash flows.

19. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2018, the FASB issued ASU 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” Under the new standard, implementation costs related to a cloud computing arrangement will be deferred or expensed as incurred, in accordance with the existing internal-use software guidance for similar costs. The new standard also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense. This guidance will be effective for the Company in the first quarter of the Company’s fiscal year ending January 30, 2021. The amendments may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently assessing the impact that adoption of this guidance will have on its Consolidated Financial Statements and related disclosures.

20. QUARTERLY DATA (UNAUDITED)

The two tables that follow reflect the unaudited results of operations for 2019 and 2018.

2019	Quarter First (16 Weeks)	Quarter Second (12 Weeks)	Quarter Third (12 Weeks)	Quarter Fourth (12 Weeks)	Total Year (52 Weeks)
Sales	$ 37,251	$ 28,168	$ 27,974	$ 28,893	$ 122,286
Operating Expenses					
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	28,983	22,007	21,798	22,507	95,294
Operating, general and administrative	6,314	4,811	5,097	4,985	21,208
Rent	274	200	201	209	884
Depreciation and amortization	779	591	624	655	2,649
Operating profit	901	559	254	537	2,251
Other income (expense)					
Interest expense	(197)	(130)	(137)	(140)	(603)
Non-service component of company sponsored pension plan costs	3	(4)	(1)	2	—
Mark to market gain (loss) on Ocado securities	106	(45)	106	(9)	157
Gain on sale of business	176	—	—	—	176
Net earnings before income tax expense	989	380	222	390	1,981
Income tax expense	226	93	79	71	469
Net earnings including noncontrolling interests	763	287	143	319	1,512
Net loss attributable to noncontrolling interests	(9)	(10)	(120)	(8)	(147)
Net earnings attributable to The Kroger Co.	$ 772	$ 297	$ 263	$ 327	$ 1,659
Net earnings attributable to The Kroger Co. per basic common share	$ 0.96	$ 0.37	$ 0.32	$ 0.40	$ 2.05
Average number of shares used in basic calculation	798	800	802	797	799
Net earnings attributable to The Kroger Co. per diluted common share	$ 0.95	$ 0.37	$ 0.32	$ 0.40	$ 2.04
Average number of shares used in diluted calculation	805	805	807	804	805
Dividends declared per common share	$ 0.14	$ 0.16	$ 0.16	$ 0.16	$ 0.62

Annual amounts may not sum due to rounding.

Net earnings for the first quarter of 2019 include charges to OG&A expenses of $59, $44 net of tax, for obligations related to withdrawal liabilities for certain local unions of the Central States multi-employer pension fund and a reduction to OG&A of $24, $18 net of tax, for the revaluation of Home Chef contingent consideration. Gains in other income of $106, $80 net of tax, related to the sale of Turkey Hill Dairy; $70, $52 net of tax, related to the sale of You Technology; and $106, $80 net of tax, for the mark to market gain on Ocado Group plc (“Ocado”) securities.

Net earnings for the second quarter of 2019 include charges to OG&A of $27, $22 net of tax, for obligations related to withdrawal liabilities for a certain multi-employer pension fund and $2, $2 net of tax, for the revaluation of Home Chef contingent consideration. A charge in other income (expense) of $45, $36 net of tax, for the mark to market loss on Ocado securities.

Net earnings for the third quarter of 2019 include a charge to OG&A of $45, $35 net of tax, for obligations related to withdrawal liabilities for a certain multi-employer pension fund; $80, $61 net of tax, for a severance charge and related benefits; $238 including $131 attributable to the Kroger Co., $100 net of tax, for impairment of Lucky's Market; and $4, $3 net of tax, for the revaluation of Home Chef contingent consideration. A gain in other income of $106, $81 net of tax, for the mark to market gain on Ocado securities.

Net earnings for the fourth quarter of 2019 include charges to OG&A of $4, $3 net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension funds; $174, $125 net of tax, for deconsolidation and impairment of Lucky's Market; $52, $37 net of tax, for transformation costs, primarily including 35 planned store closures; and a reduction to OG&A of $51, $36 net of tax, for the revaluation of Home Chef contingent consideration. Loss in other income (expense) of $9, $6 net of tax, for the mark to market loss on Ocado securities.

2018	Quarter First (16 Weeks)	Second (12 Weeks)	Third (12 Weeks)	Fourth (12 Weeks)	Total Year (52 Weeks)
Sales	$ 37,722	$ 28,014	$ 27,831	$ 28,286	$ 121,852
Operating Expenses					
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	29,419	21,976	21,753	21,955	95,103
Operating, general and administrative	6,257	4,711	4,661	5,155	20,786
Rent	276	204	200	204	884
Depreciation and amortization	741	574	570	581	2,465
Operating profit	1,029	549	647	391	2,614
Other income (expense)					
Interest expense	(192)	(144)	(142)	(142)	(620)
Non-service component of company sponsored pension plan costs	(10)	(4)	(6)	(7)	(26)
Mark to market gain (loss) on Ocado securities	36	216	(100)	75	228
Gain on sale of business	1,771	11	—	—	1,782
Net earnings before income tax expense	2,634	628	399	317	3,978
Income tax expense	616	127	91	66	900
Net earnings including noncontrolling interests	2,018	501	308	251	3,078
Net loss attributable to noncontrolling interests	(8)	(7)	(9)	(8)	(32)
Net earnings attributable to The Kroger Co.	$ 2,026	$ 508	$ 317	$ 259	$ 3,110
Net earnings attributable to The Kroger Co. per basic common share	$ 2.39	$ 0.63	$ 0.39	$ 0.32	$ 3.80
Average number of shares used in basic calculation	839	797	797	798	810
Net earnings attributable to The Kroger Co. per diluted common share	$ 2.37	$ 0.62	$ 0.39	$ 0.32	$ 3.76
Average number of shares used in diluted calculation	846	805	807	806	818
Dividends declared per common share	$ 0.125	$ 0.140	$ 0.140	$ 0.140	$ 0.545

Annual amounts may not sum due to rounding.

Net earnings for the first quarter of 2018 include a reduction to OG&A expenses of $13, $10 net of tax, for adjustments to obligations related to certain local unions withdrawing from the Central States multi-employer pension fund, a reduction to depreciation and amortization expenses of $14, $11 net of tax, related to held for sale assets, gains in other income (expense) of $1,771, $1,352 net of tax, related to the sale of the convenience store business unit and $36, $27 net of tax, for the mark to market gain on Ocado securities.

Net earnings for the second quarter of 2018 include gains in other income (expense) of $11, $8 net of tax, related to the sale of the convenience store business unit and $216, $164 net of tax, for the mark to market gain on Ocado securities.

Net earnings for the third quarter of 2018 include a loss in other income (expense) of $100, $77 net of tax, for the mark to market loss on Ocado securities.

Net earnings for the fourth quarter of 2018 include charges to OG&A expenses of $168, $131 net of tax, for obligations related to certain local unions withdrawing from the Central States multi-employer pension fund, $33, $26 net of tax, for the revaluation of contingent consideration and $42, $33 net of tax, for an impairment of financial instrument, a gain in other income (expense) of $75, $59 net of tax, for the mark to market gain on Ocado securities.

21. SUBSEQUENT EVENTS

On March 18, 2020, the Company proactively borrowed $1,000 from the revolving credit facility. This was a precautionary measure in order to preserve financial flexibility, reduce reliance on the commercial paper market and maintain liquidity in response to the coronavirus pandemic. Cash and temporary cash investments immediately following the borrowing were approximately $2,336.

In anticipation of future debt refinancing, the Company, subsequent to February 1, 2020, entered into three forward-starting interest rate swap agreements with a maturity date of January 2021 with an aggregate notional amount totaling $150.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

As of February 1, 2020, our Chief Executive Officer and Chief Financial Officer, together with a disclosure review committee appointed by the Chief Executive Officer, evaluated the Company's disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of February 1, 2020.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting during the fiscal quarter ended February 1, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control — Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that the Company's internal control over financial reporting was effective as of February 1, 2020.

The effectiveness of the Company's internal control over financial reporting as of February 1, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which can be found in Item 8 of this Form 10-K.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item 10 with respect to executive officers is included within Item 1 in Part I of this Annual Report on Form 10-K under the caption "Information about our Executive Officers." The information required by this Item not otherwise set forth in Part I above is set forth under the headings Election of Directors, Information Concerning the Board of Directors- Committees of the Board, Information Concerning the Board of Directors- Audit Committee, Information Concerning the Board of Directors- Code of Ethics and Section 16(a) Beneficial Ownership Reporting Compliance in the definitive proxy statement to be filed by the Company with the Securities and Exchange Commission within 120 days after the end of the fiscal year 2019 (the "2020 proxy statement") and is hereby incorporated by reference into this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is set forth in the sections entitled Compensation Discussion and Analysis, Compensation Committee Report, and Compensation Tables in the 2020 proxy statement and is hereby incorporated by reference into this Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table provides information regarding shares outstanding and available for issuance under our existing equity compensation plans.

Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights (1)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	35,135,064	$ 24.52	57,586,095
Equity compensation plans not approved by security holders	—	$ —	—
Total	35,135,064	$ 24.52	57,586,095

(1) The total number of securities reported includes the maximum number of common shares, 2,936,351, that may be issued under performance units granted under our long-term incentive plans. The nature of the awards is more particularly described in the Compensation Discussion and Analysis section of the definitive 2020 proxy statement and is hereby incorporated by reference into this Form 10-K. The weighted-average exercise price in column (b) does not take these performance unit awards into account. Based on historical data, or in the case of the awards made in 2017 through 2019 and earned in 2019 the actual payout percentage, our best estimate of the number of common shares that will be issued under the performance unit grants is approximately 2,024,683.

The remainder of the information required by this Item is set forth in the section entitled Beneficial Ownership of Common Stock in the 2020 proxy statement and is hereby incorporated by reference into this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

This information required by this Item is set forth in the sections entitled Related Person Transactions and Information Concerning the Board of Directors-Independence in the 2020 proxy statement and is hereby incorporated by reference into this Form 10-K.

ITEM 14.   PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is set forth in the section entitled Ratification of the Appointment of Kroger's Independent Auditor in the 2020 proxy statement and is hereby incorporated by reference into this Form 10-K.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a)1. Financial Statements:
Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of February 1, 2020 and February 2, 2019
Consolidated Statements of Operations for the years ended February 1, 2020, February 2, 2019 and February 3, 2018
Consolidated Statements of Comprehensive Income for the years ended February 1, 2020, February 2, 2019 and February 3, 2018
Consolidated Statements of Cash Flows for the years ended February 1, 2020, February 2, 2019 and February 3, 2018
Consolidated Statement of Changes in Shareholders' Equity for the years ended February 1, 2020, February 2, 2019 and February 3, 2018
Notes to Consolidated Financial Statements

(a)2. Financial Statement Schedules:
There are no Financial Statement Schedules included with this filing for the reason that they are not applicable or are not required or the information is included in the financial statements or notes thereto.

(a)3.(b) Exhibits

3.1 Amended Articles of Incorporation are hereby incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 22, 2010, as amended by the Amendment to Amended Articles of Incorporation, which is hereby incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 23, 2015.

3.2 The Company's Regulations are hereby incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the SEC on June 27, 2019.

4.1 Instruments defining the rights of holders of long-term debt of the Company and its subsidiaries are not filed as Exhibits because the amount of debt under each instrument is less than 10% of the consolidated assets of the Company. The Company undertakes to file these instruments with the SEC upon request.

4.2 Description of Securities

10.1* The Kroger Co. Deferred Compensation Plan for Independent Directors. Incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.

10.2* The Kroger Co. Executive Deferred Compensation Plan. Incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.

10.3* The Kroger Co. 401(k) Retirement Savings Account Restoration Plan. Incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

10.4* The Kroger Co. Supplemental Retirement Plans for Certain Retirement Benefit Plan Participants. Incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

10.5* The Kroger Co. Employee Protection Plan dated January 13, 2017. Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017.

10.6 Amended and Restated Credit Agreement dated August 29, 2017, among The Kroger Co., the initial lenders named therein, and Bank of America, N.A. and Wells Fargo Bank National Association, as co-administrative agents, Citibank, N.A., as syndication agent, and Mizuho Bank, Ltd. and U.S. Bank National Association, as co-documentation agents, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on August 29, 2017.

10.7* The Kroger Co. 2008 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company's Form S-8 filed with the SEC on June 26, 2008.

10.8*	The Kroger Co. 2011 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company’s Form S-8 filed with the SEC on June 23, 2011.
10.9*	The Kroger Co. 2014 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company’s Form S-8 filed with the SEC on July 29, 2014.
10.10*	The Kroger Co. 2019 Long-Term Incentive Plan. Incorporated by reference to Exhibit 99.1 of the Company’s Form S-8 filed with the SEC on June 28, 2019.
10.11*	Form of Restricted Stock Grant Agreement under Long-Term Incentive Cash Bonus Plans.
10.12*	Form of Restricted Stock Grant Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.9 of the Company’s Annual Report on Form 10-K for the fiscal year ended February 3, 2007.
10.13*	Form of Non-Qualified Stock Option Grant Agreement under Long-Term Incentive and Cash Bonus Plan.
10.14*	Form of Non-Qualified Stock Option Grant Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended May 24, 2008.
10.15*	Form of Performance Unit Award Agreement under Long-Term Incentive and Cash Bonus Plans.
10.16*	Form of Performance Unit Award Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.2 of the Company’s Quarterly Report on Form 10-Q for the quarter ended August 12, 2017.
10.17*	Form of Performance Unit Award Under Long-Term Incentive Plans. Incorporated by reference to Exhibit 10.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended August 18, 2018.
10.18*	The Kroger Co. 2015 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended May 23, 2015.
10.19*	The Kroger Co. 2016 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.18 of the Company’s Annual Report on Form 10-K for the fiscal year ended January 30, 2016.
10.20*	The Kroger Co. 2017 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.1 of the Company’s Quarterly Report on Form 10-Q for the quarter ended May 20, 2017.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Powers of Attorney.
31.1	Rule 13a-14(a)/15d-14(a) Certification.
31.2	Rule 13a-14(a)/15d-14(a) Certification.
32.1	Section 1350 Certifications.
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

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* Management contract or compensatory plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE KROGER CO.

Dated: April 1, 2020

/s/ W. Rodney McMullen
W. Rodney McMullen
Chairman of the Board and Chief Executive Officer
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated on the 1st April 2020.

/s/ Gary Millerchip Gary Millerchip	Senior Vice President and Chief Financial Officer (principal financial officer)
/s/ Todd A. Foley Todd A Foley	Vice President & Corporate Controller (principal accounting officer)
* Nora A. Aufreiter	Director
* Anne Gates	Director
* Susan J. Kropf	Director
* Karen Hoguet	Director
* W. Rodney McMullen	Chairman of the Board and Chief Executive Officer
* Jorge P. Montoya	Director
* Clyde R. Moore	Director
* James A. Runde	Director
* Ronald L. Sargent	Director
* Bobby S. Shackouls	Director
* Mark S. Sutton	Director
* Ashok Vemuri	Director

* By: /s/ Christine S. Wheatley
Christine S. Wheatley
Attorney-in-fact

Exhibit 4.2

DESCRIPTION OF COMMON STOCK

General

Our Amended Articles of Incorporation, as amended (our "Articles"), authorize us to issue 2,000,000,000 common shares, $1.00 par value per share ("common shares"). As of March 25, 2020, there were outstanding 777,891,827 common shares.

The principal stock exchange on which our common shares is listed is the New York Stock Exchange under the symbol "KR."

The following description of the terms of our common shares is not complete and is qualified in its entirety by reference to our Articles and our Regulations, both of which are exhibits to our Annual Reports on Form 10-K.

Rights of Common Shareholders

All outstanding common shares are validly issued, fully paid and nonassessable. Subject to rights of preferred shareholders if any preferred shares are issued and outstanding, holders of common shares:

- are entitled to any dividends validly declared;
- will share ratably in our net assets in the event of a liquidation; and
- are entitled to one vote per share.

The common shares have no conversion rights. Holders of common shares have no preemption, subscription, redemption, or call rights related to those shares.

Board of Directors

The number of members on the Board of directors shall be determined by the Board of directors or by the affirmative vote of the holders of 75% of the shares which are entitled to vote on such proposal.

All of the directors or any individual director may be removed by the holders of 75% of the shares then entitled to vote at an election of directors, but only for cause.

Amendments

Our regulations may be amended or repealed or new regulations may be adopted at any meeting of shareholders called for that purpose or without such meeting by the affirmative vote or consent of the holders of record of shares entitling them to exercise a majority of the voting power on such proposal, except that the affirmative vote or consent of the holders of record of common shares entitling them to exercise 75% of the voting power on such proposal shall be required to amend, alter, change or repeal Sections 1 or 5 of Article II or Article VII of our regulations, or to amend, alter, change or repeal our regulations in any way inconsistent with the intent of the foregoing provisions.

Certain Provisions of Ohio Law and the Amended Articles of Incorporation and Regulations

There are provisions in our Articles and our Regulations and in statutory provisions of Ohio law that may have the effect of deterring hostile takeovers or delaying or preventing changes in control or changes in management with respect to us, including transactions in which our shareholders might otherwise receive a premium over the then current market prices for their shares.

