SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1999-01-02**
SEC Accession No. 0000950152-99-002475

(HTML Version on secdatabase.com)

FILER

KROGER CO

CIK:**56873**| IRS No.: **310345740** | State of Incorp.:**OH** | Fiscal Year End: **1228**
Type: **10-K** | Act: **34** | File No.: **001-00303** | Film No.: **99574819**
SIC: **5411** Grocery stores

Business Address
1014 VINE ST
CINCINNATI OH 45201
5137624000

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT

Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the Fiscal Year Ended January 2, 1999 — Commission File No. 1-303

THE KROGER CO.

An Ohio Corporation — I.R.S. Employer Identification No. 31-0345740

Address	Telephone Number
1014 Vine St. Cincinnati, Ohio 45202	(513) 762-4000

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

Title of Class	Name of Exchange on which Registered
Common $1 par value 257,856,756 shares outstanding on March 23, 1999	New York Stock Exchange

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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ____X____ No ________.

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

The aggregate market value of the voting and non-voting common equity of The Kroger Co. held by nonafflilates as of February 5, 1999: $15,712,730,035

Documents Incorporated by Reference:
Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act on or before May 3, 1999 incorporated by reference into Parts II and III of Form 10-K.

PART I

ITEM 1. BUSINESS

The Kroger Co. (the "Company") was founded in 1883 and incorporated in 1902. As of January 2, 1999, the Company was the largest retailer in the United States based on annual sales. The retail food business is highly competitive. The Company also manufacturers and processes food for sale by its supermarkets. The Company's principal executive offices are located at 1014 Vine Street, Cincinnati, Ohio 45202 and its telephone number is (513) 762-4000.

As of January 2, 1999, the Company operated 1,410 supermarkets, most of which are leased. Of this number, 1,145 supermarkets were operated, directly or

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through a partnership composed of the Company and wholly-owned subsidiaries of the Company, principally under the Kroger name in the Midwest and South. Dillon Companies, Inc. ("Dillon"), a wholly-owned subsidiary of the Company, operated 265 supermarkets directly or through wholly-owned subsidiaries (the "Dillon Supermarkets"). The Dillon Supermarkets, principally located in Colorado, Kansas, Arizona and Missouri, operate under the names "King Soopers", "Dillon Food Stores", "Fry's Food Stores", "City Market", "Gerbes Supermarkets", and "Sav-Mor". The Company employs approximately 213,000 full and part-time employees.

As of January 2, 1999, the Company, through its Dillon subsidiary, operated 797 convenience stores under the trade names of "Kwik Shop", "Quik Stop Markets", "Tom Thumb Food Stores", "Turkey Hill Minit Markets", "Loaf 'N Jug", and "Mini-Mart". The Company owned and operated 684 of these stores while 113 were operated through franchise agreements. The convenience stores offer a limited assortment of staple food items and general merchandise and, in most cases, sell gasoline.

The Company intends to develop new food and convenience store locations and will continue to assess existing stores as to possible replacement, remodeling, enlarging, or closing.

On October 19, 1998 the Company announced its intended merger with Fred Meyer, Inc. Under the terms of the merger agreement, Fred Meyer, Inc. shareholders will receive one newly issued share of Kroger common stock for each Fred Meyer, Inc. common share. The transaction will be accounted for as a pooling of interests. The Company expects to close the transaction in spring, 1999 subject to approval of Kroger and Fred Meyer shareholders, antitrust clearance and customary closing conditions. Additional information regarding the merger can be found in the Company's current report on Form 8-K dated October 20, 1998.

SEGMENTS

Based on the information monitored by the Company's operating decision makers to manage the business, the Company has identified one reportable segment. Retail operation information consists of results from the Company's retail food and drug store divisions and convenience store divisions. Corporate and all other operation information relates primarily to results from the Company's Corporate office and manufacturing operations, none of which individually meet the quantitative thresholds of a reportable segment. All of the Company's operations are domestic. The Company manages income taxes, LIFO charges, interest income and interest expense on a consolidated basis at the Corporate level. For additional information on segments, see "Segments" in the Notes to Consolidated Financial Statements.

ITEM 2. PROPERTIES

As of January 2, 1999, the Company operated more than 2,200 owned or leased supermarkets, convenience stores, distribution warehouses and food processing facilities, through divisions, marketing areas, subsidiaries or affiliates. These facilities are located principally in the Midwest, South and Southwest. A majority of the properties used in the conduct of the Company's business are leased.

Store equipment, fixtures and leasehold improvements, as well as processing and manufacturing equipment, are generally owned by the Company. The total cost of the Company's owned assets and capitalized leases at January 2, 1999 was $6.862 billion while the accumulated depreciation was $3.077 billion.

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

ITEM 3. LEGAL PROCEEDINGS

There are pending against the Company various claims and lawsuits arising in the normal course of business, including suits charging violations of certain

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antitrust and civil rights laws. 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 these claims and lawsuits, nor their likelihood of success, the Company is of the opinion that any resulting liability will not have a material adverse effect on the Company's financial position.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Common Stock Price Range

Quarter	1998 High	1998 Low	1997 High	1997 Low
1st	47-5/16	33-1/16	28-1/8	22-11/16
2nd	47-1/2	40-3/16	29-1/8	23-13/16
3rd	54-1/8	42	31-1/16	27-1/8
4th	60-13/16	44	37-5/16	28-1/2

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

Number of shareowners at year-end 1998: 47,124

Number of shareowners at March 23, 1999: 46,870

Determined by number of shareholders of record

The Company has not paid dividends on its Common Stock for the past three fiscal years. See Quarterly Data Note to Consolidated Financial Statements.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

<TABLE>
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	FISCAL YEARS ENDED				
	JANUARY 2, 1998 (53 WEEKS)	DECEMBER 27, 1997 (52 WEEKS)	DECEMBER 28, 1996 (52 WEEKS)	DECEMBER 30, 1995 (52 WEEKS)	DECEMBER 31, 1994 (52 WEEKS)
	(IN THOUSANDS OF DOLLARS, EXCEPT PER SHARE AMOUNTS)				
<S>	<C>	<C>	<C>	<C>	<C>
Sales	$28,203,304	$26,567,348	$25,170,909	$23,937,795	$22,959,122
Earnings before extraordinary loss	449,912	444,032	352,735	318,866	268,903
Extraordinary loss (net of income tax benefit) (A)	(39,123)	(32,376)	(2,862)	(16,053)	(26,707)
Net earnings	410,789	411,656	349,873	302,813	242,196
Diluted earnings per share					
Earnings before extraordinary loss	1.70	1.69	1.36	1.28	1.10
Extraordinary loss (A)	(.15)	(.12)	(.01)	(.06)	(.10)
Net earnings	1.55	1.57	1.35	1.22	1.00
Total assets	6,700,071	6,301,341	5,892,465	5,044,717	4,707,674
Long-term obligations, including obligations under capital leases	3,228,663	3,493,075	3,659,491	3,489,728	3,889,194
Shareowners' deficit	(387,832)	(784,848)	(1,181,706)	(1,603,013)	(2,153,684)
Cash dividends per common share	(B)	(B)	(B)	(B)	(B)

</TABLE>

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(A) See Extraordinary Loss in the Notes to Consolidated Financial Statements.
(B) The Company is prohibited from paying cash dividends under the terms of its Credit Agreement.

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

SALES

Our total sales in the fourth quarter 1998 increased 12.9% from $6.5 billion to $7.3 billion, compared to the fourth quarter 1997. The fourth quarter of 1998 had an extra week compared to the same quarter of 1997 because fiscal 1998 contained 53 weeks compared to a 52 week year in 1997. For the full year, total sales increased 6.2% and food store sales increased 6.5%. In the fourth quarter 1998, food store sales increased 13.2%. Sales by operating segments for the three years ended January 2, 1999, were as follows:

<TABLE>
<CAPTION>

	% OF 1998 SALES	1998 AMOUNT	1998 CHANGE	1997 AMOUNT	1997 CHANGE	1996 AMOUNT	1996 CHANGE
		(MILLIONS OF DOLLARS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Food Stores.............	93.7%	$26,423	+6.5%	$24,801	+5.5%	$23,508	+4.5%
Convenience Stores.......	3.6%	1,003	-0.2%	1,006	+6.0%	948	+11.6%
Other sales.............	2.7%	777	+2.2%	760	+6.5%	714	+19.0%
Total sales.............	100.0%	$28,203	+6.2%	$26,567	+5.5%	$25,170	+5.1%

</TABLE>

After adjusting for the 53rd week in 1998, fourth quarter total sales increased 3.9%, from $6.5 billion to $6.8 billion, and food store sales rose 4.3%, from $6.1 billion to $6.3 billion. These are in comparison to fourth quarter 1997. After adjusting for the extra week in 1998, the percentage of change in sales by operating segments for the three years ended January 2, 1999, were:

<TABLE>
<CAPTION>

	% OF 1998 SALES	1998 CHANGE	1997 CHANGE	1996 CHANGE
<S>	<C>	<C>	<C>	<C>
Food Stores..	93.7%	+4.3%	+5.5%	+4.5%
Convenience Stores.......................................	3.6%	-2.1%	+6.0%	+11.6%
Other sales..	2.7%	+0.6%	+6.5%	+19.0%
Total sales..	100.0%	+4.0%	+5.5%	+5.1%

</TABLE>

Sales in identical food stores, which include stores in operation and not expanded or relocated for five quarters, increased 0.4% in the fourth quarter and increased 1.0% for the full year. Comparable store sales, which include identical stores plus expanded and relocated stores, increased 2.4% in the fourth quarter.

The increase in food store sales is related to the 4.3% square footage growth generated by Kroger's capital expenditure program. This program enabled us to open, relocate or expand 96 food stores during 1998. Most of the new and expanded stores feature our combination store format. This "one-stop shopping" format saves time and travel for customers and is adaptable to the demographics of individual markets.

Total sales in our convenience stores decreased 0.2% for the year and increased 5.8% during the fourth quarter of 1998. Adjusting for the extra week, convenience stores total sales decreased 2.1% for the year and 2.2% in the fourth quarter of 1998. The sales decrease during the fourth quarter can be attributed to a 15.5% decrease in the retail price of gasoline. Total gasoline sales dollars decreased 8.4% for the year. Total gasoline gallons sold increased 6.8% for the year. The percentage of change in convenience store identical gasoline sales dollars, gasoline gallons sold and non-gasoline sales dollars for the 4th quarter and year ended January 2, 1999 were:

<TABLE>
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4TH QUARTER 1998 1998

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IDENTICAL CONVENIENCE STORES	CHANGE	CHANGE
Gasoline Sales Dollars	-13.0%	-10.9%
Gasoline Gallons Sold	+2.3%	+3.6%
Non-Gasoline Sales Dollars	+7.4%	+5.8%

Other sales represent sales by our manufacturing plants to entities other than Kroger. Compared to 1997, other sales increased 14.2% for the fourth quarter and 2.2% for the year. Adjusting for the extra week in 1998, other sales increased 7.1% for the fourth quarter and 0.6% for the year.

Total food store square footage increased 4.3%, 5.7% and 6.7% in 1998, 1997, and 1996, respectively. Convenience store square footage decreased 1.2% in 1998 due to operational closings of 16 stores and disposition of 14 stores. Convenience store square footage decreased 1.3% in 1997, and increased 1.5% in 1996.

Sales per average square foot for the last three years were:

	TOTAL SALES PER AVERAGE SQUARE FOOT		
	1998	1996	1995
Food Stores	$405	$398	$401
Convenience Stores	$554	$548	$519

Sales per average square foot for 1998 include an extra week compared to 1997 and 1996. Excluding the extra week, sales per average square foot for 1998 would have been $396 for food stores and $543 for convenience stores. Sales per average square foot exclude stores operated by franchisees. Our storing program in 1998 and 1997 has led to the decrease in sales per average square foot in our food stores. The new stores, which are generally larger and built in developing areas, take longer to contribute to higher sales per square foot. They also reduce the sales per square foot at nearby stores.

ONE-TIME EXPENSES

In the second quarter of 1998, we incurred a $40.8 million pre-tax, $25.3 million after-tax or $.09 per diluted share, one-time expense associated with logistics projects. This expense included the costs associated with ending a joint venture related to a warehouse operation that formerly served our Michigan stores and several independent customers. The warehouse is now operated by a third party that distributes our inventory to our Michigan stores. These expenses also included the transition costs related to one of our new warehouses, and one new warehouse facility operated by an unaffiliated entity that provides services to us. These costs included carrying costs of the facilities idled as a result of these new warehouses and the associated employee severance costs. The expenses described above include non-cash asset writedowns of $15.5 million and were included in merchandise costs, including warehouse and transportation. The remaining $25.3 million of expenses are summarized as follows:

	EXPENSE	CASH PAYMENTS	AMOUNT ACCRUED AT JANUARY 2, 1999
	(THOUSANDS OF DOLLARS)		
Employee Severance	$11,000	$ 6,600	$ 4,400
Carrying Costs of Idled Facilities	9,500	3,200	6,300
Ending the Joint Venture	4,800	4,800	
	$25,300	$14,600	$10,700

The employee severance costs will be paid through the second quarter of 1999 and the carrying costs of the idled warehouse facilities are projected to be paid through 2001.

