KROGER CO
Form PRE 14A
May 01, 2007

United States
Securities And Exchange Commission
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [x]
Filed by a Party other than the Registrant [_]

Check the appropriate box:
[x] Preliminary Proxy Statement
[_] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[_] Definitive Proxy Statement
[_] Definitive Additional Materials
[_] Soliciting Material Under Rule 14a-12

The Kroger Co.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):
[x] No fee required.
[_] Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

____

2) Aggregate number of securities to which transaction applies:

____

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

____

4) Proposed maximum aggregate value of transaction:

____

5) Total fee paid:

____

[_] Fee paid previously with preliminary materials:

[_] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

PROXY

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

PROXY STATEMENT

AND

2006 ANNUAL REPORT

FINANCIAL HIGHLIGHTS
(in millions except per share data and percentages)

Fiscal Year	2006	2005	Percent Change (1)
Sales	$ 66,111	$ 60,553	9.2%
Operating Profit	$ 2,236	$ 2,035	9.9%
Net earnings per share	$ 1.54	$ 1.31	17.6%
Average shares used in calculation	723	731	(1.1)%
Net cash provided by operating activities	$ 2,351	$ 2,192	7.3%
Capital expenditures	$ 1,683	$ 1,306	28.9%
Identical supermarket sales (2)	$ 59,592	$ 55,993	6.4%
Identical supermarket sales excluding fuel operations (2)	$ 55,399	$ 52,483	5.6%
Comparable supermarket sales (3)	$ 61,045	$ 57,203	6.7%
Comparable supermarket sales excluding supermarket fuel operations (3)	$ 56,702	$ 53,622	5.7%

(1) The percent calculations were based on the rounded numbers as presented.
(2) We define a supermarket as identical when the store has been in operation and has not been expanded or relocated for five full quarters. Annualized identical supermarket sales are calculated as a summation of four quarters of identical sales.
(3) We define a supermarket as comparable when the store has been in operation for five full quarters, including expansions and relocations. Annualized comparable supermarket sales are calculated as a summation of four quarters of comparable sales.

FELLOW SHAREHOLDERS:

I am pleased to write to you about Kroger's 2006 performance and our plans for continued success in 2007 and beyond. Kroger had a very strong year. Our results are a direct result of the hard work and dedication of our 310,000 Associates in every area of our business. We are confident our Customer 1st strategy is connecting with our shoppers and will enable us to continue to generate positive results for our Shareholders, Associates, and the Communities we serve.

OVERVIEW OF KROGER'S BUSINESS STRATEGY

Our results in 2006 clearly demonstrate that our Customer 1st strategy is working. We are focused on listening to our Customers and offering what they tell us is important to them. Whether it is faster checkouts, cleaner stores, more convenience or better value, each of us contributes to putting the Customer 1st every day, in every store. This is the foundation of our business.

Our business strategy also incorporates managing costs, investing in capital projects to keep our stores fresh and inviting, and implementing new technology to reduce costs and improve service.

This approach enables Kroger to continue to deliver on all three elements of our financial "triple play" strategy: reducing debt, investing capital, and repurchasing stock and paying dividends.

REVIEW OF 2006

Kroger delivered consistently strong results in 2006, exceeding our original guidance for both identical supermarket sales and earnings per share growth.

QUARTERLY DIVIDEND INCREASED

On March 15, 2007, Kroger announced that our Board of Directors increased the quarterly dividend it pays shareholders by 15.4% to $0.075 per share. This is the first increase in the quarterly dividend since the Board initiated the dividend program last year.

In keeping with the objectives outlined when the dividend policy was initiated, Kroger's Board increased the amount after considering the Company's overall results, the needs of the business and the interest of shareholders. This increase in the quarterly dividend reflects the Board's confidence in our strategic plan.

IDENTICAL SALES GREW 5.6% WITHOUT FUEL

Our full-year identical supermarket sales growth in 2006, excluding fuel sales, was 5.6% — well in excess of our original goal, which was to exceed 3.5%. Each quarter we raised that target to reflect our sales momentum throughout the year.

Total sales for the year increased 9.2% to $66.1 billion. After adjusting for the extra week in fiscal 2006, total sales increased 7.0% over fiscal 2005.