Amended Articles of Incorporation and Regulations

Our Articles and our Regulations contain various provisions that may have the effect, either alone or in combination with each other, of making more difficult or discouraging a business combination or an attempt to obtain control of us that is not approved by the Board of directors. Under such provisions, the following actions shall require the affirmative vote of 75% of the outstanding Voting Shares (as defined in our Articles):

i. any merger or consolidation of the Company or any Subsidiary (as defined in our Articles) with or into (i) any Interested Shareholder (as defined in our Articles) or (ii) any other corporation (whether or not itself an Interested Shareholder) which, after such merger or consolidation, would be an Affiliate (as defined in our Articles) of an Interested Shareholder;

ii. any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of related transactions) to or with any Interested Shareholder or any Affiliate of any Interested Shareholder of any assets of the Company or any Subsidiary having an aggregate fair market value of $15,000,000 or more;

iii. the issuance or transfer by the Company or any Subsidiary (in one transaction or a series of related transactions) of any securities or options, warrants or rights to acquire securities, of the Company or any Subsidiary, to any Interested Shareholder or any Affiliate of any Interested Shareholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate fair market value of $15,000,000 or more;

iv. the adoption of any plan or proposal for the complete or partial liquidation or dissolution of the Company as a result of which an Interested Shareholder would receive any assets of the Company other than cash;

v. any reclassification of securities (including any reverse stock split), or recapitalization of the Company, or any merger or consolidation of the Company with any of its Subsidiaries, or any similar transaction (whether or not with or into or otherwise involving an Interested Shareholder) which has the effect, directly or indirectly, of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of the Company or any Subsidiary which is directly or indirectly beneficially owned by any Interested Shareholder; or

vi. any agreement, contract or other arrangement which upon consummation will result in any of the transactions described above.

Ohio Law

The following summarizes Chapter 1704 of the Ohio Revised Code, which may have the effect of prohibiting, raising the costs of, or otherwise impeding, a change of control by us, whether by merger, consolidation or sale of assets or stock (by tender offer or otherwise), or by other methods. Chapter 1704 provides generally that any person who has beneficial ownership of 10% or more of a corporation’s voting stock (thereby being an “interested shareholder”) may not engage in a wide range of business combinations with the corporation for a period of three years following the date the person became an interested shareholder, unless the directors of the corporation have approved the transaction or the interested shareholder’s acquisition of shares of the corporation, in either case, prior to the date the interested shareholder became an interested shareholder of the corporation. After the three-year period, business combinations between the corporation and the interested shareholder are prohibited unless certain fair price provisions are complied with or the shareholders of the corporation approve the transaction by the affirmative vote of two-thirds of the voting power of the corporation, including at least a majority of the disinterested shareholders. These restrictions on interested shareholders do not apply under certain circumstances, including when a person becomes an “interested shareholder” only because a corporation has repurchased some of its voting stock. Action on any matter that requires the affirmative vote or consent of a larger portion than the holders of a majority of the shares entitled to vote thereon or consent thereto, may be taken by the affirmative vote or consent of the holders of a majority of shares entitled to vote thereon or consent thereto.

Exhibit 10.11

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.
The date of this document is <Date of Grant>.

THE KROGER CO.
RESTRICTED STOCK AGREEMENT

Pursuant to a Long-Term Incentive Plan (the "Plan"), The Kroger Co. ("we" or "us") hereby grants <Number of Shares Granted> shares of restricted stock (the "shares") to the undersigned grantee ("you") on <Date of Grant> (the "grant date").

1. The shares will be issued in your name, or in the name of an agent or plan administrator on your behalf, but will be held by us. The shares will be subject to, and any certificate issued to evidence the shares will bear, the following legend:

> "This certificate and the shares of stock represented hereby are subject to the terms and conditions (including the risks of forfeiture and restrictions against transfer) contained in a Long-Term Incentive Plan of The Kroger Co. and an Agreement entered into between the Plan participant and The Kroger Co. Release from such terms and conditions will be made only in accordance with the provisions of the Plan and the Agreement, a copy of each of which is on file in the office of the Secretary of The Kroger Co. or The Kroger Co.'s plan administrator."

2. Neither the shares, the right to vote the shares or the right to receive dividends thereon may be sold, assigned, transferred, pledged, hypothecated or otherwise transferred or encumbered by you during the restricted period. You will have all the other rights of a shareholder. Dividends on the restricted shares will be treated as compensation for tax purposes, unless a Section 83(b) election is made in which case they will be treated as dividends for tax purposes, but in either case will not be considered as earnings for purposes of calculating retirement benefits.

3. Unless and until the restrictions on the shares lapse, the shares will be forfeited by you if your employment by us ceases for any reason other than

(a) death or disability, as determined by the Committee as defined in the Plan;
(b) your "Retirement," as defined below; or
(c) your employment is terminated without "Cause" or by you for "Good Reason" within two years after a "Change in Control," all as defined below.

At the time of either of the foregoing (a) or (c), the restrictions will lapse, the shares no longer will be subject to the restrictions, and any new certificates issued to you or the your legal representative for all shares theretofore subject to risk of forfeiture will be free of the foregoing legend. Subject to the provisions of Paragraphs 11 and 12, below, upon your Retirement the restrictions on your shares will continue to lapse in accordance with the vesting schedule outlined in Paragraph 7, and upon lapsing of those restrictions those shares will no longer be subject to the risk of forfeiture and will be free of the restrictive legend.

4. For purposes of Paragraph 3, the following definitions shall apply:

(i) “Change in Control” means:

(a) any Person, excluding Kroger, any of its Affiliates and any employee benefit plan of Kroger or any of its Affiliates, is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of securities of Kroger representing 30% or more of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors;

(b) consummation of a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company and its Affiliates (a “Business Combination”), in each case, unless, following such Business Combination, Persons that were the beneficial owners of outstanding voting securities entitled to vote generally in the election of directors of Kroger immediately prior to such Business Combination beneficially own, directly or indirectly, at least 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination (including, without limitation, an entity which, as a result of such Business Combination, owns all or substantially all of the Company and its Affiliates or their assets either directly or through one or more subsidiaries or affiliates) in substantially the same proportions as their ownership of such securities immediately prior to such Business Combination;

(c) during any period of twenty-four (24) consecutive months, individuals who, at the beginning of such period, constitute the Board (the “Incumbent Directors”) cease for any reason (including without limitation, as a result of a tender offer, proxy contest, merger or similar transaction) to constitute at least a majority thereof; provided that, any individual becoming a director of Kroger whose appointment or election by the Board or nomination for election by Kroger’s shareholders was approved or recommended by a vote of at least two-thirds of the Incumbent Directors shall also be considered an Incumbent Director; or

(d) the approval by the shareholders of Kroger of a complete liquidation or dissolution of the Company.

(ii) “Affiliate” means a corporation, partnership, business trust, limited liability company, or other form of business organization at least 50% of the total combined voting power of all classes of stock or other equity interests of which is owned by Kroger, either directly or indirectly;

(iii) “Kroger” and “Company” means the parent company, The Kroger Co.;

(iv) “Person” means an individual, corporation, partnership, association, trust, unincorporated organization, limited liability company or other legal entity. All references to Person shall include an individual Person or group (as defined in Rule 13d-5 under the Exchange Act) of persons;

(v) “Board” means the Board of Directors of Kroger;

(vi) “Good Reason” means:

(a) without your consent

(i) A material diminution in your base compensation;

(ii) A material diminution in your authority, duties, or responsibilities;

(iii) A material change in the geographic location at which you must perform services (this shall be deemed to occur if and only if your principal place of work is relocated more than 50 miles from your principal place of work immediately before a Change in Control); or

(iv) Any action or inaction by Kroger which results in employee benefits, perquisites and fringe benefits that, in the aggregate, are materially less favorable than those provided to you immediately prior to the Change in Control.

(b) You shall not have Good Reason for a termination of employment unless:

(i) the condition constituting Good Reason occurs during the two years following a Change in Control;

(ii) you provide written notice to the Committee of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition constituting Good Reason and the Company is given 30 days to cure such condition; and

(iii) you incur a termination of employment no later than 120 days following the end of the two years after a Change in Control.

(vii) “Cause” means your:

(a) failure to substantially perform your duties (other than by reason of disability) with respect to Kroger or an Affiliate,

(b) breach of fiduciary duty to Kroger or an Affiliate,

(c) dishonesty, fraud, alcohol or illegal drug abuse, or misconduct with respect to the business or affairs of Kroger or an Affiliate,

(d) willful violation of the policies of Kroger or an Affiliate after receiving written notice of such violation, or

(e) conviction of a felony or crime involving moral turpitude.

All determinations of Cause hereunder shall be made by the Committee and shall be binding for all purposes hereunder.

You acknowledge and agree that the foregoing definitions of “Change in Control,” “Cause,” and “For Good Reason” are subject to amendment from time to time in relevant Kroger plan documents and that if, as of a given time, the definitions of “Change in Control,” “Cause,” or “Good Reason” have been amended in relevant Kroger plan documents and differs from the ones in this Agreement, those amended definitions shall supersede, take the place of and be construed and deemed to supersede and take the place of the definitions of “Change of Control,” “Cause,” or “Good Reason” contained within this Agreement. You will, in the event of such an amendment, be informed of the amendment.