Additionally, in the second quarter of 1998, we incurred one-time expenses

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of $11.6 million pre-tax, $7.2 million after-tax or $.03 per diluted share, associated with accounting, data and operations consolidations in Texas. These included the costs of closing eight stores and relocating the remaining Dallas office employees to a smaller facility. These expenses, which include non-cash asset writedowns of $2.2 million, were included in operating, general and administrative expenses. Cash expenses paid to date are $0.9 million and the remaining accrual of $8.5 million at January 2, 1999 represents estimated rent or lease termination costs that will be paid on closed stores through 2013.

ACCOUNTING CHANGE

In the second quarter of 1998, we changed our application of the Last-In, First-Out, or LIFO method of accounting for store inventories from the retail method to the item cost method. The change was made to more accurately reflect inventory value by eliminating the averaging and estimation inherent in the retail method. The cumulative effect of this change on periods prior to December 28, 1997 cannot be determined. The effect of the change on the December 28, 1997 inventory valuation, which includes other immaterial modifications in inventory valuation methods, was included in restated results for the quarter ended March 21, 1998. This change increased merchandise costs by $89.7 million and reduced earnings before extraordinary loss and net earnings by $55.6 million, or $0.21 per diluted share. We have not calculated the pro forma effect on prior periods because cost information for these periods is not determinable. The item cost method did not have a material impact on earnings subsequent to its initial adoption.

MERCHANDISE COSTS

Merchandise costs include advertising, warehousing and transportation expenses and charges related to valuing inventory on the LIFO method. The following table shows the relative effect of LIFO charges, One-Time Expenses and the Accounting Change on merchandising costs as a percent of sales.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Merchandise costs as reported	76.31%	76.23%	76.63%
One-Time Expenses	.14%		
Accounting Change	.32%		
Merchandise costs net of One-Time Expenses and Accounting Change	75.85%	76.23%	76.63%
LIFO charge	.01%	.02%	.05%
Merchandise costs as adjusted	75.84%	76.21%	76.58%

</TABLE>

Our merchandise costs, adjusted for One-Time Expenses and the Accounting Change, as a percent of sales declined during 1998 from the 1997 and 1996 levels. Merchandise costs were reduced by:

- coordinated purchasing,
- category management,
- technology related efficiencies, and
- increases in private label sales.

OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES

Operating, general and administrative expenses as a percent of sales were 17.42%, 17.33% and 17.36%, in 1998, 1997 and 1996 respectively. Operating, general and administrative expenses as a percent of sales, excluding One-Time Expenses of $11.6 million, were 17.38% for 1998. The increase is due to higher incentive payouts based on our 1998 performance.

INCOME TAXES

We have closed all tax years through 1984 with the Internal Revenue Service. The Internal Revenue Service has completed its examination of our tax returns for tax years 1985-1992. On September 15, 1998, the IRS voluntarily dismissed its appeal against Kroger. This action settled a previously unresolved issue for tax years 1984-1992. One issue remains in dispute with the IRS for tax years 1991 and 1992. We have provided for this and other tax contingencies.

NET EARNINGS

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Net earnings and the effects of extraordinary losses, One-Time Expenses and the Accounting Change for the three years ended January 2, 1999 were:

	1998	1997	1996
	(THOUSANDS OF DOLLARS)		
Earnings before extraordinary loss excluding One-Time Expenses and the Accounting Change	$538,012	$444,032	$352,735
One-Time Expense, net of income tax benefit	32,500		
Accounting Change, net of income tax benefit	55,600		
Earnings before extraordinary loss	449,912	444,032	352,735
Extraordinary loss, net of income tax benefit	(39,123)	(32,376)	(2,862)
Net earnings	$410,789	$411,656	$349,873

Extraordinary losses are from the early retirement of debt. Net earnings in 1998 compared to 1997 and 1996 were affected by:

- net interest expense in 1998 of $266.9 million compared to $285.9 million in 1997 and $300.0 million in 1996, and
- depreciation expense in 1998 of $430.0 million, compared to $380.2 million in 1997 and $343.8 million in 1996.

LIQUIDITY AND CAPITAL RESOURCES

Debt Management and Interest Expense

The table below provides information about debt repurchases and redemptions for the three years ended January 2, 1999.

	1998	1997	1996
	(THOUSANDS OF DOLLARS)		
Senior debt repurchases and redemptions	$315,993	$ 9,155	$ 23,363
Senior subordinated debt repurchases	$ 31,106	$318,590	$161,256
Mortgage loan prepayments	$218,551	$177,978	

We used the proceeds from the issuance of new senior debt, additional bank borrowings and cash generated from operations to make these purchases and redemptions.

We have a 364-Day Credit Agreement and Five Year Credit Agreement (together, the "Credit Agreement") with a consortium of bank lenders. The 364-Day Credit Agreement is a revolving credit facility in the amount of $500 million, that terminates on May 29, 1999, unless extended. The Five Year Credit Agreement is a revolving credit facility in the amount of $1.5 billion, that terminates on May 28, 2002, unless extended or terminated earlier by us. The average interest rate on our bank debt was 6.14% in 1998 compared to 6.06% in 1997 and 6.16% in 1996. Our borrowings at year-end 1998 under the Credit Agreement totaled $844 million compared to $1.262 billion at year-end 1997 and $1.001 billion at year-end 1996. In December 1998 we amended our Credit Agreement to permit our merger with Fred Meyer. The amendments, which become effective when the merger is completed, increase our rates to market rates. Our rates under the Credit Agreement are variable. As of January 2, 1999, we had $1.147 billion available under our Credit Agreement to meet short term liquidity needs.

Long-term debt, including capital leases and current portion thereof, decreased $113.5 million to $3.404 billion at year-end 1998 from $3.517 billion at year-end 1997 and $3.681 billion at year-end 1996. We purchased a portion of the debt issued by the lenders of some structured financings in an effort to further reduce

our effective interest expense. We also prefunded $200 million of employee benefit costs at year-end 1998 compared to $160 million at year-end 1997. If we exclude the debt incurred to make these purchases, which we classify as investments, and the prefunding of employee benefits, our year-end 1998 long-term debt would have been $267.3 million less, or $3.1 billion, compared to $3.2 billion at year-end 1997 and $3.4 billion at year-end 1996.

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Interest Rate Protection Program

We use derivatives to limit our exposure to rising interest rates. During 1998 we followed these guidelines in using derivatives:

- use average daily bank balance to determine annual debt amounts subject to interest rate exposure,
- limit the annual amount of debt subject to interest rate reset and the amount of floating rate debt to a combined total of $1.0 billion or less,
- include no leveraged derivative products, and
- hedge without regard to profit motive or sensitivity to current mark-to-market status.

We review compliance with these guidelines annually with the Financial Policy Committee of our Board of Directors. In addition, our internal auditors review compliance with these guidelines on an annual basis. These guidelines may change as our business needs dictate.

The table below provides information about our interest rate derivative and underlying debt portfolio. The amounts each year represent the contractual maturities of long-term debt, excluding capital leases, and the outstanding notional amount of interest rate derivatives. Interest rates reflect the weighted average for the maturing instruments. The variable component of each interest rate derivative and variable rate debt is based on 6 month LIBOR using the forward yield curve as of January 2, 1999. The Fair-Value column includes only those debt instruments for which it is reasonably possible to calculate a fair value and interest rate derivatives as of January 2, 1999. (See Fair Value of Financial Instruments footnote.)

<TABLE>
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	EXPECTED YEAR OF MATURITY (THOUSANDS OF DOLLARS)							
	1999	2000	2001	2002	2003	THEREAFTER	TOTAL	FAIR-VALUE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
LONG-TERM DEBT								
Fixed rate.............	163,904	209,913	13,356	162,976	76,928	1,719,079	2,346,156	1,985,813
Average interest rate...	7.76%	7.94%	7.94%	7.74%	7.75%	7.75%		
Variable rate...........				843,728			843,728	843,728
Average interest rate...	5.22%	5.28%	5.44%	5.55%				
INTEREST RATE DERIVATIVES	AVERAGE NOTIONAL AMOUNTS OUTSTANDING (THOUSANDS OF DOLLARS)							
Variable to fixed.......	962,500	752,500	392,000	88,000	65,000	58,500	1,000,000	(43,218)
Average pay rate........	7.08%	7.05%	7.24%	6.71%	6.80%	6.80%	7.07%	
Average receive rate....	5.10%	5.16%	5.32%	5.43%	5.43%	5.45%	5.19%	
Fixed to variable.......	695,000	493,000	250,000	150,000			785,000	21,833
Average pay rate........	5.10%	5.16%	5.32%	5.43%			5.19%	
Average receive rate....	6.39%	6.27%	6.86%	6.86%			6.47%	

</TABLE>

It was not practicable to determine a fair value for $472.2 million of fixed rate debt.

Common Stock Repurchase Program

On January 29, 1997, we began repurchasing common stock in order to reduce dilution caused by our stock option plans. These repurchases were made using the proceeds, including the tax benefit, from options exercised. Further repurchases of up to $100 million of common stock were authorized by the Board of Directors during October 1997. On October 19, 1998, we suspended the repurchase program as result of the merger agreement between Kroger and Fred Meyer, Inc. During 1998, we made open market purchases of 2,625,299 shares of Kroger stock for $120.8 million compared to purchases in 1997 of 3,015,887 shares for $84.9 million.

CAPITAL EXPENDITURES

Capital expenditures for 1998 totaled $923.5 million, compared to $612.2 million in 1997, and $733.8 million in 1996. The 1998 capital expenditures include the acquisition of seven Owens stores in the third quarter and five Hilander stores in the fourth quarter. The Owens stores are located in Indiana and the Hilander stores are located in Illinois. During 1998 we opened, acquired

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or expanded 96 food stores and 11 convenience stores. The table below shows our storing activity.

	1998	1997	1996
Food Stores			
New Stores	26	37	38
Relocated Stores	31	25	35
Acquisitions (New)	10	10	4
Acquisitions (Relocations)	8	5	3
Expansions	21	19	36
Total Opened, Acquired or Expanded	96	96	116
Operational Closings	18	11	13
Convenience Stores			
New Stores	10	15	16
Relocated Stores	1	0	0
Acquisitions (New)	0	0	15
Expansions	0	0	4
Total Opened, Acquired or Expanded	11	15	35
Operational Closings	16	12	19

In addition to the above activity, we also completed 74 food store and 13 convenience store remodels during 1998.

CONSOLIDATED STATEMENT OF CASH FLOWS

During 1998, we generated $1,142.2 million in cash from operating activities compared to $853.6 million in 1997 and $499.4 million in 1996. The increase over 1997 is primarily due to a net decrease in operating assets and liabilities that provided $239.2 million of cash in 1998 compared to $12.9 million in 1997. The largest components of the change in operating assets and liabilities was a decrease in net owned inventories of $132.9 million compared to a decrease of $16.6 million in 1997 and an increase in other liabilities of $132.3 million compared to $51.5 million in 1997. The increase over 1997 also includes an increase of non-cash charges for depreciation and amortization of $49.7 million.

Investing activities used $759.6 million of cash in 1998 compared to $579.4 million in 1997 and $856.9 million in 1996. The increase in the use of cash resulted from increased capital expenditures of $311.3 million, offset by decreased purchases of investments of $101.5 million.

Cash used by financing activities in 1998 totaled $326.7 million compared to $275.7 million in 1997 and $345.5 million of cash provided in 1996. Compared to 1997, our financing activities in 1998 used an additional $23.7 million of cash for debt prepayments and finance charges, and an additional $36.7 million to repurchase capital stock.

EBITDA

Our Credit Agreement and the indentures underlying approximately $377 million of publicly issued debt, contain various restrictive covenants. Many of these covenants are based on earnings before interest, taxes, depreciation, amortization and LIFO charge, or EBITDA. The ability to generate EBITDA at levels sufficient to satisfy the requirements of these agreements is a key measure of our financial strength. We do not intend to present EBITDA as an alternative to any generally accepted accounting principle measure of performance. Rather, management believes the presentation of EBITDA is important for understanding Kroger's performance compared to our debt covenants. The calculation of EBITDA is based on the definition contained in our Credit Agreement. This may be a different definition than other companies use. We were in compliance with all Credit Agreement and indenture covenants on January 2, 1999.