5. For purposes of this Agreement, a Retirement will be deemed to occur if your employment by or service to Kroger voluntarily terminates after reaching age 62 with at least five years of service at Kroger and provided that you are within the employment of or are a director providing service to Kroger on the first anniversary of the date of grant, and provided it is on terms deemed satisfactory to the Committee in its sole discretion.

6. This Agreement does not give you any right of continued employment by or to continue to provide service to Kroger or its subsidiaries. It does not affect your right or our right to terminate your employment or service at any time.

7. The restrictions will lapse on the later to occur of (i) the date on which you formally accept this Agreement in the manner that we advise you in writing, and (ii) the passage of the period of time, known as the vesting period, as follows:

Annual Anniversary of Date of Grant	You Are Vested In:
1st	25% of the shares
2nd	25% of the shares
3rd	25% of the shares
4th	25% of the shares

After the restrictions have lapsed, the shares thereafter no longer will be subject to the restrictions, and any new certificate issued to you or your representative will be free of the foregoing legend.

In the event that you fail to accept this Agreement within one year from the grant date, we will accept it on your behalf, and your failure to notify us in writing directed to the Benefits Department, The Kroger Co., 1014 Vine Street, Cincinnati, OH 45202, of your desire to reject this Agreement will be deemed to be your express authority for us to accept this Agreement on your behalf.

8. For purposes of this Agreement, the fair market value of a share of common stock is the amount determined pursuant to a reasonable method adopted by the Committee. If no sales are made on that date, the Committee will use the most recent prior date for which sales are reported.

9. You or your representative will be responsible to satisfy all tax obligations, if any, prior to the lapsing of the restrictions. If you or your representative do not satisfy those obligations through a cash payment to our stock option administrator or as we otherwise direct, on or before the date on which the restrictions lapse, we are authorized and directed to retain that number of shares with a fair market value, as defined in the prospectus for the Plan and this Agreement, equal to the tax obligations due, on the date of the release. You or your representative will remain liable for any tax obligations remaining in excess of the amounts so withheld.

10. Any shares to be issued under this Agreement, at our election, may be issued in certificate form or may be maintained in book-entry form and not represented by a certificate. Shares may be issued directly in your name or in the name of a designated agent or plan administrator on your behalf.

11. If your employment terminates due to Retirement, notwithstanding anything contained in Paragraph 3 to the contrary, in the event that while this Agreement is outstanding you provide services as an employee, director, consultant, agent or otherwise (professionally engaged in any respect – directly or indirectly) to or with any person, company or entity engaged in any business (whether brick-and-mortar or online) that within the United States sells at retail groceries, food, drugs, health or beauty care items, motor fuels, or pharmaceuticals, or manufactures food/beverage products that are sold at retail, or conducts data analytics activity, financial services activity, or any other business activity of any kind that is in competition with any business line that is conducted by Kroger or is under active consideration by Kroger at any time during the last six months of your employment with Kroger, in each case, this Agremeent expires and any shares for which the restrictions have not then lapsed are immediately forfeited.

12. Notwithstanding anything contained in Paragraph 3 to the contrary, during your employment or thereafter, you or anyone acting at your behest or on your behalf shall not in any respect divulge or disclose in any way to any third party any Kroger trade secrets, business plans, strategies or policies, financial or marketing information, sales or market share information, vendor or supplier information, contractual information, or other confidential company information of any kind whatsoever (that is, material business-related information not already disclosed by the company, or any

other material non-public company information). In the event of a violation of the foregoing provision, this Agreement expires and any shares for which the restrictions have not lapsed are forfeited. You further acknowledge and agree that the foregoing expiration and forfeiture is not the exclusive or sole consequence or remedy in the event of a divulgence or disclosure as described above in this Paragraph but rather one among others, and that in addition to the foregoing Kroger fully reserves and retains the right to pursue all other remedies available or potentially available to it as a matter of law or equity.

13. This Agreement is governed by the laws of the state of Ohio.

The parties have executed this Agreement on the date of grant set forth above.

The Kroger Co.

By Rodney McMullen

(“you”)

____

<Participant’s Name>

Exhibit 10.13

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.
The date of this document is <Date of Grant>.

The Kroger Co., an Ohio corporation with its principal place of business at Cincinnati, Ohio, ("we" or "us") has adopted a Long-Term Incentive Plan for employees and directors of Kroger and its subsidiaries ("Kroger"). The plan is administered by the Committee as defined in the plan. The Committee determines the employees and directors who are granted awards and the types and amounts of awards.

The plan provides that the terms of grants are determined by the Committee and will be set forth in this Agreement.

The Committee has decided to grant nonqualified stock options to purchase <Number of Shares Granted> Kroger common shares to <Name of Participant> ("you") on the date of this document <Date of Grant> (the "date of grant").

In consideration of the services you have provided and that you will provide, we grant you the option to purchase Kroger common shares, subject to the terms of the plan and the following specific terms and conditions:

1. The option price of $<Grant Price> is the Fair Market Value of a Kroger common share on the date of grant of the option. Fair Market Value for purposes of establishing the option price is the closing price of Kroger common shares reported on the date of grant on the New York Stock Exchange. For all other purposes, Fair Market Value of a common share is the amount determined pursuant to a reasonable method adopted by the Committee. If no sales are made on that date, the Committee will use the most recent prior date for which sales are reported.

2. Except as otherwise provided in Paragraph 7 or Paragraph 8 below, you have no right to exercise any part of this option until the later of (i) your formal acceptance of this Agreement in the manner that we have advised you in writing, and (ii) the passage of the period of time, known as the vesting period, as follows:

Annual Anniversary of Date of Grant	You Are Vested In:	Expiration Date
1st	25% of the options	ExpireDate
2nd	25% of the options	ExpireDate
3rd	25% of the options	ExpireDate
4th	25% of the options	ExpireDate

If your employment by or service to Kroger is terminated prior to this option becoming exercisable, other than as set forth in Paragraph 7, all rights under this Agreement will terminate.

3. You cannot transfer this option except by will or the laws of descent and distribution. It is exercisable, during your lifetime, only by you, or, in the event of legal disability, by your legal representative.

4. You are entitled to the privileges of share ownership only as to those shares actually purchased by you under this Agreement.

5. If you want to exercise all or any part of this option, you must make the election in writing. You must deliver your notice of election, this Agreement, and cash payment for your shares to: Stock Option Administrator, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202. The Committee can establish any other place or method for delivery of stock option exercises, including electronic means directly with us or our designated administrator. We will notify you in advance of any alternate place or method of delivery of stock option exercises. No shares will be delivered to you until the full option price per share for the number of shares then exercised is paid. In addition to cash, you may pay the exercise price by delivering Kroger

common shares, fully endorsed and containing a signature guaranty. Any shares delivered by you will be valued at the Fair Market Value, as described in Paragraph 1 of this Agreement, on the date of exercise of the option. You must have owned those shares for at least six months. The Committee can increase this required holding period for up to two years. Under certain circumstances, unless prohibited by law, you also can elect to have a portion of the shares issuable upon exercise sold in order to satisfy the exercise price and any taxes that must be withheld. You can obtain information on how to accomplish this, along with other forms of cashless exercise, from your human resources office.

6. You must pay all withholding tax or liabilities prior to issuance of shares.

7. Except as otherwise provided in Paragraph 13 and 14, if your employment by or service to Kroger voluntarily terminates after reaching age 62 with at least five years of service at Kroger and provided that you are within the employment of or are a director providing service to Kroger on the first anniversary of the date of grant, and provided it is on terms deemed satisfactory to the Committee in its sole discretion ("Retirement"), your options will continue to vest as shown in paragraph 2 of this Agreement and you will be permitted to exercise your option throughout the remaining term. "Terms deemed satisfactory to the Committee" will include but not be limited to a retirement date and leadership transition plan acceptable to both you and Kroger. If you die or become disabled, as determined by us, your option will become exercisable and your personal representative will be permitted to exercise your option throughout the remaining term. If you leave Kroger's employ or cease providing services as a director to Kroger for any other reason, this option expires. If any portion of the option is exercisable prior to that expiration, you or your personal representative have one year or the remainder of the ten year term, whichever is shorter, to exercise the option.

8. This option becomes immediately exercisable in full, but not in part, if at any time after the date of this Agreement, your employment is terminated without Cause or by you for Good Reason within two years after a Change in Control of Kroger. For purposes of this paragraph 8 only, the following definitions shall apply:

(i) "Change in Control" means:

(a) any Person, excluding Kroger, any of its Affiliates and any employee benefit plan of Kroger or any of its Affiliates, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of securities of Kroger representing 30% or more of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors;

(b) consummation of a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company and its Affiliates (a "Business Combination"), in each case, unless, following such Business Combination, Persons that were the beneficial owners of outstanding voting securities entitled to vote generally in the election of directors of Kroger immediately prior to such Business Combination beneficially own, directly or indirectly, at least 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination (including, without limitation, an entity which, as a result of such Business Combination, owns all or substantially all of the Company and its Affiliates or their assets either directly or through one or more subsidiaries or affiliates) in substantially the same proportions as their ownership of such securities immediately prior to such Business Combination;

(c) during any period of twenty-four (24) consecutive months, individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason (including without limitation, as a result of a tender offer, proxy contest, merger or similar transaction) to constitute at least a majority thereof; provided that, any individual becoming a director of Kroger whose appointment or election by the Board or nomination for election by Kroger's shareholders was approved or recommended by a vote of at least two-thirds of the Incumbent Directors shall also be considered an Incumbent Director; or

(d) the approval by the shareholders of Kroger of a complete liquidation or dissolution of the Company.

(ii) "Affiliate" means a corporation, partnership, business trust, limited liability company, or other form of business organization at least 50% of the total combined voting power of all classes of stock or other equity interests of which is owned by Kroger, either directly or indirectly;

(iii) "Kroger" and "Company" means the parent company, The Kroger Co.;

(iv) "Person" means an individual, corporation, partnership, association, trust, unincorporated organization, limited liability company or other legal entity. All references to Person shall include an individual Person or group (as defined in Rule 13d-5 under the Exchange Act) of persons;

(v) "Board" means the Board of Directors of Kroger;

(vi) "Good Reason" means:

(a) without your consent

(i) A material diminution in your base compensation;

(ii) A material diminution in your authority, duties, or responsibilities;

(iii) A material change in the geographic location at which you must perform services (this shall be deemed to occur if and only if your principal place of work is relocated more than 50 miles from your principal place of work immediately before a Change in Control); or

(iv) Any action or inaction by Kroger which results in employee benefits, perquisites and fringe benefits that, in the aggregate, are materially less favorable than those provided to you immediately prior to the Change in Control.

(b) You shall not have Good Reason for a termination of employment unless:

(i) the condition constituting Good Reason occurs during the two years following a Change in Control;

(ii) you provide written notice to the Committee of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition constituting Good Reason and the Company is given 30 days to cure such condition; and

(iii) you incur a termination of employment no later than 120 days following the end of the two years after a Change in Control.

(vii) "Cause" means your:

(a) failure to substantially perform your duties (other than by reason of disability) with respect to Kroger or an Affiliate,

(b) breach of fiduciary duty to Kroger or an Affiliate,

(c) dishonesty, fraud, alcohol or illegal drug abuse, or misconduct with respect to the business or affairs of Kroger or an Affiliate,

(d) willful violation of the policies of Kroger or an Affiliate after receiving written notice of such violation, or

(e) conviction of a felony or crime involving moral turpitude.

All determinations of Cause hereunder shall be made by the Committee and shall be binding for all purposes hereunder.

You acknowledge and agree that the foregoing definitions of “Change in Control,” “Cause,” and “For Good Reason” are subject to amendment from time to time in relevant Kroger plan documents and that if, as of a given time, the definitions of “Change in Control,” “Cause,” or “For Good Reason” have been amended in relevant Kroger plan documents and differ from the one in this Agreement, those amended definitions shall supersede, take the place of and be construed and deemed to supersede and take the place of the definitions of “Change of Control,” “Cause,” or “for Good Reason” contained within this Agreement. You will, in the event of such an amendment, be informed of the amendment.

9. This Agreement does not give you any right of continued employment by or to continue to provide service to Kroger. It does not affect your right or Kroger’s right, to terminate your employment or service at any time.

10. In the event of any stock splits, stock dividends, or reverse stock splits, the number of shares and the price per share set forth in this Agreement will be adjusted proportionately.

11. Unless sooner terminated under one or more of the terms and conditions in this Agreement, this option will remain in force for a term of ten years from the date of this Agreement, and it must be exercised by the holder on or before that date. In the event that the option expires on a day that is not a business day, it must be exercised on or before the last business day prior to the expiration date.

12. The option evidenced by this Agreement and the exercise of the option are subject to the terms and conditions of the plan. This option is subject to any rules and regulations adopted by the Committee.

13. If your employment terminates due to Retirement, notwithstanding anything contained in Paragraph 7 to the contrary, in the event that while this Agreement is outstanding you provide services as an employee, director, consultant, agent or otherwise (professionally engaged in any respect – directly or indirectly) to or with any person, company or entity engaged in any business (whether brick-and-mortar or online) that within the United States sells at retail groceries, food, drugs, health or beauty care items, motor fuels, or pharmaceuticals, or manufactures food/beverage products that are sold at retail, or conducts data analytics activity, financial services activity, or any other business activity of any kind that is in competition with any business line that is conducted by Kroger or is under active consideration by Kroger at any time during the last six months of your employment with Kroger, in each case, any unvested portion of this option shall immediately expire. If any portion of the option is vested and exercisable prior to that expiration, you or your personal representative have one year or the remainder of the ten year term, whichever is shorter, to exercise such vested portion of the option.

14. Notwithstanding anything contained in Paragraph 7 to the contrary, during your employment or thereafter, you or anyone acting at your behest or on your behalf shall not in any respect divulge or disclose in any way to any third party any Kroger trade secrets, business plans, strategies or policies, financial or marketing information, sales or market share information, vendor or supplier information, contractual information, or other confidential company information of any kind whatsoever (that is, material business-related information not already disclosed by the company, or any other material non-public company information). In the event of a violation of the foregoing provision, any unvested portion of this option shall immediately expire. If any portion of the option is vested and exercisable prior to that expiration, you or your personal representative have one year or the remainder of the ten year term, whichever is shorter, to exercise such vested portion of the option. You further acknowledge and agree that the immediate expiration of any unvested portion of this option is not the exclusive or sole consequence or remedy in the event of a divulgence or disclosure as described above in this paragraph but rather one among others, and that in addition to the foregoing Kroger fully reserves and retains the right to pursue all other remedies available or potentially available to it as a matter of law or equity.

15. This Agreement is governed by the laws of the state of Ohio.

The parties have executed this Agreement on the date of grant set forth above.

The Kroger Co.

By Rodney McMullen

(“you”)

____

<Name>

Exhibit 10.15

This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.
The date of this document is __________

PERFORMANCE UNIT AWARD
UNDER THE PROVISIONS OF
ONE OF THE KROGER CO.
LONG-TERM INCENTIVE PLANS

Pursuant to the provisions of a Long-Term Incentive Plan (the "Plan") of The Kroger Co., the Compensation Committee of the Board of Directors (the "Committee") has granted to you, on ____________, _____, a performance unit award, on and subject to the terms of the Plan and your Agreement to the following terms, conditions and restrictions.

1. Delivery of Shares. Subject to and upon the terms, conditions, and restrictions set forth in this Agreement, The Kroger Co. (the "Company" or "Kroger") will deliver to you the number of common shares, $1 par value per share, of Kroger (the "Shares") equal to the product determined by multiplying (a) the number of performance units converted from the value indicated on your 2019 Executive Compensation form or award letter with respect to the 2019-2021 long term incentive plan ("Notice of Award") by (b) the percentage determined in accordance with the provisions of Paragraphs 2 and 3 below. The Performance Period shall include fiscal years 2019, 2020, and 2021. Delivery of Shares will be deemed to occur on the date of the regularly scheduled meeting of Kroger's Board of Directors held in March 2022 or such other date as determined by the Committee, and Shares will be deposited into your account at Kroger's designated brokerage firm as soon thereafter as is administratively practical.

2. Performance Criteria. You are eligible to earn a percentage of the value indicated on your Notice of Award. The percentage will be determined based on (i) cumulative savings included in net operating profit growth; (ii) cumulative free cash flow; and (iii) ROIC modifier.

3. Calculation of Awards. The number of shares earned will be based on the criteria set forth in Paragraph 2 above, calculated in the manner shown on Attachment A, and prorated in accordance with Paragraph 5 below, if applicable. Any resulting partial Shares will be rounded up or down to the nearest whole Share amount. Kroger will pay to participants, in cash, an amount equal to the product of the total dividends per share paid on Kroger common shares during the Performance Period and the number of Shares earned during the Performance Period. In all cases, the effect during the Performance Period of accelerating the payment, funding, or recognition of expense of multi-employer pension liability, or the imposition of pension withdrawal liability; in either case undertaken by Kroger as part of its effort to mitigate its exposure to multi-employer pension plan liability, will be excluded for purposes of calculating the award hereunder. In no event will awards exceed 120% of the value indicated on the Notice of Award.

4. Adjustments. The Committee will make such adjustments as it deems necessary or desirable based on changes in accounting or tax law, or on account of any acquisition,

disposition or other developments that may affect the calculation of awards under this Agreement.

5. <u>Termination of Employment, Permanent Disability, Retirement, Leave of Absence, or Death of Participant</u>.

(a) Participation in the Plan does not create a contract of employment, or grant any employee the right to be retained in the service of Kroger. Any participant whose employment is terminated by Kroger; who voluntarily terminates his or her employment (other than in accordance with paragraph (b) below); or whose pay level drops below pay level 35, prior to the end of the Performance Period, will forfeit all rights hereunder.