EBITDA for 1998, excluding one-time expenses, as described in "One-Time Expenses" above, of $52.4 million and the $89.7 million accounting change, as described in "Accounting Change" above, increased 12.4% to $1.556 billion compared to $1.385 billion in 1997. EBITDA in 1996 was $1.224 billion. Excluding the effect of strikes in the King Soopers and City Market divisions, EBITDA would have been approximately $1.256 billion in 1996. EBITDA including One-Time Expenses and the Accounting Change increased 2.1% in 1998 to $1.414 billion

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compared to $1.385 billion in 1997.

OTHER ISSUES

On October 19, 1998 we announced our intended merger with Fred Meyer, Inc. Under the terms of the merger agreement, Fred Meyer, Inc. shareholders will receive one newly issued share of Kroger common stock for each Fred Meyer, Inc. common share. The transaction will be accounted for as a pooling of interests. We expect to close the transaction in spring 1999 subject to approval of Kroger and Fred Meyer shareholders, antitrust clearance and customary closing conditions. Additional information regarding the merger can be found in our Current Report on Form 8-K dated October 20, 1998.

On January 6, 1999, we changed our fiscal year-end to the Saturday nearest January 31 of each year. This change is disclosed in our Current Report on Form 8-K dated January 6, 1999. Our first new fiscal year will end January 29, 2000. It will include a 16-week first quarter ending May 22, 1999, and 12-week second, third and fourth quarters ending August 14, 1999, November 6, 1999, and January 29, 2000, respectively. We intend to file separate audited statements of operations and cash flows covering the transition period from January 3, 1999 to January 30, 1999 on a Current Report on Form 8-K on or before May 15, 1999.

We are party to more than 160 collective bargaining agreements with local unions representing approximately 158,000 employees. During 1998 we negotiated 11 labor contracts without any material work stoppages. Typical agreements are 3 to 5 years in duration and, as agreements expire, we expect to enter into new collective bargaining agreements. In 1999, 35 collective bargaining agreements will expire. We cannot be certain that agreements will be reached without work stoppage. A prolonged work stoppage affecting a substantial number of stores could have a material adverse effect on the results of our operations.

OUTLOOK

Statements elsewhere in this report and below regarding our expectations, hopes, beliefs, intentions or strategies are forward looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Since the intended merger described in the "Other Issues" section above is not expected to close until spring 1999, the effects of the merger are not considered in making these statements unless referred to specifically. While we believe that the statements are accurate, uncertainties and other factors could cause actual results to differ materially from those statements. In particular:

- We obtain sales growth from new square footage, as well as from increased productivity from existing locations. We expect 1999 full year square footage to grow 4.5% to 5.0%. We expect to continue to realize savings from economies of scale in technology and logistics, some of which may be reinvested in retail price reductions to increase sales volume and enhance market share.
- We expect combination stores to generate higher sales per customer by the inclusion of numerous specialty departments, such as pharmacies, seafood shops, floral shops and bakeries. We believe the combination store format will allow us to withstand continued competition from other food retailers, supercenters, mass merchandisers and restaurants.
- We believe we have adequate coverage of our debt covenants to continue to respond effectively to competitive conditions.
- We expect to continue capital spending in technology focusing on improved store operations, logistics, procurement, category management, merchandising and distribution practices, which should continue to reduce merchandising costs as a percent of sales.
- We expect to reduce working capital over the next 2 years.
- In the second quarter of 1998 we raised our earnings per share target to a 15%-17% average annual increase over fiscal years 1999-2001 from the previously stated target of a 13%-15% average annual increase. Assuming consummation of the merger referenced in the "Other Issues" section above, we are raising our earnings per share target to a 16%-18% average annual increase over the next three years effective with the year 2000.
- We expect capital expenditures for the year to total $850-$950 million compared to $923.5 million during all of 1998. Capital expenditures reflect Kroger's strategy of growth through expansion and acquisition as well as our emphasis, whenever possible, on self-development and ownership of store real estate, and on logistics and technology improvements.
- We are dependent on computer hardware, software, systems and processes ("IT Systems") and non-information technology systems such as telephones, clocks, scales and refrigeration controllers, and other equipment containing embedded microprocessor technology ("Non-IT Systems"). These systems are used in several critical operating areas including store and distribution operations, product merchandising and procurement, manufacturing plant operations, inventory and labor

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management, and accounting and administrative systems.

Year 2000 Readiness Disclosure

We are currently working to resolve the potential effect of the year 2000 on the processing of date-sensitive information within these various systems. The year 2000 problem is the result of computer programs being written using two digits (rather than four) to define the applicable year. Any of our programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures.

We have developed a plan to assess and update our IT Systems and Non-IT Systems for year 2000 compliance requirements and provide for continued functionality. The plan consists of three major phases:

1) create an inventory of systems subject to the year 2000 problem and assess the scope of the problem as it relates to those systems
2) remediate any year 2000 problems
3) test and implement systems subsequent to remediation

The chart below shows the estimated completion status of each of these phases expressed as a percent of completion as of the end of 1998.

PHASE	1	2	3
	(PERCENT COMPLETE)		
IT Systems	95%	85%	74%
Non-IT Systems	95%	61%	40%

This summary includes all IT and Non-IT Systems without regard to their effect on the operation of the Company. We estimate that business critical IT Systems are 83% complete through Phase 3. We expect to complete assessment and remediation of these by the end of the first quarter of 1999. We will continue to test our systems, including a simulation of the year 2000, and expect to complete all work by the end of the third quarter of 1999.

In addition to the remediation of the IT Systems and Non-IT Systems, we are contacting all critical product suppliers, service providers, and those with which we exchange information, to ensure they will be able to continue normal business operations uninterrupted. This effort also consists of three phases:

1) identify the entities and verify address and contact information
2) mail the initial request
3) receive and accept response

This third step includes the verification of year 2000 readiness, if appropriate. During the fourth quarter of 1998, we have identified additional external entities to contact for year 2000 compliance. To date, we have identified and mailed year 2000 verification requests to approximately 58% of the critical external entities. Approximately 20% of these entities have responded, and less than 10% of their year 2000 readiness plans have been verified. We expect that substantially all critical external entities will have been contacted and year 2000 readiness verified by the end of the first quarter 1999.

We have not developed contingency plans related to all uncertainties in our year 2000 plan. Based on the results of our testing, implementation and verification efforts noted above, we will establish contingency plans in mission critical processes to address potential additional year 2000 issues. Contingency plans are being developed and accessed by teams of programmers and users. We expect that these contingency plans will be in place by the end of the third quarter of 1999.

The total estimated cost for the project, over a four year period, is $30.9 million, most of which is being expensed as incurred. This cost is being funded through operating cash flow. This represents an

immaterial part of our information technology budget over the period. The breakdown of the costs are as follows.

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	TOTAL PROJECTED COST (IN MILLIONS)	COST INCURRED TO DATE (IN MILLIONS)
<S>	<C>	<C>
Labor-Internal	$ 8.8	$ 3.9
Labor-External	8.5	6.5
Hardware Upgrades	7.5	3.0
Software Upgrades	2.6	1.2
Non-IT Upgrades	1.8	0.2
Other	1.7	0.3
Total	$30.9	$15.1

</TABLE>

If we, our customers or vendors are unable to resolve processing issues in a timely manner, it could result in the disruption of the operation of IT Systems and or Non-IT Systems, and in a material financial risk. We believe that we have allocated the resources necessary to mitigate all significant year 2000 issues in a timely manner.

Inflationary factors, increased competition, construction delays, and labor disputes could affect our ability to obtain expected increases in sales and earnings. Delays in store maturity, increased competition and increased capital spending could adversely affect the anticipated increase in sales per square foot. Increases in gross profit rate may not be achieved if start-up costs are higher than expected or if problems associated with integrating new systems occur. Increased operating costs and changes in inflationary trends could prevent us from reducing operating, general and administrative expenses. New technologies could fail to achieve the desired savings and efficiencies. Net interest expenses could exceed expectations due to acquisitions, higher working capital usage, inflation, or increased competition. Our ability to achieve our storing goals could be hampered by construction delays, labor disputes, increased competition or delays in technology projects. The effects of the intended merger and the inherent complexity of computer software and reliance on third party software vendors to interface with our systems could affect the completion of necessary "Year 2000" modifications.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareowners and Board of Directors
The Kroger Co.

In our opinion, the accompanying consolidated balance sheet of The Kroger Co. and the related consolidated statements of operations and accumulated deficit, and cash flows present fairly, in all material respects, the financial position of The Kroger Co. as of January 2, 1999 and December 27, 1997, and the consolidated results of its operations and its cash flows for the years ended January 2, 1999, December 27, 1997, and December 28, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As discussed in the notes to the consolidated financial statements, the Company changed its application of the LIFO method of accounting for store inventories as of December 28, 1997.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Cincinnati, Ohio
January 28, 1999

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CONSOLIDATED BALANCE SHEET

(IN THOUSANDS OF DOLLARS)	January 2, 1999	December 27, 1997
ASSETS		
Current assets		
Cash	$ 121,431	$ 65,484
Receivables	456,917	400,529
Inventories:		
FIFO cost	2,202,088	2,273,896
Less LIFO reserve	(471,932)	(467,931)
	1,730,156	1,805,965
Property held for sale	10,291	39,672
Prepaid and other current assets	354,385	328,901
Total current assets	2,673,180	2,640,551
Property, plant and equipment, net	3,785,122	3,296,599
Investments and other assets	241,769	364,191
TOTAL ASSETS	$ 6,700,071	$6,301,341
LIABILITIES		
Current liabilities		
Current portion of long-term debt	$ 163,904	$ 14,304
Current portion of obligations under capital leases	11,300	10,031
Accounts payable	1,785,630	1,781,527
Other current liabilities	1,231,234	1,137,654
Total current liabilities	3,192,068	2,943,516
Long-term debt	3,025,980	3,306,451
Obligations under capital leases	202,683	186,624
Deferred income taxes	200,952	166,013
Other long-term liabilities	466,220	483,585
TOTAL LIABILITIES	7,087,903	7,086,189
SHAREOWNERS' DEFICIT		
Common capital stock, par $1		
Authorized: 1,000,000,000 shares		
Issued: 1998 -- 281,788,752 shares		
1997 -- 277,153,260 shares	836,802	728,644
Accumulated deficit	(773,605)	(1,184,394)
Common stock in treasury, at cost		
1998 -- 24,831,009 shares		
1997 -- 22,182,650 shares	(451,029)	(329,098)
TOTAL SHAREOWNERS' DEFICIT	(387,832)	(784,848)
TOTAL LIABILITIES AND SHAREOWNERS' DEFICIT	$ 6,700,071	$6,301,341

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

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED DEFICIT

Years Ended January 2, 1999, December 27, 1997, and December 28, 1996

(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	1998 (53 Weeks)	1997 (52 Weeks)	1996 (52 Weeks)

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Sales	$ 28,203,304	$26,567,348	$25,170,909
Costs and expenses			
Merchandise costs, including warehousing and transportation	21,523,021	20,253,354	19,287,890
Operating, general and administrative	4,912,215	4,604,453	4,370,324
Rent	358,254	331,012	301,629
Depreciation and amortization	429,954	380,221	343,769
Net interest expense	266,896	285,945	299,984
Total	27,490,340	25,854,985	24,603,596
Earnings before tax expense and extraordinary loss	712,964	712,363	567,313
Tax expense	263,052	268,331	214,578
Earnings before extraordinary loss	449,912	444,032	352,735
Extraordinary loss, net of income tax benefit	(39,123)	(32,376)	(2,862)
Net earnings	$ 410,789	$ 411,656	$ 349,873
Accumulated Deficit			
Beginning of year	$ (1,184,394)	$(1,596,050)	$(1,945,923)
Net earnings	410,789	411,656	349,873
End of year	$ (773,605)	$(1,184,394)	$(1,596,050)
Basic earnings per Common Share			
Earnings before extraordinary loss	$ 1.76	$ 1.75	$ 1.41
Extraordinary loss	(.15)	(.13)	(.01)
Net earnings	$ 1.61	$ 1.62	$ 1.40
Average number of common shares used in basic calculation	255,814	254,284	250,979
Diluted earnings per Common Share			
Earnings before extraordinary loss	$ 1.70	$ 1.69	$ 1.36
Extraordinary loss	(.15)	(.12)	(.01)
Net earnings	$ 1.55	$ 1.57	$ 1.35
Average number of common shares used in diluted calculation	265,382	262,860	258,837

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended January 2, 1999, December 27, 1997, and December 28, 1996

(IN THOUSANDS OF DOLLARS)	1998 (53 Weeks)	1997 (52 Weeks)	1996 (52 Weeks)
Cash Flows From Operating Activities:			
Net earnings	$ 410,789	$ 411,656	$ 349,873
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary loss	39,123	32,376	2,862
Depreciation and amortization	429,954	380,221	343,769
Amortization of deferred financing costs	17,130	13,907	13,004
LIFO charge	4,001	6,242	12,526
Other changes, net	1,967	(3,669)	4,296
Net increase (decrease) in cash from changes in operating assets and liabilities	239,230	12,857	(226,931)