(b) If a participant voluntarily terminates his or her employment after reaching age 55 with at least five years of service with Kroger, or due to permanent disability as determined by Kroger, participation will continue, and that participant will receive a prorata number of Shares earned according to the terms of the award proportionate to the period of active service during the Performance Period.

(c) If a participant is on an approved leave of absence during the Performance Period for which they are eligible, the participant will be given service credit for 90 days. Thereafter, the award will be reduced by a pro-rata amount for any leave time that extends beyond 90 days, with discretion reserved for special circumstances.

(d) If a participant dies during the Performance Period, participation will continue until the end of the fiscal year in which the death occurs, and the participant's designated beneficiary (or if none, then the participant's estate) will receive a prorata number of Shares earned and dividends earned according to the terms of the award proportionate to the period of active service during the Performance Period before the participant's death. The amount of Shares to be issued, as soon as reasonably practicable as determined by the Committee, will be determined as of the end of the fiscal year in which the participant's death occurs based on actual results as of the end of that fiscal year.

(e) Notwithstanding anything contained in this paragraph 5 to the contrary, in the event that during the Performance Period the Participant provides services as an employee, director, consultant, agent or otherwise (professionally engaged in any respect – directly or indirectly) to or with any person, company or entity engaged in any business (whether brick-and-mortar or online) that within the United States sells at retail groceries, food, drugs, health or beauty care items, motor fuels, or pharmaceuticals, or manufactures food/beverage products that are sold at retail, or conducts data analytics activity, financial services activity, or any other business activity of any kind that is in competition with any business line that is conducted by Kroger or is under active consideration by Kroger at any time during the last six months of his or her employment with Kroger, in each case, this

Agreement terminates and the Participant immediately forfeits all rights hereunder.

(f) For purposes of the Plan, "period of active service" means the period of time that the participant actually is working for Kroger, subject to paragraph 4(c), plus any earned but unused vacation for the year in which the participant ceases employment, and excluding any "banked" vacation earned but not taken in prior years.

6. Change in Control. Shares in an amount equal to 50% of the number of Shares and the dividends related to those shares indicated on the Notice of Award will be delivered to you if at any time after the date of this Agreement, your employment is terminated without "Cause" or by you for "Good Reason" within two years after a "Change in Control," all as defined below. For purposes of this paragraph 6 only, the following definitions shall apply:

(i) "Change in Control" means:

(a) any Person, excluding Kroger, any of its Affiliates and any employee benefit plan of Kroger or any of its Affiliates, is or becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of securities of Kroger representing 30% or more of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors;

(b) consummation of a reorganization, merger, consolidation or sale or other disposition of all or substantially all of the assets of the Company and its Affiliates (a "Business Combination"), in each case, unless, following such Business Combination, Persons that were the beneficial owners of outstanding voting securities entitled to vote generally in the election of directors of Kroger immediately prior to such Business Combination beneficially own, directly or indirectly, at least 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the entity resulting from such Business Combination (including, without limitation, an entity which, as a result of such Business Combination, owns all or substantially all of the Company and its Affiliates or their assets either directly or through one or more subsidiaries or affiliates) in substantially the same proportions as their ownership of such securities immediately prior to such Business Combination;

(c) during any period of twenty-four (24) consecutive months, individuals who, at the beginning of such period, constitute the Board (the "Incumbent Directors") cease for any reason (including without limitation, as a result of a tender offer, proxy contest, merger or similar transaction) to constitute at least a majority thereof; provided that, any individual becoming a director of Kroger whose appointment or election by the Board or nomination for election by Kroger's shareholders was approved or recommended by a vote of at least two-thirds of the Incumbent Directors shall also be considered an Incumbent Director; or

(d) the approval by the shareholders of Kroger of a complete liquidation or dissolution of the Company.

(ii) "Affiliate" means a corporation, partnership, business trust, limited liability company, or other form of business organization at least 50% of the total combined voting power of all classes of stock or other equity interests of which is owned by Kroger, either directly or indirectly;

(iii) "Kroger" and "Company" means the parent company, The Kroger Co.;

(iv) "Person" means an individual, corporation, partnership, association, trust, unincorporated organization, limited liability company or other legal entity. All references to Person shall include an individual Person or group (as defined in Rule 13d-5 under the Exchange Act) of persons;

(v) "Board" means the Board of Directors of Kroger;

(vi) "Good Reason" means:

(a) without your consent

(i) A material diminution in your base compensation;

(ii) A material diminution in your authority, duties, or responsibilities;

(iii) A material change in the geographic location at which you must perform services (this shall be deemed to occur if and only if your principal place of work is relocated more than 50 miles from your principal place of work immediately before a Change in Control); or

(iv) Any action or inaction by Kroger which results in employee benefits, perquisites and fringe benefits that, in the aggregate, are materially less favorable than those provided to you immediately prior to the Change in Control.

(b) You shall not have Good Reason for a termination of employment unless:

(i) the condition constituting Good Reason occurs during the two years following a Change in Control;

(ii) you provide written notice to the Committee of the existence of the condition constituting Good Reason within 90 days of the initial existence of the condition constituting Good Reason and the Company is given 30 days to cure such condition; and

(iii) you incur a termination of employment no later than 120 days following the end of the two years after a Change in Control.

(vii) "Cause" means your:

(a) failure to substantially perform your duties (other than by reason of disability) with respect to Kroger or an Affiliate,

(b) breach of fiduciary duty to Kroger or an Affiliate,

(c) dishonesty, fraud, alcohol or illegal drug abuse, or misconduct with respect to the business or affairs of Kroger or an Affiliate,

(d) willful violation of the policies of Kroger or an Affiliate after receiving written notice of such violation, or

(e) conviction of a felony or crime involving moral turpitude.

All determinations of Cause hereunder shall be made by the Committee and shall be binding for all purposes hereunder.

You acknowledge and agree that the foregoing definitions of "Change in Control," "Cause," and "For Good Reason" are subject to amendment from time to time in relevant Kroger plan documents and that if, as of a given time, the definitions of "Change in Control," "Cause," and "For Good Reason" have been amended in relevant Kroger plan documents and differ from the ones in this Agreement, those amended definitions shall supersede, take the place of and be construed and deemed to supersede and take the place of the definitions of "Change in Control," "Cause," and "For Good Reason" contained within this Agreement. You will, in the event of such an amendment, be informed of the amendment.

7. Transferability. Your right to receive a payout under this award is not assignable or transferable by you other than by will or by the laws of descent and distribution.

8. Taxes. In connection with a payment to you under this award, Kroger will withhold or cause to be withheld from that payment the amount of tax required by law to be withheld with respect to the payment. For Shares to be issued under this award, Kroger will withhold sufficient Shares with a market value equal to the tax required by law to be withheld with respect to the award unless you have notified us in writing in advance of the issuance of the Shares of your desire to pay the taxes and have made the funds available to us or our designated agent.

9. Compliance with Code. This award is designed to be exempt from the provisions of Section 409A of the Code as a short-term deferral. This award will be construed, administered, and governed in a manner that affects that intent. Kroger does not represent or

guarantee that any particular federal or state income, estate, payroll, or other tax consequences will occur because of this award and the compensation provided hereunder. In the event that any other Agreement serves to modify this award in a manner that causes the award to not be exempt from Section 409A as a short term deferral, any issuance of Shares or payment of cash to a "specified employee" within the meaning of Treas. Reg. 1.409A-1(i) (or any successor thereto) on account of termination of employment will be made six months after the date of termination, and termination of employment will not be considered to occur until there is a termination of employment within the meaning of Treasury Regulation Section 1.409(h)(1)(ii), where the employee's services permanently decrease to less than 50% of the average level of services performed over the preceding 36 month period.

10. Notwithstanding anything contained in Paragraph 3 to the contrary, during your employment or thereafter, you or anyone acting at your behest or on your behalf in any respect divulge or disclose in any way to any third-party, any Kroger trade secrets, business plans, strategies or policies, financial or marketing information, sales or market share information, vendor or supplier information, contractual information, or other confidential company information of any kind whatsoever (that is, material business-related information not already disclosed by the company, or any other material non-public company information), this Agreement terminates and you immediately forfeits all rights hereunder. You further acknowledge and agree that the termination of the Agreement and the forfeiture of all rights hereunder is not the exclusive or sole consequence or remedy in the event of a divulgence or disclosure as described above in this paragraph, but rather one among others, and that in addition to the foregoing, Kroger fully reserves and retains the right to pursue all other remedies available or potentially available to it as a matter of law or equity.

11. Acceptance of Agreement. In the event that you fail to accept this Agreement within one year from the grant date, Kroger will accept it on your behalf, and your failure to notify Kroger in writing directed to the Benefits Department, The Kroger Co., 1014 Vine Street, Cincinnati, OH 45202, of your desire to reject this Agreement will be deemed to be your express authority for Kroger to accept this Agreement on your behalf.

12. Amendments. Any amendment to the Plan will be deemed to be an amendment to this Agreement to the extent that the amendment is applicable hereto. No amendment will adversely affect your rights under this Agreement without your consent. Notwithstanding the forgoing, to the extent necessary to preserve Kroger's federal tax deduction that would otherwise be denied due to Section 162(m) of the Internal Revenue Code (applicable only to certain top senior executives), Kroger may elect (without your consent) to delay delivery of your award Shares until 30 days following your termination of employment. If Kroger so elects to delay payment, all other deferred compensation payments for the year that would be nondeductible under Section 162(m) also will be delayed to avoid negative tax consequences to you.

13. Severability. In the event that any provision of this Agreement is invalidated for any reason by a court of competent jurisdiction, any provision so invalidated will be deemed to be separable from the other provisions hereof. The remaining provisions will continue to be valid and fully enforceable.

14. Relation to Plan. This Agreement is subject to the terms and conditions of the Plan. In the event of any inconsistency between the provisions of this Agreement and the Plan, the Plan will govern. Capitalized terms used herein without definition have the meanings assigned to them in the Plan. The Committee acting pursuant to the Plan, as constituted from time to time, will, except as expressly provided otherwise herein, have the right to determine any questions that arise in connection with the grant of this award.

15. Successors and Assigns. Without limiting Paragraph 7 hereof, the provisions of this Agreement will inure to the benefit of, and be binding upon, your successors, administrators, heirs, legal representatives and assigns, and the successors and assigns of Kroger.

16. Governing Law. The interpretation, performance, and enforcement of this Agreement will be governed by the laws of the State of Ohio, without giving effect to the principles of conflict of laws thereof.

THE KROGER CO.

By ________________________________

____

“participant”

EXHIBIT 21.1

SUBSIDIARIES OF THE KROGER CO.

84.51 LLC [Ohio]
84.51 HQ Building Company, LLC [Ohio]
Alpha Beta Company [California]
Ansonborough Square Investors I, LLC [Delaware]
Ansonborough Square Retail, LLC [South Carolina]
Ardrey Kell Investments, LLC [North Carolina]
Bay Area Warehouse Stores, Inc. [California]
Beech Tree Holdings, LLC [Delaware]
Bell Markets, Inc. [California]
Bleecker Ventures LLC [New York]
Bluefield Beverage Company [Ohio]
Box Cutter, Inc. [New York]
Brier Creek Arbors Drive Retail, LLC [North Carolina]
Cala Co. [Delaware]
Cala Foods, Inc. [California]
CB&S Advertising Agency, Inc. [Oregon]
Cheeses of All Nations, Inc. [New York]
Country Oven, Inc. [Ohio]
Crawford Stores, Inc. [California]
Creedmoor Retail, LLC [North Carolina]
Dillon Companies, LLC [Kansas]
Also Doing Business As:
Baker's Supermarkets
City Market
Dillon Food Stores
Gerbes Supermarkets
Inter-American Products
King Soopers
Peyton’s Fountain
Dillon Real Estate Co., Inc. [Kansas]
Distribution Trucking Company [Oregon]
Dotto, Inc. [Indiana]
Edgewood Plaza Holdings, LLC [Ohio]
Embassy International, Inc. [Ohio]
Farmacia Doral, Inc. [Puerto Rico]
FM, Inc. [Utah]
FMJ, Inc. [Delaware]
Also Doing Business As:
FMJ Ecommerce
Fred Meyer Jewelers Mail Order
fredmeyerjewelers.com
littmanjewelers.com
Food 4 Less GM, Inc. [California]
Food 4 Less Holdings, Inc. [Delaware]
Food 4 Less Merchandising, Inc. [California]
Food 4 Less of California, Inc. [California]
Food 4 Less of Southern California, Inc. [Delaware]
Fred Meyer, Inc. [Delaware]

[ ] Brackets indicate state or country of incorporation or organization and do not form part of corporate name.

Fred Meyer Jewelers, Inc. [California]
  Also Doing Business As:
    Fred Meyer Jewelers
    Littman Jewelers
Fred Meyer Stores, Inc. [Ohio]
  Also Doing Business As:
    Fred Meyer
    Inter-American Products
    QFC
    Quality Food Centers
    Swan Island Dairy
Glasswing Labs LLC [Ohio]
Glendale/Goodwin Realty I, LLC [Ohio]
Grubstake Investments, LLC [Oregon]
Harris Teeter, LLC [North Carolina]
Harris Teeter Properties, LLC [North Carolina]
Harris-Teeter Services, Inc. [North Carolina]
Harris Teeter Supermarkets, Inc. [North Carolina]
Healthy Options Inc. [Delaware]
  Also Doing Business As:
    Columbus Central Fill
    Postal Prescription Services
Henpil, Inc. [Texas]
Hood-Clayton Logistics LLC [Georgia]
HT Fuel DE, LLC [Delaware]
HT Fuel NC, LLC [North Carolina]
HT Fuel SC, LLC [South Carolina]
HT Fuel VA, LLC [Virginia]
HTGBD, LLC [North Carolina]
HTP Bluffton, LLC [North Carolina]
HTP Plaza LLC [North Carolina]
HTP Relo, LLC [North Carolina]
HTPS, LLC [North Carolina]
HTTAH, LLC [North Carolina]
Hughes Markets, Inc. [California]
Hughes Realty, Inc. [California]
Inter-American Foods, Inc. [Ohio]
Inter-American Products, Inc. [Ohio]
IRP, LLC [Wisconsin]
I.T.A., Inc. [Wisconsin]
ITAC 119, LLC [North Carolina]
ITAC 265, LLC [North Carolina]
Jondex Corp. [Wisconsin]
Jubilee Carolina, LLC [North Carolina]
J.V. Distributing, Inc. [Michigan]
KCDE-2 LLC [Ohio]
KCDE-3 LLC [Ohio]
KCDE-4 LLC [Ohio]
KCDE-5 LLC [Ohio]
KCDE – 2012, LLC [Ohio]
KCDE – 2013, LLC [Ohio]
Kee Trans, Inc. [Wisconsin]
Kessel FP, L.L.C. [Michigan]
Kessel RCD, L.L.C. [Michigan]
Kessel Saginaw, L.L.C. [Michigan]

[ ] Brackets indicate state or country of incorporation or organization and do not form part of corporate name.

KGO LLC [Ohio]
Kiosk Medicine Kentucky, LLC [Kentucky]
    Also Doing Business As:
        The Little Clinic
Kirkpatrick West Retail, LLC [Virginia]
KPF Insurance Services LLC [Ohio]
KPF, LLC [Delaware]
KPS, LLC [Ohio]
KRGP Inc. [Ohio]
    Also Doing Business As:
        Kitchen 1883
KRLP Inc. [Ohio]
The Kroger Co. of Michigan [Michigan]
    Also Doing Business As:
        Inter-American Products
        Kessel Food Markets
        Kessel Pharmacies
        Kroger
        Kroger Fresh Fare
        Michigan Dairy
Kroger Community Development Entity, LLC [Ohio]
Kroger Dedicated Logistics Co. [Ohio]
    Also Doing Business As:
        KDL
Kroger G.O. LLC [Ohio]
Kroger Limited Partnership I [Ohio]
    Also Doing Business As:
        Chef's Choice Catering
        Foods Plus
        Gene Maddy Drugs
        Inter-American Products
        JayC Food Stores
        Kentucky Distribution Center
        Kroger Food Stores
        Kroger Marketplace
        Owen's Supermarket
        Pay Less Super Markets
        Peyton's Southeastern
        Queen City Centre
        Ruler Foods
        Scott's Food & Pharmacy
Kroger Limited Partnership II [Ohio]
    Also Doing Business As:
        Country Oven Bakery
        Crossroad Farms Dairy
        Inter-American Products
        K. B. Specialty Foods
        Kenlake Foods
        Pace Dairy of Indiana
        Peyton's Northern
        Winchester Farms Dairy
Kroger Management Co. [Michigan]
Kroger Management – Corryville, LLC [Ohio]
Kroger Management – NMTC Athens I, LLC [Ohio]
Kroger Management – NMTC Champaign I, LLC [Ohio]

[ ] Brackets indicate state or country of incorporation or organization and do not form part of corporate name.