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Net cash provided by operating activities	1,142,194	853,590	499,399
Cash Flows From Investing Activities:			
Capital expenditures	(923,461)	(612,198)	(733,883)
Proceeds from sale of assets	30,345	24,657	9,242
(Increase) decrease in property held for sale	19,768	(4,165)	580
(Increase) decrease in other investments	113,797	12,269	(132,796)
Net cash used by investing activities	(759,551)	(579,437)	(856,857)
Cash Flows From Financing Activities:			
Debt prepayment costs	(11,115)	(8,012)	(4,196)
Financing charges incurred	(47,773)	(27,210)	(17,927)
Principal payments under capital lease obligations	(10,563)	(9,662)	(9,229)
Proceeds from issuance of long-term debt	892,698	662,322	382,161
Reductions in long-term debt	(1,023,569)	(831,952)	(235,214)
Outstanding checks	(57,036)	(17,493)	181,993
Proceeds from issuance of capital stock	52,593	41,498	48,120
Capital stock reacquired	(121,931)	(85,212)	(254)
Net cash provided (used) by financing activities	(326,696)	(275,721)	345,454
Net increase (decrease) in cash and temporary cash investments	55,947	(1,568)	(12,004)
Cash and Temporary Cash Investments:			
Beginning of year	65,484	67,052	79,506
End of year	$ 121,431	$ 65,484	$ 67,052
Increase (Decrease) In Cash From Changes In Operating Assets And Liabilities:			
Inventories (FIFO)	$ 71,809	$ (98,266)	$(140,750)
Receivables	(56,388)	(76,478)	(35,983)
Prepaid and other current assets	(25,786)	(53,476)	(120,641)
Accounts payable	61,139	81,712	(83,808)
Other current liabilities	132,320	51,534	76,423
Deferred income taxes	(19,905)	65,354	45,665
Other liabilities	76,041	42,477	32,163
	$ 239,230	$ 12,857	$(226,931)

</TABLE>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All dollar amounts are in thousands except per share amounts.

ACCOUNTING POLICIES

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

Principles of Consolidation

The consolidated financial statements include the Company and all of its subsidiaries. Certain prior year amounts have been restated to conform to current year presentation.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 also is required. Actual results could differ from those estimates.

Inventories

Inventories are stated at the lower of cost or market. Approximately 95% of inventories for 1998 and 90% of inventories for 1997 were valued using the LIFO method. Cost for the balance of the inventories is determined using the

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FIFO method.

Property Held for Sale

Property held for sale includes the net book value of property, plant and equipment that the Company plans to sell. The property is valued at the lower of cost or market on an individual property basis.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation and amortization, which includes the amortization of assets recorded under capital leases, are computed principally using the straight-line method over the estimated useful lives of individual assets, composite group lives or the initial or remaining terms of leases. Buildings and land improvements are depreciated based on lives varying from ten to 40 years. Equipment depreciation is based on lives varying from three to 15 years. Leasehold improvements are amortized over their useful lives, which vary from four to 25 years.

Interest Rate Protection Agreements

The Company uses interest rate swaps to hedge a portion of its borrowings against changes in interest rates. The interest differential to be paid or received is accrued as interest rates change and is recognized over the life of the agreements currently as a component of interest expense. Gains and losses from the disposition of hedge agreements are deferred and amortized over the shorter of the term of the related agreements or borrowings.

Advertising Costs

The Company's advertising costs are expensed as incurred and included in "merchandise costs, including warehousing and transportation." Advertising expenses amounted to $341,000, $312,000, and $302,000 for 1998, 1997, and 1996, respectively.

Deferred Income Taxes

Deferred income taxes are recorded to reflect the tax consequences of differences between the tax bases of assets and liabilities and their financial reporting bases. The types of differences that give rise to significant portions of deferred income tax liabilities or assets relate to: property, plant and equipment; inventories; accruals for compensation-related costs; and other changes. Deferred income taxes are classified as a net current and noncurrent asset or liability based on the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that is not related to an asset or liability for financial reporting is classified according to the expected reversal date. (See Taxes Based on Income footnote.)

Consolidated Statement of Cash Flows

For purposes of the Consolidated Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be temporary cash investments. Outstanding checks, which are included in accounts payable, represent disbursements that are funded as the item is presented for payment.

Cash paid during the year for interest and income taxes was as follows:

	1998	1997	1996
Interest	$265,540	$304,176	$304,240
Income taxes	192,529	154,025	166,732

MERGER

On October 19, 1998 we announced our intended merger with Fred Meyer, Inc. Under the terms of the merger agreement, Fred Meyer, Inc. shareholders will receive one newly issued share of Kroger common stock for each Fred Meyer, Inc. common share. The transaction will be accounted for as a pooling of interests. We expect to close the transaction in spring, 1999 subject to approval of Kroger and Fred Meyer shareholders, antitrust clearance and customary closing conditions. Additional information regarding the merger can be found in our current report on Form 8-K dated October 20, 1998.

ONE-TIME EXPENSES

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In the second quarter of 1998, we incurred a $40,800 pre-tax, $25,300 after-tax or $.09 per diluted share, one-time expense associated with logistics projects. This expense included the costs associated with ending a joint venture related to a warehouse operation that formerly served our Michigan stores and several independent customers. The warehouse is now operated by a third party that distributes our inventory to our Michigan stores. These expenses also included the transition costs related to one of our new warehouses, and one new warehouse facility operated by an unaffiliated entity that provides services to us. These costs included carrying costs of the facilities idled as a result of these new warehouses and the associated employee severance costs. The expenses described above included non-cash asset writedowns of $15,500 and were included in merchandise costs, including warehouse and transportation. The remaining $25,300 of expenses are summarized as follows:

	EXPENSE	CASH PAYMENTS	AMOUNT ACCRUED AT JANUARY 2, 1999
Employee Severance	$11,000	$ 6,600	$ 4,400
Carrying Costs of Idled Facilities	9,500	3,200	6,300
Ending the Joint Venture	4,800	4,800	
	$25,300	$14,600	$10,700

The employee severance costs will be paid through the second quarter of 1999 and the carrying costs of the idled warehouse facilities are projected to be paid through 2001.

Additionally, in the second quarter of 1998, we incurred one-time expenses of $11,600 pre-tax, $7,200 after-tax or $.03 per diluted share, associated with accounting, data and operations consolidations in Texas. These included the cost of closing eight stores and relocating the remaining Dallas office employees to a smaller facility. These expenses, which included non-cash asset writedowns of $2,200, were included in operating, general and administrative expenses. Cash expenses paid to date are $900 and the remaining accrual of $8,500 at January 2, 1999 represents estimated rent or lease termination costs that will be paid on closed stores through 2013.

ACCOUNTING CHANGE

In the second quarter of 1998, we changed our application of the Last-In, First-Out, or LIFO method of accounting for store inventories from the retail method to the item cost method. The change was made to more accurately reflect inventory value by eliminating the averaging and estimation inherent in the retail method. The cumulative effect of this change on periods prior to December 28, 1997 cannot be determined. The effect of the change on the December 28, 1997 inventory valuation, which includes other immaterial modifications in inventory valuation methods, was included in restated results for the quarter ended March 21, 1998. This change increased merchandise costs by $89,700 and reduced earnings before extraordinary loss and net earnings by $55,600, or $0.21 per diluted share. We have not calculated the pro forma effect on prior periods because cost information for these periods is not determinable. The item cost method did not have a material impact on earnings subsequent to its initial adoption.

PREPAID AND OTHER CURRENT ASSETS

Prepaid and other current assets consists of:

	1998	1997
Health and welfare benefit costs	$ 200,000	$ 160,000
Other	154,385	168,901

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	$ 354,385	$ 328,901

PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of:

	1998	1997
Land	$ 389,953	$ 352,319
Buildings and land improvements	1,493,674	1,263,700
Equipment	3,317,134	3,106,548
Leasehold improvements	1,027,984	908,948
Construction-in-progress	335,583	278,821
Leased property under capital leases	297,600	272,911
	6,861,928	6,183,247
Accumulated depreciation and amortization	(3,076,806)	(2,886,648)
	$ 3,785,122	$ 3,296,599

Approximately $271,284 and $369,295, original cost, of Property, Plant and Equipment collateralizes certain mortgage obligations at 1998 and 1997, respectively.

INVESTMENTS AND OTHER ASSETS

Investments and other assets consists of:

	1998	1997
Deferred financing costs	$ 52,316	$ 59,939
Goodwill	48,937	39,119
Investments in Debt Securities	67,314	155,141
Other	73,202	109,992
	$241,769	$364,191

The Company is amortizing deferred financing costs using the interest method. Substantially all goodwill is amortized on the straight-line method over 40 years.

OTHER CURRENT LIABILITIES

Other current liabilities consists of:

	1998	1997
Salaries and wages	$ 322,025	$ 300,202
Taxes, other than income taxes	172,886	147,905
Interest	42,023	36,699
Other	694,300	652,848
	$1,231,234	$1,137,654

TAXES BASED ON INCOME

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The provision for taxes based on income consists of:

	1998	1997	1996
Federal			
Current	$262,164	$173,715	$146,296
Deferred	(19,904)	65,354	43,638
	242,260	239,069	189,934
State and local	20,792	29,262	24,644
	263,052	268,331	214,578
Tax credit from extraordinary loss	(21,736)	(19,427)	(1,792)
	$241,316	$248,904	$212,786

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

	1998	1997	1996
Statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	2.0	2.7	2.8
Tax credits	(.3)	(.2)	(.2)
Other, net	.2	.2	.2
	36.9%	37.7%	37.8%

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

	1998	1997
Current deferred tax assets:		
Compensation related costs	$ 43,347	$ 32,772
Insurance related costs	38,210	35,971
Inventory related costs	53,339	16,257
Other	39,901	18,001
	174,797	103,001
Current deferred tax liabilities:		
Compensation related costs	(103,613)	(85,913)
Lease accounting	(4,216)	(4,128)
Inventory related costs	(67,245)	(62,830)
Other	(4,408)	(9,658)
	(179,482)	(162,529)
Current deferred taxes, net	$ (4,685)	$ (59,528)
Long-term deferred tax assets:		
Compensation related costs	$ 128,275	$ 130,825
Insurance related costs	31,967	37,788
Lease accounting	25,981	25,110
Other	24,214	20,692
	210,437	214,415

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Long-term deferred tax liabilities:		
Depreciation	(374,273)	(339,951)
Compensation related costs	(9,791)	(10,328)
Lease accounting	(538)	(740)
Deferred charges	(2,239)	(6,653)
Other	(24,548)	(22,756)
	(411,389)	(380,428)
Long-term deferred taxes, net	$(200,952)	$(166,013)

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

DEBT OBLIGATIONS

Long-term debt consists of:

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Five-Year Credit Agreement	$ 843,728	$1,262,058
6 3/8% Senior Notes due 2008	200,000	
7% Senior Notes due 2018	200,000	
6% Senior Notes due 2010	200,000	
6.8% Senior Notes due 2018	300,000	
9 1/4% Senior Secured Debentures, due 2005		100,648
8 1/2% Senior Secured Debentures, due 2003		197,845
8.15% Senior Notes due 2006	222,500	240,000
7.65% Senior Notes due 2007	200,000	200,000
9 7/8% Senior Subordinated Debentures, due 2002	77,245	81,530
6 3/4% to 9 5/8% Senior Subordinated Notes, due 1999 to 2009	145,377	171,909
10% Senior Subordinated Notes, due 1999	123,572	123,861
10% Mortgage loans, with semi-annual payments due through 2004	205,301	426,219
3 3/4% to 8 5/8% Industrial Revenue Bonds, due in varying amounts through 2021	201,330	201,030
7 7/8% to 10 1/4% mortgages, due in varying amounts through 2017	259,827	267,368
3 1/2% to 10 1/4% notes, due in varying amounts through 2017	11,004	48,287
Total debt	3,189,884	3,320,755
Less current portion	163,904	14,304
Total long-term debt	$3,025,980	$3,306,451

</TABLE>

The aggregate annual maturities and scheduled payments of long-term debt for the five years subsequent to 1998 are:

<TABLE>

<S>	<C>
1999	$ 163,904
2000	$ 209,913
2001	$ 13,356
2002	$1,006,704
2003	$ 76,928

</TABLE>

364-Day Credit Agreement and Five-Year Credit Agreement

The Company has a 364-Day Credit Agreement and a Five-Year Credit Agreement dated as of May 28, 1997 (collectively the "Credit Agreement"). The following constitutes only a summary of the principal terms and conditions of the Credit Agreement. Reference is directed to the Credit Agreement attached as an exhibit to the Company's Current Reports on Form 8-K dated June 2, 1997 and January 8, 1999.