Kroger Management – NMTC Champaign II, LLC [Ohio]
Kroger Management – NMTC Cincinnati I, LLC [Ohio]
Kroger Management – NMTC Dallas I, LLC [Ohio]
Kroger Management – NMTC Danville I, LLC [Ohio]
Kroger Management – NMTC Griffin I, LLC [Ohio]
Kroger Management – NMTC Logansport I, LLC [Ohio]
Kroger Management – NMTC Missouri I, LLC [Ohio]
Kroger Management – NMTC Oak Ridge I, LLC [Ohio]
Kroger Management – NMTC Olney I, LLC [Ohio]
Kroger Management – NMTC Omaha I, LLC [Ohio]
Kroger Management – NMTC Portsmouth I, LLC [Ohio]
Kroger Management – NMTC Starkville I, LLC [Ohio]
Kroger Management – NMTC Topeka I, LLC [Ohio]
Kroger Management – NMTC Warrenton I, LLC [Ohio]
Kroger MC Holdings, LLC [Ohio]
Kroger MTL Management, LLC [Ohio]
Kroger NMTC Fremont I, LLC [Ohio]
Kroger Opportunity Fund I, Inc. [Ohio]
Kroger OZ1 Inc. [Ohio]
Kroger OZ2 Inc. [Ohio]
Kroger OZ3 Inc. [Ohio]
Kroger OZ1 LLC [Ohio]
Kroger OZ2 LLC [Ohio]
Kroger OZ3 LLC [Ohio]
Kroger Prescription Plans, Inc. [Ohio]
Kroger Specialty Infusion AL, LLC [Alabama]
Kroger Specialty Infusion CA, LLC [California]
Kroger Specialty Infusion Holdings, Inc. [Delaware]
Kroger Specialty Infusion TX, LLC [Texas]
Kroger Specialty Pharmacy CA, LLC [Delaware]
Kroger Specialty Pharmacy CA 2 LLC [Delaware]
Kroger Specialty Pharmacy FL 2 LLC [Delaware]
Kroger Specialty Pharmacy Holdings, Inc. [Delaware]
Kroger Specialty Pharmacy Holdings I, Inc. [Delaware]
Kroger Specialty Pharmacy Holdings 2, Inc. [Delaware]
Kroger Specialty Pharmacy Holdings 3, Inc. [Delaware]
Kroger Specialty Pharmacy, Inc. [Florida]
Also Doing Business As:
Kroger Specialty Pharmacy CA
Kroger Specialty Pharmacy FL
Kroger Specialty Pharmacy MS
Kroger Specialty Pharmacy LA, LLC [Louisiana]
Also Doing Business As:
Kroger Specialty Pharmacy TX
Kroger Texas L.P. [Ohio]
Also Doing Business As:
America's Beverage Company
Inter-American Products
Kroger
Vandervoort Dairy Foods Company
LCGP3 Home Cooking, Inc. [Delaware]
The Little Clinic LLC [Delaware]
The Little Clinic Management Services LLC [Delaware]
The Little Clinic of Arizona LLC [Delaware]
The Little Clinic of Colorado LLC [Delaware]

[ ] Brackets indicate state or country of incorporation or organization and do not form part of corporate name.

The Little Clinic of IN LLC [Delaware]
The Little Clinic of Kansas LLC [Delaware]
The Little Clinic of Mississippi LLC [Delaware]
The Little Clinic of Ohio LLC [Ohio]
The Little Clinic of Tennessee LLC [Delaware]
The Little Clinic of TX LLC [Delaware]
The Little Clinic of VA LLC [Delaware]
Local Mkt LLC [Ohio]
Also Doing Business As:
Fresh Eats MKT
Main & Vine LLC [Ohio]
Matthews Property 1, LLC [North Carolina]
Mega Marts, LLC [Wisconsin]
Also Doing Business As:
Metro Market
Pick 'n Save
Michigan Dairy, L.L.C. [Michigan]
Murray's Cheese LLC [Ohio]
Murray's LIC LLC [New York]
Also Doing Business As:
Murray's Cheese Bar
Murray's Table LLC [New York]
Pace Dairy Foods Company [Ohio]
Paramount Logistics, LLC [Ohio]
Pay Less Super Markets, Inc. [Indiana]
Peyton's-Southeastern, Inc. [Tennessee]
Also Doing Business As:
Peyton's Mid-South Company
Plum Labs LLC [Ohio]
Pontiac Foods, Inc. [South Carolina]
Queen City Assurance, Inc. [Vermont]
Ralphs Grocery Company [Ohio]
Also Doing Business As:
Food 4 Less
Food 4 Less Midwest
Foods Co.
Inter-American Products
Ralphs
Ralphs Fresh Fare
Ralphs Marketplace
RBF, LLC [Wisconsin]
Relish Labs LLC [Delaware]
Also Doing Business As:
Home Chef
RGC Southeast Properties LLC [Ohio]
Rocket Newco, Inc. [Texas]
Roundy's Acquisition Corp. [Delaware]
Roundy's Illinois, LLC [Wisconsin]
Also Doing Business As:
Mariano's
Roundy's, Inc. [Delaware]
Roundy's Supermarkets, Inc. [Wisconsin]
Also Doing Business As:
Mariano's Pharmacy
RCK Foods

[ ] Brackets indicate state or country of incorporation or organization and do not form part of corporate name.

Second Story, Inc. [Washington]
Shop-Rite, LLC [Wisconsin]
Also Doing Business As:
Metro Market
Pick ‘n Save
Smith’s Beverage of Wyoming, Inc. [Wyoming]
Smith’s Food & Drug Centers, Inc. [Ohio]
Also Doing Business As:
Fry’s Food Stores
Fry’s Marketplace
Fry’s Mercado
Inter-American Products
Smith’s Express
Smith’s Food & Drug
Smith’s Fuel Centers
Smith’s Marketplace
Southern Ice Cream Specialties, Inc. [Ohio]
Stallings Investors I, LLC [North Carolina]
Sunrise R&D Holdings, LLC [Ohio]
Sunrise Technology LLC [Ohio]
TLC Corporate Services LLC [Delaware]
TLC Immunization Clinic LLC [Delaware]
TLC of Georgia LLC [Delaware]
Also Doing Business As:
The Little Clinic
Topvalco, Inc. [Ohio]
Ultimate Mart, LLC [Wisconsin]
Also Doing Business As:
Copps
Metro Market
Pick ‘n Save
Ultra Mart Foods, LLC [Wisconsin]
Also Doing Business As:
Pick ‘n Save
Vine Court Assurance Incorporated [Vermont]
Vitacost.com, Inc. [Delaware]
Woodmont Holdings, LLC [North Carolina]

[ ] Brackets indicate state or country of incorporation or organization and do not form part of corporate name.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-231727) and Form S-8 (Nos. 333-232437, 033-55501, 333-27211, 333-78935, 333-91354, 333-126076, 333-151967, 333-164951, 333-175086, 333-185446, 333-197711, 333-197712, 333-206531 and 333-206532) of The Kroger Co. of our report dated April 1, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Cincinnati, Ohio
April 1, 2020

Exhibit 24.1

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned directors of THE KROGER CO. (the “Company”) hereby makes, constitutes and appoints Christine S. Wheatley and Stacey M. Heiser, or either of them, his or her true and lawful attorneys-in-fact to sign and execute for and on his or her behalf the Company’s annual report on Form 10-K, and any and all amendments thereto, to be filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, in such form as they, or either of them, may approve and to do any and all other acts which said attorneys-in-fact, or either of them, may deem necessary or desirable to enable the Company to comply with said Act or the rules and regulations thereunder.

IN WITNESS WHEREOF, the undersigned directors have hereunto set their hands as of the 12th day of March 2020.

/s/ Nora A. Aufreiter
Nora A. Aufreiter

/s/ Anne Gates
Anne Gates

/s/ Karen M. Hoguet
Karen M. Hoguet

/s/ Susan J. Kropf
Susan J. Kropf

/s/ W. Rodney McMullen
W. Rodney McMullen

/s/ Jorge P Montoya
Jorge P. Montoya

/s/ Clyde R. Moore
Clyde R. Moore

/s/ James A Runde
James A. Runde

/s/ Ronald L. Sargent
Ronald L. Sargent

/s/ Bobby S. Shackouls
Bobby S. Shackouls

/s/ Mark S. Sutton
Mark S. Sutton

/s/ Ashok Vemuri
Ashok Vemuri

EXHIBIT 31.1

CERTIFICATION

I, W. Rodney McMullen, certify that:

1. I have reviewed this annual report on Form 10-K of The Kroger Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2020

/s/ W. Rodney McMullen
W. Rodney McMullen
Chairman of the Board and
Chief Executive Officer
(principal executive officer)

EXHIBIT 31.2

CERTIFICATION

I, Gary Millerchip, certify that:

1. I have reviewed this annual report on Form 10-K of The Kroger Co.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 1, 2020

/s/ Gary Millerchip
Gary Millerchip
Senior Vice President and
Chief Financial Officer
(principal financial officer)

EXHIBIT 32.1

CERTIFICATIONS

NOTE: The referenced officers, based on their knowledge, furnish the following certification, pursuant to 18 U.S.C. §1350.

We, W. Rodney McMullen, Chief Executive Officer and Chairman of the Board, and Gary Millerchip, Senior Vice President and Chief Financial Officer, of The Kroger Co. (the “Company”), do hereby certify in accordance with 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Annual Report on Form 10-K of the Company for the period ending February 1, 2020 (the “Periodic Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §78m or 78o(d)); and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 1, 2020

/s/ W. Rodney McMullen
W. Rodney McMullen
Chairman of the Board and Chief Executive Officer

/s/ Gary Millerchip
Gary Millerchip
Senior Vice President and Chief Financial Officer

A signed original of this written statement as required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to The Kroger Co., and will be retained by The Kroger Co. and furnished to the SEC or its staff upon request.