The 364-Day facility is a revolving credit facility in the amount of

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$500,000, that terminates on May 29, 1999, unless extended in accordance with its terms. It may be converted into a term loan maturing two years after the conversion unless earlier terminated by the Company as provided in the Credit Agreement. The Five-Year facility is a revolving credit facility in the amount of $1,500,000. It terminates on May 28, 2002, unless extended or earlier terminated by the Company as provided in the Credit Agreement.

Interest Rates

Borrowings under the Credit Agreement bear interest at the option of the Company at a rate equal to either (i) the highest, from time to time, of (A) the base rate of Citibank, N.A., (B) 1/2% over a moving average of secondary

market morning offering rates for three month certificates of deposit adjusted for reserve requirements, and (C) 1/2% over the federal funds rate or (ii) an adjusted Eurodollar rate based upon the London Interbank Offered Rate ("Eurodollar Rate") plus an Applicable Margin.

The Applicable Margin for the 364-Day facility varies from .125% to .200% prior to conversion to a term loan facility and thereafter, if exercised by the Company, from .175% to .300%. The Applicable Margin for the Five-Year facility varies from .105% to .175%. In addition, the Company pays a Facility Fee ranging from .050% to .100% on the entire amount of the 364-Day facility and a Facility Fee ranging from .070% to .125% on the entire amount of the Five-Year facility. Both the Applicable Margin and the Facility Fee vary based on the Company's achievement of a financial ratio. As of January 2, 1999, the Applicable Margin for the 364-Day facility was .140% and for the Five-Year facility was .120%. The Facility Fee for the 364-Day facility was .060% and for the Five-Year facility was .080%.

In December 1998 we amended our Credit Agreement to permit our merger with Fred Meyer (See Merger footnote). The amendments, which become effective when the merger is completed, increase our rates to market rates.

Prepayment

The Company may prepay the Credit Agreement, in whole or in part, at any time, without a prepayment penalty. Certain Senior Notes totaling $900,000 are eligible for early redemption at varying times and premiums.

Certain Covenants

The Credit Agreement contains covenants which, among other things, restrict dividends and require the maintenance of certain financial ratios and levels, including fixed charge coverage ratios and leverage ratios.

Senior Subordinated Indebtedness

Senior Subordinated Indebtedness consists of the following: (i) $250,000 9 7/8% Senior Subordinated Debentures due August 1, 2002, redeemable at any time on or after August 1, 1999, in whole or in part at the option of the Company at par (the Company has repurchased $172,755 of the 9 7/8% Senior Subordinated Debentures in total, $4,285 in 1998); (ii) $355,774 6 3/4% to 9 5/8% Senior Subordinated Notes due March 15, 1999 to October 15, 2009, with portions of these issues subject to early redemption by the Company at varying times and premiums (the Company has repurchased or redeemed $210,397 of the notes in total, $26,532 in 1998); (iii) $250,000 10% Senior Subordinated Notes due May 1, 1999. This issue is not subject to early redemption by the Company (the Company has repurchased $126,428 of the 10% Senior Subordinated Notes in total, $289 in 1998).

Redemption Event

Subject to certain conditions (including repayment in full of all obligations under the Credit Agreement or obtaining the requisite consents under the Credit Agreement), 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 or (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.

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Mortgage Financing

During 1989 the Company completed a $612,475, 10% mortgage financing of 127 of its retail properties, distribution warehouse facilities, food processing facilities and other properties (the "Properties"), with a net book value of $325,327 held by 13 newly formed wholly-owned subsidiaries. The wholly-owned subsidiaries mortgaged the Properties, which are leased to the Company or affiliates of the Company, to a newly formed special purpose corporation, Secured Finance Inc.

The mortgage loans had an original maturity of 15 years. The Properties are subject to the liens of Secured Finance Inc. The mortgage loans are subject to semi-annual payments of interest and principal on $150,000 of the borrowing based on a 30-year payment schedule and interest only on the remaining $462,475 principal amount. The unpaid principal amount will be due on December 15, 2004.

In total, the Company has prepaid 89 mortgages with an original balance of $348,349. During 1998 the Company prepaid 54 mortgages with an original balance of $198,002. The mortgage balances at the time of the prepayment totaled $182,126. Pursuant to the terms of the mortgages a 20% premium payment was required. The premium totaled $36,425 and was applied, on a pro-rata basis, to the 38 remaining mortgage loans.

Subsequent to the prepayment the remaining mortgage loans totaled $205,301. The remaining mortgage loans are subject to semi-annual payments of interest and principal on $45,777 based on the original 30-year payment schedule, adjusted for the pre-payment, and interest only on the remaining $159,524 principal amount.

Commercial Paper

Under the Credit Agreement the Company is permitted to issue up to $2,000,000 of unrated commercial paper and borrow up to $2,000,000 from the lenders under the Credit Agreement on a competitive bid basis. The total of unrated commercial paper, $141,257 at January 2, 1999, however, may not exceed $2,000,000. All commercial paper must be supported by availability under the Credit Agreement. These borrowings have been classified as long-term because the Company expects that during 1999 these borrowings will be refinanced using the same type of securities. Additionally, the Company has the ability to refinance the short-term borrowings under the Five-Year facility of the Credit Agreement which matures May 28, 2002.

Interest Rate Protection Program

The Company uses derivatives to limit its exposure to rising interest rates. During 1998 we followed these guidelines in using derivatives: (i) use average daily bank balance to determine annual debt amounts subject to interest rate exposure, (ii) limit the annual amount of debt subject to interest rate reset and the amount of floating rate debt to a combined total of $1,000,000 or less, (iii) include no leveraged derivative products, and (iv) hedge without regard to profit motive or sensitivity to current mark-to-market status. We review compliance with these guidelines annually with the Financial Policy Committee of the Company's Board of Directors. In addition, our internal auditors review compliance with these guidelines on an annual basis. These guidelines may be changed at any time as our business needs dictate.

The table below indicates the types of swaps used, their duration, and their respective interest rates. The variable component of each interest rate derivative is based on the 6 month LIBOR using the forward yield curve as of January 2, 1999.

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Receive fixed swaps		
Notional amount	$ 785,000	$1,085,000
Duration in years	2.0	3.0
Average receive rate	6.50%	6.33%
Average pay rate	5.30%	5.79%
Receive variable swaps		
Notional amount	$ 925,000	$1,250,000
Duration in years	2.4	2.7

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Average receive rate....................................	5.57%	5.83%
Average pay rate..	7.09%	6.92%
Interest rate caps		
Notional amount...	$ --	$ 200,000
Duration in years.......................................	--	.9
Average receive rate....................................	--	5.81%

</TABLE>

In addition, as of January 2, 1999, the Company had entered into a 2 year $75,000 receive variable swap that becomes effective July 1, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Long-term Investments

The fair values of these investments are estimated based on quoted market prices for those or similar investments.

Long-term Debt

The fair value of the Company's long-term debt, including the current portion thereof, is estimated based on the quoted market price for the same or similar issues. The fair value of $843,728 of long-term debt outstanding under the Company's Credit Agreement approximates carrying value.

Interest Rate Protection Agreements

The fair value of these agreements is based on the net present value of the future cash flows using the forward interest rate yield curve in effect at the respective years-end. If the swaps and caps were cancelled as of the respective years-end the result would have been a net cash outflow for 1998 and 1997. The swaps are linked to the Company's debt portfolio. (See Accounting Policies and Debt Obligations footnotes.)

The estimated fair values of the Company's financial instruments are as follows:

<TABLE>
<CAPTION>

	1998		1997	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
<S>	<C>	<C>	<C>	<C>
Long-term investments for which it is				
Practicable................................	$ 71,102	$ 71,582	$ 167,609	$ 168,512
Not Practicable............................	$ 8,800	--	$ 33,605	$ --
Long-term debt for which it is				
Practicable................................	$2,717,723	$2,829,541	$2,804,070	$2,937,041
Not Practicable............................	$ 472,161	--	$ 516,685	$ --
Interest Rate Protection Agreements				
Receive fixed swaps.........................	$ --	$ 21,833	$ --	$ 11,307
Receive variable swaps......................	$ --	$ (43,218)	$ --	$ (42,016)
Interest rate caps..........................	$ --	$ --	$ 1,130	$ 434
	$ 0	$ (21,385)	$ 1,130	$ (30,275)

</TABLE>

The use of different assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could actually realize. In addition, the Company is not subjected to a concentration of credit risk related to these instruments.

The investments for which it was not practicable to estimate fair value relate to equity investments accounted for under the equity method and investments in real estate development partnerships for which there is no market.

It was not practicable to estimate the fair value of Industrial Revenue Bonds of $201,330, various mortgages of $259,827, and other notes of $11,004 for

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which there is no market.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

LEASES

The Company operates primarily in leased facilities. Lease terms generally range from 10 to 25 years with options to renew at varying terms. Certain of the leases provide for contingent payments based on a percent of sales.

Rent expense (under operating leases) consists of:

	1998	1997	1996
Minimum rentals	$347,977	$321,782	$291,256
Contingent payments	10,277	9,230	10,373
	$358,254	$331,012	$301,629

Assets recorded under capital leases consists of:

	1998	1997
Distribution and manufacturing facilities	$ 30,382	$ 30,382
Store facilities	267,218	242,529
Less accumulated amortization	(132,952)	(123,891)
	$ 164,648	$ 149,020

Minimum annual rentals for the five years subsequent to 1998 and in the aggregate are:

	CAPITAL LEASES	OPERATING LEASES
1999	$ 36,806	$ 347,646
2000	35,863	325,112
2001	34,805	305,141
2002	33,743	287,334
2003	31,641	270,513
Thereafter	287,977	2,337,555
	460,835	$3,873,301
Less estimated executory costs included in capital leases	16,414	
Net minimum lease payments under capital leases	444,421	
Less amount representing interest	230,438	
Present value of net minimum lease payments under capital leases	$ 213,983	

EXTRAORDINARY LOSS

The extraordinary loss in 1998, 1997, and 1996 relates to premiums paid to retire certain indebtedness early and the write-off of related deferred financing costs.

EARNINGS PER COMMON SHARE

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Basic earnings per common share equals net earnings divided by the weighted average number of common shares outstanding. Diluted earnings per common share equals net earnings divided by the weighted average number of common shares outstanding after giving effect to dilutive stock options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

The following table provides a reconciliation of earnings before extraordinary loss and shares used in calculating basic earnings per share to those used in calculating diluted earnings per share.

	FOR THE YEAR ENDED JANUARY 2, 1999			FOR THE YEAR ENDED DECEMBER 27, 1997			FOR THE YEAR ENDED DECEMBER 28, 1996		
	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER-SHARE AMOUNT
Basic EPS	$449,912	255,814	$1.76	$444,032	254,284	$1.75	$352,735	250,979	$1.41
Dilutive effect of stock option awards		9,568			8,576			7,858	
Diluted EPS	$449,912	265,382	$1.70	$444,032	262,860	$1.69	$352,735	258,837	$1.36

PREFERRED STOCK

The Company has authorized 5,000,000 shares of voting cumulative preferred stock; 2,000,000 were available for issuance at January 2, 1999. Fifty thousand shares have been designated "Series A Preferred Shares" and are reserved for issuance under the Company's Shareholders' rights plan. The stock has a par value of $100 and is issuable in series.

COMMON STOCK

The Company has authorized 1,000,000,000 shares of common stock, $1 par value per share. On January 29, 1997, the Company began repurchasing its common stock in order to reduce dilution caused by the Company's stock option plans. These repurchases were made using the proceeds, including the tax benefit, from options exercised. Further repurchases of up to $100,000 of the Company's common stock were authorized by the Board of Directors during October of 1997. On October 18, 1998, the Company suspended its repurchase program as result of the merger agreement between the Company and Fred Meyer, Inc. The main trading market for the Company's common stock is the New York Stock Exchange, where it is listed under the symbol KR. For the three years ended January 2, 1999, changes in common stock were:

	ISSUED		IN TREASURY	
	SHARES	AMOUNT	SHARES	AMOUNT
December 30, 1995	267,555,842	$586,541	19,151,900	$243,631
Exercise of stock options including restricted stock grants	5,367,200	50,091	11,812	255
Tax benefit from exercise of non-qualified stock options		21,598		
December 28, 1996	272,923,042	658,230	19,163,712	243,886
Exercise of stock options including restricted stock grants	4,230,218	43,693	3,051	280
Open market purchases			3,015,887	84,932
Tax benefit from exercise of non-qualified stock options		26,721		
December 27, 1997	277,153,260	728,644	22,182,650	329,098
Exercise of stock options including restricted stock grants	4,635,492	53,553	23,060	1,101
Open market purchases			2,625,299	120,830
Tax benefit from exercise of non-qualified stock				

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options		54,605		
January 2, 1999	281,788,752	$836,802	24,831,009	$451,029

</TABLE>

STOCK OPTION PLANS

The Company grants options for common stock to employees under various plans, as well as to its non-employee directors owning a minimum of 1,000 shares of common stock of the Company, at an option price equal to the fair market value of the stock at the date of grant. In addition to cash payments, the plans provide for the exercise of options by exchanging issued shares of stock of the Company. At January 2, 1999, 4,992,558 shares of

common stock were available for future options. Options generally will expire 10 years from the date of grant. Options vest in one year to five years or, for certain options, upon the Company's stock reaching certain pre-determined market prices within ten years from the date of grant. All grants outstanding become immediately exercisable upon certain changes of control of the Company.

Changes in options outstanding under the stock option plans, excluding restricted stock grants, were:

<TABLE>
<CAPTION>

<S>	SHARES SUBJECT TO OPTION <C>	WEIGHTED AVERAGE OF EXERCISE PRICE OF OPTIONS <C>
Outstanding, December 30, 1995	25,327,054	$ 9.68
Granted	5,687,020	$20.71
Exercised	(5,339,416)	$ 9.04
Cancelled or expired	(183,518)	$16.12
Outstanding, December 28, 1996	25,491,140	$12.23
Granted	3,110,560	$26.67
Exercised	(4,229,352)	$ 9.89
Cancelled or expired	(210,670)	$12.53
Outstanding, December 27, 1997	24,161,678	$14.50
Granted	3,210,415	$43.13
Exercised	(4,541,437)	$11.59
Cancelled or expired	(175,865)	$28.72
Outstanding, January 2, 1999	22,654,791	$19.52

</TABLE>

The Company applies Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," and related interpretations in accounting for its plans. Accordingly, no compensation expense has been recognized for its stock-based compensation plans other than for restricted stock awards and certain options where vesting is contingent upon the Company's stock reaching certain pre-determined market prices. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under these plans consistent with the methodology prescribed under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," the Company's net income and diluted net earnings per share would have been reduced by approximately $16,306, or $.06 per share, $13,616, or $.05 per share, and $12,800, or $.05 per share, for 1998, 1997 and 1996, respectively. The weighted average fair value of the options granted during 1998, 1997, and 1996 was estimated as $18.72, $10.82 and $5.89, respectively, on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: volatility of 26.6%, 24.0% and 22.7% for 1998, 1997 and 1996, respectively; risk-free interest rate of 4.6%, 5.7% and 6.3% for 1998, 1997 and 1996, respectively; and an expected term of approximately 7.8 years for 1998, 5.4 years for 1997, and 3.3 years for 1996. A summary of options outstanding and exercisable at January 2, 1999 follows:

<TABLE>
<CAPTION>

OPTIONS OUTSTANDING	OPTIONS EXERCISABLE

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RANGE OF EXERCISE PRICE	NUMBER OUTSTANDING AS OF 1/2/99	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AS OF 1/2/99	WEIGHTED-AVERAGE EXERCISE PRICE
$ 4.85 - $ 6.22	936,026	1.30	$ 6.21	936,026	$ 6.21
6.47 - 7.85	1,778,989	3.69	7.75	1,778,989	7.75
8.10 - 10.29	2,278,179	3.43	9.35	2,278,179	9.35
10.57 - 11.69	2,500,857	5.37	11.68	2,500,857	11.68
11.72 - 12.66	1,650,667	2.49	11.75	1,650,667	11.75
12.75 - 12.97	3,016,299	6.30	12.75	3,016,299	12.75
13.04 - 20.75	4,269,784	7.26	20.34	3,508,376	20.25
21.19 - 41.63	2,864,049	8.37	26.99	1,292,478	26.79
42.13 - 54.47	3,359,941	9.30	44.69	14,475	44.48
$ 4.85 - $54.47	22,654,791	6.11	$19.52	16,976,346	$13.80

</TABLE>

At December 27, 1997 and December 28, 1996, options for 18,127,665 and 16,906,890 shares were exercisable at a weighted average exercise price of $11.72 and $9.44, respectively.

Also, the Company may grant restricted stock awards to eligible employee participants. In general, a restricted stock award entitles an employee to receive a stated number of shares of common stock of the Company subject to forfeiture if the employee fails to remain in the continuous employ of the Company for a stipulated period. The holder of an award is entitled to the rights of a shareowner except that the restricted shares and the related rights to vote or receive dividends may not be transferred. The award is charged to earnings over the period in which the employee performs services and is based upon the market value of common stock at the date of grant for those grants without performance contingencies. As of January 2, 1999 and December 27, 1997, awards related to 382,898 and 354,850 shares, respectively, were outstanding. The charge to earnings for grants with performance-contingent vesting includes share appreciation between the grant date and the vesting date.

Incentive shares may be granted under the 1994 plan, which consist of shares of common stock issued subject to achievement of performance goals. No incentive shares were outstanding as of January 2, 1999 and December 27, 1997.

CONTINGENCIES

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

Management 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 management's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Income Taxes -- We have closed all tax years through 1984 with the Internal Revenue Service. The Internal Revenue Service has completed its examination of our tax returns for tax years through 1992. On September 15, 1998, the IRS voluntarily dismissed its appeal against Kroger. This action settled a previously unresolved issue for tax years 1984-1992. One issue remains in dispute with the IRS for tax years 1991 and 1992. We have provided for this and other tax contingencies.

Insurance -- The Company's workers' compensation risks are self-insured in certain 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 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 -- The Company is involved in various legal actions arising in the normal course of business. Management is of the opinion that their outcome will not have a material adverse effect on the Company's financial position or results of operations.

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WARRANT DIVIDEND PLAN

On February 28, 1986, the Company adopted a warrant dividend plan providing for stock purchase rights to owners of the Company's common stock. The Plan was amended and restated as of April 4, 1997 and further amended on October 18, 1998. Each right, when exercisable, entitles the holder to purchase from the Company one ten-thousandth of a share of Series A Preferred Shares, par value $100 per share, at $87.50 per one ten-thousandth of a share. The rights will become exercisable, and separately tradeable, ten days after a person or group acquires 10% or more of the Company's common stock or ten business days following a tender offer or exchange offer resulting in a person or group having beneficial ownership of 10% or more of the Company's common stock. In the event the rights become exercisable, each right will entitle the holder the right, if that holder pays the exercise price, to purchase the Company's common stock, having a market value of twice the exercise

price of the right. Under certain other circumstances, including certain acquisitions of the Company in a merger or other business combination transaction, or if 50% or more of the Company's assets or earning power are sold under certain circumstances, each right will entitle the holder to receive upon payment of the exercise price, shares of common stock of the acquiring company with a market value of two times the exercise price. At the Company's option, the rights, prior to becoming exercisable, are redeemable in their entirety at a price of $.01 per right. The rights are subject to adjustment and expire March 19, 2006. This summary description of the Plan is qualified in its entirety by the terms of the plan more particularly set forth in the Company's Forms 8-A/A dated April 4, 1997 and October 18, 1998.

OTHER POST EMPLOYMENT BENEFITS

The Company administers non-contributory defined benefit retirement plans for substantially all non-union employees. Funding for the pension plans is based on a review of the specific requirements and on evaluation of the assets and liabilities of each plan. Employees are eligible to participate upon the attainment of age 21 (25 for participants prior to January 1, 1986) and the completion of one year of service, and benefits are based upon final average salary and years of service. Vesting is based upon years of service.

In addition to providing pension benefits, the Company provides certain health care and life insurance 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 and life insurance benefits occurs as claims or premiums are paid.

Information with respect to change in benefit obligation, change in plan assets, net amounts recognized at end of year, weighted average assumptions and components of net periodic benefit cost follow:

<TABLE>
<CAPTION>

	PENSION BENEFITS		OTHER BENEFITS	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
CHANGE IN BENEFIT OBLIGATION:				
Benefit obligation at beginning of year	$ 943,456	$ 874,097	$ 247,712	$ 253,172
Service Cost	27,959	26,682	8,596	9,463
Interest Cost	68,456	67,701	16,841	19,609
Plan participants' contributions	--	--	3,420	3,655
Amendments	--	--	--	(4,741)
Actuarial loss (gain)	48,486	22,088	12,428	(13,587)
Curtailment credit	--	--	(16,970)	--
Benefits paid	(49,277)	(47,112)	(16,076)	(19,859)
Benefit obligation at end of year	$1,039,080	$ 943,456	$ 255,951	$ 247,712

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CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year.......	$1,095,118	$ 947,726	$ --	$ --
Actual return on plan assets.........................	190,613	191,755	--	--
Employer contribution................................	2,987	2,750	12,656	16,203
Plan participants' contributions.....................	--	--	3,420	3,656
Benefits paid..	(49,277)	(47,112)	(16,076)	(19,859)
Fair value of plan assets at end of year............	$1,239,441	$1,095,118	$ --	$ --

Pension plan assets include $166,548 and $148,942 of common stock of The Kroger Co. at the end of 1998 and 1997, respectively.

NET AMOUNT RECOGNIZED AT END OF YEAR:				
Funded status at end of year.........................	$ 200,361	$ 151,662	$(255,951)	$(247,712)
Unrecognized actuarial gain..........................	(207,597)	(153,582)	(38,290)	(52,274)
Unrecognized prior service cost......................	18,840	21,213	(20,985)	(23,231)
Unrecognized net transition asset....................	(5,292)	(5,914)	--	--
Net amount recognized at end of year................	$ 6,312	$ 13,379	$(315,226)	$(323,217)
Prepaid benefit cost.................................	$ 32,476	$ 36,979	$ --	$ --
Accrued benefit liability............................	(26,164)	(23,600)	(315,226)	(323,217)
Net amount recognized at end of year................	$ 6,312	$ 13,379	$(315,226)	$(323,217)

</TABLE>

<TABLE>
<CAPTION>

	PENSION BENEFITS		OTHER BENEFITS	
	1998	1997	1998	1997
<S>	<C>	<C>	<C>	<C>
WEIGHTED AVERAGE ASSUMPTIONS:				
Discount rate..	6.75%	7.25%	6.75%	7.25%
Expected return on plan assets.......................	9.50%	9.50%		
Rate of compensation increase........................	3.25%	3.75%	3.25%	3.75%

</TABLE>

For measurement purposes, a 5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999 and thereafter.

<TABLE>
<CAPTION>

	PENSION BENEFITS			OTHER BENEFITS		
	1998	1997	1996	1998	1997	1996
<S>	<C>	<C>	<C>	<C>	<C>	<C>
COMPONENTS OF NET PERIODIC BENEFIT COST:						
Service cost...........................	$ 27,959	$ 26,682	$ 25,977	$ 8,596	$ 9,463	$ 9,558
Interest cost..........................	68,456	67,701	61,091	16,841	19,608	18,006
Expected return on plan assets..........	(88,049)	(81,102)	(76,353)	--	--	--
Amortization of:						
Transition asset...................	(622)	(8,541)	(8,541)	--	--	--
Prior service cost.................	2,373	2,373	2,373	(2,131)	(1,775)	(829)
Actuarial (gain) loss..............	(63)	570	487	(1,555)	(811)	(162)
Curtailment credit.....................	--	--	--	(17,086)	--	--
Net periodic benefit cost..............	$ 10,054	$ 7,683	$ 5,034	$ 4,665	$26,485	$26,573

</TABLE>

The accumulated benefit obligation for pension plans with no plan assets was $26,164 as of January 2, 1999, and $23,600 as of December 27, 1997.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

<TABLE>

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<S>	1% POINT INCREASE	1% POINT DECREASE
Effect on total of service and interest cost components.....	$ 2,734	$ (2,300)
Effect on postretirement benefit obligation................	$24,026	$(21,271)

</TABLE>

The Company also administers certain defined contribution plans for eligible union and non-union employees. The cost of these plans for 1998, 1997, and 1996 was $27,595, $22,445, and $21,278, respectively.

The Company participates in various multi-employer plans for substantially all union employees. Benefits are generally based on a fixed amount for each year of service. Contributions and expense for 1998, 1997, and 1996 were $86,185, $83,506, and $88,758, respectively.

SEGMENTS

The Company operates retail food and drug stores in the Midwest, South and Southwest. The Company also manufactures and processes food for sale by its supermarkets and others, and also operates convenience stores.

Based on the information monitored by the Company's operating decision makers to manage the business, the Company has identified one reportable segment. Retail operation information consists of results from the Company's retail food and drug store divisions and convenience store divisions. Corporate and all other operation information relates primarily to results from the Company's Corporate office and manufacturing operations, none of which individually meet the quantitative thresholds of a reportable segment. All of the Company's operations are domestic. The Company manages income taxes, LIFO charges, interest income and interest expense on a consolidated basis at the Corporate level.

Information about the Company's operations by operating segment is as follows:

<TABLE>
<CAPTION>

<S>	RETAIL	CORPORATE AND ALL OTHER	AMOUNTS NOT ALLOCATED(A)	UNUSUAL ITEMS(B)	CONSOLIDATED
1998					
Sales..............................	$27,426,412	$ 776,892			$28,203,304
Depreciation and amortization.......	365,239	64,715			429,954
Operating income....................	951,730	174,231	$(270,897)	$(142,100)	712,964
Total assets........................	5,603,662	1,096,409			6,700,071
Capital expenditures................	786,398	137,063			923,461
1997					
Sales..............................	$25,806,915	$ 760,433			$26,567,348
Depreciation and amortization.......	301,237	78,984			380,221
Operating income....................	910,726	93,824	$(292,187)		712,363
Total assets........................	5,062,003	1,239,338			6,301,341
Capital expenditures................	508,438	103,760			612,198
1996					
Sales..............................	$24,456,730	$ 714,179			$25,170,909
Depreciation and amortization.......	270,551	73,218			343,769
Operating income....................	811,369	68,454	$(312,510)		567,313
Total assets........................	4,705,459	1,187,006			5,892,465
Capital expenditures................	449,134	284,749			733,883

</TABLE>

Intercompany eliminations are not material.

(A) Amounts not allocated to segments include LIFO charges, interest income, and interest expense.

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(B) See One-Time Expenses ($52,400) and Accounting Change ($89,700) footnotes.

RECENTLY ISSUED ACCOUNTING STANDARDS

The Financial Accounting Standards Board issued Statement of Financial Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" and No. 134 "Accounting for Mortgage Backed Securities Retained after the Securitization of Mortgage Loans Held for Sale by a Mortgage Banking Enterprise". The Company has not yet determined what effect, if any, these statements will have.

COMPREHENSIVE INCOME

The Company has no items of other comprehensive income in any period presented. Therefore net earnings as presented in the Consolidated Statement of Operations equals comprehensive income.

SUBSEQUENT EVENTS

On January 6, 1999, we changed our fiscal year-end to the Saturday nearest January 31 of each year. This change is disclosed in our Current Report on Form 8-K dated January 6, 1999. Our first new fiscal year will end January 29, 2000. It will include a 16-week first quarter ending May 22, 1999, and 12-week second, third and fourth quarters ending August 14, 1999, November 6, 1999, and January 29, 2000, respectively. We intend to file separate audited statements of operations and cash flows covering the transition period from January 3, 1999 to January 30, 1999 on a Current Report on Form 8-K on or before May 15, 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONCLUDED

QUARTERLY DATA (UNAUDITED)

<TABLE>
<CAPTION>

	QUARTER				
1998	FIRST (12 WEEKS)	SECOND (12 WEEKS)	THIRD (16 WEEKS)	FOURTH (13 WEEKS)	TOTAL YEAR (53 WEEKS)
<S>	<C>	<C>	<C>	<C>	<C>
Sales....................................	$6,388,759	$6,441,616	$8,023,906	$7,349,023	$28,203,304
Merchandise costs......................	4,956,007	4,911,644	6,091,003	5,564,367	21,523,021
Extraordinary loss.....................	(4,293)		(6,490)	(28,340)	(39,123)
Net earnings...........................	47,428	94,329	117,895	151,137	410,789
Basic earnings per common share:					
Earnings before extraordinary loss............................	.20	.37	49	.70	1.76
Extraordinary loss................	(.02)		(.03)	(.10)	(.15)
Basic net earnings per common share.....	.18	.37	.46	.60	1.61
Diluted earnings per common share:					
Earnings before extraordinary loss............................	.20	.36	.47	67	1.70
Extraordinary loss................	(.02)		(.02)	(11)	(.15)
Diluted net earnings per common share...	.18	.36	.45	.56	1.55

</TABLE>

<TABLE>
<CAPTION>

	QUARTER				
1997	FIRST (12 WEEKS)	SECOND (12 WEEKS)	THIRD (16 WEEKS)	FOURTH (12 WEEKS)	TOTAL YEAR (52 WEEKS)
<S>	<C>	<C>	<C>	<C>	<C>
Sales....................................	$6,139,413	$6,231,794	$7,686,639	$6,509,502	$26,567,348
Merchandise costs......................	4,686,363	4,741,737	5,863,919	4,961,335	20,253,354
Extraordinary loss.....................	(5,210)	(3,033)	(803)	(23,330)	(32,376)
Net earnings...........................	87,050	105,104	95,727	123,775	411,656
Basic earnings per common share:					
Earnings before extraordinary loss............................	.36	.43	.38	.58	1.75
Extraordinary loss................	(.02)	(.01)		(.09)	(.13)

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Basic net earnings per common share.....	.34	.42	.38	.49	1.62
Diluted earnings per common share:					
Earnings before extraordinary loss............................	.35	.41	.37	.56	1.69
Extraordinary loss................	(.02)	(.01)		(.09)	(.12)
Diluted net earnings per common share...	.33	.40	.37	.47	1.57

</TABLE>

Common Stock Price Range

<TABLE>
<CAPTION>

QUARTER	1998 HIGH	1998 LOW	1997 HIGH	1997 LOW
<S>	<C>	<C>	<C>	<C>
1st..................	47 5/16	33 1/16	28 1/8	22 11/16
2nd..................	47 1/2	40 3/16	29 1/8	23 13/16
3rd..................	54 1/8	42	31 1/16	27 1/8
4th..................	60 13/16	44	37 5/16	28 1/2

</TABLE>

The number of shareowners of record of common stock as of March 23, 1999, was 46,870.

Under the Company's Credit Agreement dated May 28, 1997, the Company is prohibited from paying cash dividends during the term of the Credit Agreement. The Company is permitted to pay dividends in the form of stock of the Company.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item concerning directors is set forth in Item No. 1, Election of Directors, of the definitive proxy statement to be filed by the Company with the Securities and Exchange Commission and is hereby incorporated by reference into this Form 10-K.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely on its review of the copies of all Section 16(a) forms received by the Company, or written representations from certain persons that no Forms 5 were required for those persons, the Company believes that during fiscal year 1998 all filing requirements applicable to its officers, directors and ten percent beneficial owners were timely satisfied except that Mr. Lawrence M. Turner filed an amended Form 4 reporting the inadvertent understatement of 7,000 shares reported in the exercise of a stock option and the sale of the underlying securities, and Ms. Lynn Marmer filed a Form 5 reporting the sale of 200 shares of stock that inadvertently was not reported on a Form 4 during 1998.

EXECUTIVE OFFICERS OF THE COMPANY

The following is a list of the names and ages of the executive officers and the positions held by each such person as of February 5, 1999. Except as otherwise noted below, each person has held office for at least five years and was elected to that office at the 1998 Organizational Meeting of the Board of Directors held May 14, 1998. Each officer will hold office at the discretion of the Board for the ensuing year until removed or replaced.

<TABLE>
<CAPTION>

Name	Age	Recent Employment History
<S>	<C>	<C>
Warren F. Bryant	53	Mr. Bryant was elected President and Chief Executive Officer of Dillon Companies, Inc. effective September 1,

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		1996. Prior to this he was elected President and Chief Operating Officer of Dillon Companies, Inc. on June 18, 1995, Senior Vice President of Dillon Companies, Inc. on May 1, 1993, and Vice President of Dillon Companies, Inc. on March 1, 1990. Before this Mr. Bryant served as Vice President of Marketing, Dillon Stores Division, from June 1988 until March 1990, and in a number of key management positions with the Company, including Director of Merchandising for the Mid-Atlantic Marketing Area and Director of Operations for the Charleston, West Virginia division of the Mid-Atlantic Marketing Area. He joined the Company in 1964.
Geoffrey J. Covert	47	Mr. Covert was elected Group Vice President and President of Kroger Manufacturing effective April 19, 1998. Prior to this he joined the Company and was appointed Vice President, Grocery Products Group, on March 18,

</TABLE>

<TABLE>
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Name	Age	Recent Employment History
<S>	<C>	<C>
		1996. Prior to joining the Company, Mr. Covert had 23 years of service with Procter & Gamble. In his last role with Procter & Gamble, he was responsible for Manufacturing Purchasing, Customer Service/Logistics, Engineering, Human Resources, and Contract Manufacturing for Procter & Gamble's Hard Surface Cleaner business worldwide.
David B. Dillon	47	Mr. Dillon was elected President and Chief Operating Officer of Kroger effective June 18, 1995. Prior to this he was elected Executive Vice President on September 13, 1990, Chairman of the Board of Dillon Companies, Inc. on September 8, 1992, and President of Dillon Companies, Inc. on April 22, 1986. Before his election he was appointed President of Dillon Companies, Inc.
Paul W. Heldman	47	Mr. Heldman was elected Senior Vice President effective October 5, 1997, Secretary on May 21, 1992, and Vice President and General Counsel effective June 18, 1989. Prior to his election he held various positions in the Company's Law Department. Mr. Heldman joined the Company in 1982.
Michael S. Heschel	57	Mr. Heschel was elected Executive Vice President effective June 18, 1995. Prior to this he was elected Senior Vice President - Information Systems and Services on February 10, 1994, and Group Vice President - Management Information Services on July 18, 1991. Before this Mr. Heschel served as Chairman and Chief Executive Officer of Security Pacific Automation Company. From 1985 to 1990 he was Vice President of Baxter International, Inc.
Lynn Marmer	46	Ms. Marmer was elected Group Vice President effective January 19, 1998. Prior to her election, Ms. Marmer was an attorney in the Company's Law Department. Ms. Marmer joined the Company in 1997. Before joining the Company she was a partner in the law firm of Dinsmore & Shohl.
Don W. McGeorge	44	Mr. McGeorge was elected Senior Vice President effective August 10, 1997. Prior to his election, Mr. McGeorge was President of the Company's Columbus Marketing Area effective December 29, 1996; and prior thereto President of the Company's Michigan Marketing Area effective June 20, 1993. Before this he served in a number of key management positions with the Company, including Vice President of Merchandising of the Company's Nashville Marketing Area. Mr. McGeorge joined the Company in 1977.

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Name	Age	Recent Employment History
W. Rodney McMullen	38	Mr. McMullen was elected Senior Vice President effective October 5, 1997, Group Vice President and Chief Financial Officer effective June 18, 1995. Prior to this he

</TABLE>

<TABLE>
<CAPTION>

Name	Age	Recent Employment History
<S>	<C>	<C>
		was appointed Vice President-Control and Financial Services on March 4, 1993, and Vice President, Planning and Capital Management effective December 31, 1989. Mr. McMullen joined the Company in 1978 as a part-time stock clerk.
Joseph A. Pichler	59	Mr. Pichler was elected Chairman of the Board on September 13, 1990, and Chief Executive Officer effective June 17, 1990. Prior to this he was elected President and Chief Operating Officer on October 24, 1986, and Executive Vice President on July 16, 1985. Mr. Pichler joined Dillon Companies, Inc. in 1980 as Executive Vice President and was elected President of Dillon Companies, Inc. in 1982.
James R. Thorne	52	Mr. Thorne was elected Senior Vice President effective June 18, 1995. Prior to his election Mr. Thorne was appointed President of the Company's Mid-Atlantic Marketing Area in 1993. Before this Mr. Thorne served in a number of key management positions in the Mid-Atlantic Marketing Area, including Advertising Manager, Zone Manager, Director of Operations, and Vice President- Merchandising. Mr. Thorne joined the Company in 1966 as a part-time grocery clerk.
Lawrence M. Turner	51	Mr. Turner was elected Vice President on December 5, 1986. He was elected Treasurer on December 2, 1984. Mr. Turner has been with the Company since 1974.

</TABLE>

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is set forth in the section entitled Compensation of Executive Officers in the definitive proxy statement to be filed by the Company with the Securities and Exchange Commission and is hereby incorporated by reference into this Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is set forth in the tabulation of the amount and nature of Beneficial Ownership of the Company's securities in the definitive proxy statement to be filed by the Company with the Securities and Exchange Commission and is hereby incorporated by reference into this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is set forth in the section entitled Information Concerning The Board Of Directors - Certain Transactions in the definitive proxy statement to be filed by the Company with the Securities and Exchange Commission and is hereby incorporated by reference into this Form 10-K.

PART IV

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ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements:

Report of Independent Public Accountants

Consolidated Balance Sheet as of January 2, 1999 and December 27, 1997

Consolidated Statement of Operations and Accumulated Deficit for the years ended January 2, 1999, December 27, 1997, and December 28, 1996

Consolidated Statement of Cash Flows for the years ended January 2, 1999, and December 27, 1997 Notes to Consolidated Financial Statements

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

(b) Reports on Form 8-K:

On October 20, 1998, The Kroger Co. filed a current report on Form 8-K with the SEC disclosing its unaudited earnings for the third quarter 1998, and its Agreement and Plan of Merger dated as of October 18, 1998, between The Kroger Co., Jobsite Holdings, Inc., and Fred Meyer, Inc.

On October 23, 1998, The Kroger Co. filed a current report on Form 8-K dated October 22, 1998, disclosing materials that were distributed at meetings with analysts conducted in October 1998, relating to The Kroger Co.'s proposed merger with Fred Meyer, Inc.

On December 8, 1998, The Kroger Co. filed a current report on Form 8-K with the SEC disclosing Fred Meyer, Inc.'s financial information and proformas

On December 11, 1998, The Kroger Co. filed a current report on Form 8-K with the SEC disclosing its Underwriting Agreement dated December 8, 1998, among The Kroger Co. and the Underwriters named therein; its Pricing Agreement dated December 8, 1998, among The Kroger Co., Goldman, Sachs & Co., Chase Securities Inc., and Salomon Smith Barney Inc., relating to The Kroger Co.'s 6.80% Senior Notes due 2018; and its Third Supplemental Indenture, dated as of December 11, 1998, between The Kroger Co. and Star Bank, National Association, as Trustee, relating to The Kroger Co.'s 6.80% Senior Notes due 2018

(c) Exhibits

3.1	Amended Articles of Incorporation of The Kroger Co. are incorporated by reference to Exhibit 3.1 of The Kroger Co.'s Quarterly Report on Form 10-Q for the quarter ended October 3, 1998. The Kroger Co.'s Regulations are incorporated by reference to Exhibit 4.2 of The Kroger Co.'s Registration Statement on Form S-3 (Registration No. 33-57552) filed with the SEC on January 28, 1993
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 Commission upon request
10.1	Material Contracts - Third Amended and Restated Employment Agreement dated as of July 22, 1993, between the Company and Joseph A. Pichler is hereby incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended October 9, 1993

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12.1	Statement of Computation of Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Public Accountants
24.1	Powers of Attorney
27.1	Financial Data Schedule
99.1	Annual Reports on Form 11-K for The Kroger Co. Savings Plan and the Dillon Companies, Inc. Employee Stock Ownership Plan and Trust for the Year 1998 will be filed by amendment on or before May 3, 1999

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: March 26, 1999 By (*Joseph A. Pichler)
Joseph A. Pichler, Chairman
of the Board of Directors and
Chief Executive Officer

Dated: March 26, 1999 By (*W. Rodney McMullen)
W. Rodney McMullen
Senior Vice President and
Chief Financial Officer

Dated: March 26, 1999 By (*J. Michael Schlotman)
J. Michael Schlotman
Vice President & Corporate Controller
and Principal Accounting 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 26th day of March, 1999.

(*Reuben V. Anderson) Reuben V. Anderson	Director
(*John L. Clendenin) John L. Clendenin	Director
(*David B. Dillon) David B. Dillon	President, Chief Operating Officer, and Director
(*John T. LaMacchia) John T. LaMacchia	Director
(*Edward M. Liddy) Edward M. Liddy	Director

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(*Clyde R. Moore) Clyde R. Moore	Director
(*T. Ballard Morton, Jr). T. Ballard Morton, Jr.	Director

---------------------- Thomas H. O'Leary	Director
(Katherine D. Ortega) Katherine D. Ortega	Director
(*Joseph A. Pichler) Joseph A. Pichler	Chairman of the Board of Directors, Chief Executive Officer, and Director
(*Martha Romayne Seger) Martha Romayne Seger	Director
(*James D. Woods) James D. Woods	Director

*By: (Bruce M. Gack)
Bruce M. Gack
Attorney-in-fact

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Exhibit 12.1

SCHEDULE OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES OF
THE KROGER CO. AND CONSOLIDATED SUBSIDIARY COMPANIES
FOR THE FIVE FISCAL YEARS ENDED JANUARY 2, 1999

<S>	Five Years Ended				
	January 2, 1999 (53 Weeks) <C>	December 27, 1997 (52 Weeks) <C>	December 28, 1996 (52 Weeks) <C>	December 30, 1995 (52 Weeks) <C>	December 31, 1994 (52 Weeks) <C>
	(in thousands of dollars)				
Earnings					
Earnings from continuing operations before tax expense, extraordinary loss and cumulative effect of change in accounting	$ 712,964	$ 712,363	$ 567,313	$509,538	$421,363
Fixed charges.	478,684	482,338	482,680	489,939	500,599
Capitalized interest	(7,717)	(8,550)	(10,887)	(6,785)	(2,521)
	$1,183,931	$1,186,151	$1,039,106	$992,692	$919,441
Fixed Charges					
Interest	$ 275,912	$ 294,985	$ 311,958	$320,236	$331,097
Portion of rental payments deemed to be interest	202,772	187,353	170,722	169,703	169,502
	$ 478,684	$ 482,338	$ 482,680	$489,939	$500,599
Ratio of Earnings to Fixed Charges.	2.5	2.5	2.2	2.0	1.8

</TABLE>

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EXHIBIT 21.1

SUBSIDIARIES OF THE KROGER CO.

Name	State of Incorporation/Organization
Agri-Products, Inc.	Arkansas
Bluefield Beverage Company	Ohio
Country Oven, Inc.	Ohio
Dillon Companies, Inc.	Kansas
Also Doing Business As:	
Dillon Food Stores	N/A*
Dillon Stores Division, Inc.	N/A*
GHC Merchandise Distribution, Inc.	N/A*
Gerbes Supermarkets	N/A*
King Soopers, Inc.	N/A*
Sav-Mor	N/A*
Drug Distributors, Inc.	Indiana
Embassy International, Inc.	Ohio
Ft. Wayne Food Stores, Inc.	Ohio
Henke & Pillot, Inc.	Texas
Henpil, Inc.	Texas
(Subsidiary of Rocket Newco, Inc.)	
Inter-American Foods, Inc.	Ohio
J.V. Distributing, Inc.	Michigan
Jobsite Holdings, Inc.	
Jubilee Products, Inc.	Ohio
KRGP Inc.	Ohio
KRLP Inc.	Ohio
The Kroger Co. of Michigan	Michigan
Also Doing Business As:	
The Apple Orchard Fruit Market	N/A*
Bi-Lo Discount Foods	N/A*
Michigan Dairy	N/A*
World of Videos, Movies and Munch More	N/A*
Kroger Dedicated Logistics Co.	Ohio
Kroger Limited Partnership I	Ohio (limited partnership)
Also Doing Business As:	
Kentucky Distribution Center	N/A*
Kroger Kare Home Infusion	N/A*
The Pet Food Super Center	N/A*
The Petfood Place	N/A*
Peyton's Southeastern	N/A*
Peyton's Southeastern, Inc.	N/A*
Kroger Limited Partnership II	Ohio (limited partnership)
Also Doing Business As:	
Country Oven Bakery	N/A*
Crossroad Farms Dairy	N/A*
Delight Products Company	N/A*
Heritage Farms Dairy	N/A*
Indianapolis Bakery	N/A*
K. B. Specialty Foods	N/A*
Kenlake Foods	N/A*

EXHIBIT 21.1

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Name	State of Incorporation/Organization
<S>	<C>
Memphis Bakery	N/A*
Pace Dairy of Indiana	N/A*
Peyton's	N/A*
Peyton's Mid-South Company	N/A*
Peyton's Northern	N/A*
Winchester Farms Dairy	N/A*
Kroger Management Co.	Michigan
MANUCO Incorporated	Ohio
Nine Holdings, Inc.	Delaware
One Holdings, Inc.	Delaware
Also Doing Business As:	
Seven Holdings, Inc.	N/A*
Pace Dairy Foods Company	Ohio
Peyton's-Southeastern, Inc.	Tennessee
Also Doing Business As:	
Supermarket Merchandisers Co.	N/A*
Pontiac Foods, Inc.	South Carolina
Rocket Newco, Inc.	Texas
Southern Ice Cream Specialties, Inc.	Ohio
Ten Holdings, Inc.	Delaware
Topvalco, Inc.	Ohio
Two Holdings, Inc.	Delaware
Vine Court Assurance Incorporated	Vermont
Wydiv, Inc.	Texas
(Subsidiary of Rocket Newco, Inc.)	

Subsidiaries of Dillon Companies, Inc.

Name	State of Incorporation/Organization
City Market, Inc.	Colorado
Also Doing Business As:	
Circle Super	N/A*
Dillon Real Estate Co., Inc.	Kansas
Fry's Food Stores, Inc.	California
Fry's Food Stores of Arizona, Inc.	California
(Subsidiary of Fry's Food Stores, Inc.)	
Fry's Leasing Company, Inc.	Arizona
(Subsidiary of Fry's Food Stores of Arizona, Inc.)	
Jackson Ice Cream Co., Inc.	Kansas
Also Doing Business As:	
Jackson & Company	N/A*
Jero, Inc.	Wyoming
(Subsidiary of Mini Mart, Inc.)	
Junior Food Stores of West Florida, Inc.	Florida
Also Doing Business As:	
Tom Thumb Food Stores	N/A*
Kwik Shop, Inc.	Kansas

</TABLE>

EXHIBIT 21.1

Subsidiaries of Dillon Companies, Inc.

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<CAPTION>

Name	State of Incorporation/Organization
<S>	<C>
Mini Mart, Inc.	Wyoming
Also Doing Business As:	
Loaf 'N Jug, Inc.	N/A*
Quik Stop Markets, Inc.	California
THGP Co., Inc.	Pennsylvania
THLP Co., Inc.	Pennsylvania
Turkey Hill, L.P.	Pennsylvania (limited partnership)
Also Doing Business As:	
Turkey Hill Dairy, Inc.	N/A*
Turkey Hill Minit Markets	N/A*
Wells Aircraft, Inc.	Kansas
(Subsidiary of Dillon Real Estate Co., Inc.)	

</TABLE>

* Not Incorporated - Constitutes an assumed and/or fictitious name.

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Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of The Kroger Co. on Form S-8 (File No. 33-2056), Form S-8 (File No. 33-38121), Form S-8 (File No. 33-38122), Form S-8 (File No. 33-53747), Form S-8 (File No. 33-55501), Form S-3 (File No. 33-61563), Form S-8 (File No. 333-11859), Form S-8 (File No. 333-11909), Form S-8 (File No. 333-27211), Form S-4 (File No. 333-66961), and Form S-3 (File No. 333-74389) of our report dated January 28, 1999, on our audits of the consolidated financial statements of The Kroger Co. as of January 2, 1999 and December 27, 1997, and for the years ended January 2, 1999, December 27, 1997, and December 28, 1996, which report is included in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Cincinnati, Ohio
March 26, 1999

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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 Paul W. Heldman and Bruce M. Gack, 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 Kroger Co. 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 26th day of February, 1999.

(Reuben V. Anderson)
Reuben V. Anderson

(John L. Clendenin)
John L. Clendenin

(David B. Dillon)
David B. Dillon

(John T. LaMacchia)
John T. LaMacchia

(Edward M. Liddy)
Edward M. Liddy

(Clyde R. Moore)
Clyde R. Moore

(T. Ballard Morton, Jr.)
T. Ballard Morton, Jr.

Thomas H. O'Leary

(Katherine D. Ortega)
Katherine D. Ortega

(Joseph A. Pichler)
Joseph A. Pichler

(Martha Romayne Seger)
Martha Romayne Seger

(James D. Woods)
James D. Woods

POWER OF ATTORNEY

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KNOW ALL PERSONS BY THESE PRESENTS:

The undersigned officer of THE KROGER CO. (the "Company") does hereby severally make, constitute and appoint Paul W. Heldman and Bruce M. Gack, or either of them, his true and lawful attorneys-in-fact to sign and execute for and on his 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 Kroger Co. to comply with said Act or the rules and regulations thereunder.

IN WITNESS WHEREOF, I have hereunto set my hand.

(J. Michael Schlotman) February 26, 1999
J. Michael Schlotman
Vice President & Corporate Controller
and Principal Accounting Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

The undersigned officer of THE KROGER CO. (the "Company") does hereby

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severally make, constitute and appoint Paul W. Heldman and Bruce M. Gack, or either of them, his true and lawful attorneys-in-fact to sign and execute for and on his 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 Kroger Co. to comply with said Act or the rules and regulations thereunder.

IN WITNESS WHEREOF, I have hereunto set my hand.

(Joseph A. Pichler) February 26, 1999
Joseph A. Pichler
Chief Executive Officer
and Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

The undersigned officer of THE KROGER CO. (the "Company") does hereby severally make, constitute and appoint Paul W. Heldman and Bruce M. Gack, or either of them, his true and lawful attorneys-in-fact to sign and execute for and on his 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 Kroger Co. to comply with said Act or the rules and regulations thereunder.

IN WITNESS WHEREOF, I have hereunto set my hand.

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(W. Rodney McMullen) February 26, 1999
W. Rodney McMullen
Senior Vice President
and Chief Financial Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS:

The undersigned officer of THE KROGER CO. (the "Company") does hereby severally make, constitute and appoint Paul W. Heldman and Bruce M. Gack, or either of them, his true and lawful attorneys-in-fact to sign and execute for and on his 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 Kroger Co. to comply with said Act or the rules and regulations thereunder.

IN WITNESS WHEREOF, I have hereunto set my hand.

(David B. Dillon) February 26, 1999
David B. Dillon
President and Chief Operating Officer
and Director

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