EARNINGS PER SHARE GROWTH OF 15%

We ended the year with earnings per share growth of 15%, plus the additional value of our cash dividend program, far surpassing our original estimate of 6 8% growth in 2006. We raised that range to 8 10% during the year.

Our earnings per share growth was driven primarily by three factors: strong identical sales, slightly improving operating margins, and fewer shares outstanding.

Net earnings for the year were $1.1 billion, or $1.54 per diluted share. The 53rd week in the fiscal year provided an estimated benefit of $0.07 per diluted share.

COMPETITIVE ADVANTAGES

As the retail food industry evolves, one certainty remains: the environment in which we operate continues to be intensely competitive. We remain focused on our key strengths, which enable us to listen and respond to our Customers. Krogers competitive advantages include:

- our people a team of talented professionals focused on listening and responding to Customers;
- a high-quality asset base with leading market shares in many of the nations largest and fastest-growing markets;
- broad geographic diversity and multiple retail formats that allow Kroger to meet the needs of our diverse Customers;
- our Customer loyalty card database, plus a unique data analysis capability;
- outstanding private-label products that have earned industry-leading market share; and
- a successful track record of competing head-to-head against supercenters.

STRONG MARKET SHARE

Kroger serves customers in 44 major markets regions where we operate nine or more stores. In 2006, Kroger held the No.1 or No. 2 market share position in 38 of our 44 markets. Many of these are the largest and fastest-growing metropolitan areas in the country.

Krogers overall market share in these 44 markets increased approximately 65 basis points during 2006, on a volume-weighted basis. This growth in fiscal 2006 is even more impressive considering it follows our strong market share gains in the previous year. In 2005, Krogers overall market share in our 44 major markets increased more than 35 basis points. Looking at the two years combined, our major market share increased approximately 100 basis points a significant increase that clearly shows Krogers strategic plan is working.

GEOGRAPHIC DIVERSITY AND MULTIPLE FORMATS

Kroger operates food stores in 31 states under two dozen local banners. Our family of stores includes 2,171 combination food and drug stores, 145 price-impact warehouse stores, 122 multi-department stores and 30 Marketplace stores.

Our combination stores employ a flexible format with products tailored to meet the specific needs of the neighborhood. More than 600 of our combination stores include fuel centers.

The Marketplace format is a smaller version of the multi-department stores operated under the Fred Meyer banner. Marketplace stores contain a full grocery store and pharmacy along with expanded general merchandise departments.

Kroger also operates 779 convenience stores, 412 fine jewelry stores and 42 food processing plants.

CUSTOMER INSIGHT

Over the past several years, Kroger has accumulated a substantial database that provides valuable insight into the shopping behaviors of our Customers through our store loyalty card programs. More than 20 million households actively use one of our store loyalty cards.

Kroger's partnership with dunnhumby, a London-based leader in customer insight and data management, allows us to design tailored offerings for each Customer segment.

Our Customer loyalty data provides Kroger with a unique advantage as we seek opportunities to understand and meet our Customers' evolving needs and expectations.

LEADING CORPORATE BRANDS

Kroger's corporate brands are a key part of the company's growth and an important part of our Customer 1st strategic plan. The company's three-tier program — Private Selection, Kroger and Value brands — enables Kroger to serve our broad and diverse Customer base.

Today, more than 10,000 corporate brand products are available only in Kroger's family of stores. Our private label grocery items, in terms of dollars, represent approximately 24% of the Company's grocery sales.

Most of our high-quality, private-label products are made in one of our 42 manufacturing plants.

LOOKING AHEAD TO 2007

We continue to face competitive challenges on all fronts. Consumers today have many choices. We believe we have the right approach — and the right team of people — to meet the diverse needs of today's consumers.

As in 2006, strong identical sales, slightly improving operating margins, and fewer shares outstanding will drive Kroger's earnings per share growth this year.

Kroger’s quarterly cash dividend is an important component of shareholder return. We expect the combination of the Company’s dividend and earnings per share target of $1.60 to $1.65 to deliver a double-digit return for Kroger shareholders in 2007.

Our forecast of Kroger’s growth rate assumes a stable labor environment. The Company has a number of labor negotiations this year covering Associates in Southern California, Cincinnati, Detroit, Houston, Memphis, Toledo, Seattle and West Virginia.

As in the past, these labor negotiations will be challenging in the face of competitive pressures and rising pension and health care costs. We will continue to seek balanced agreements that provide good wages and benefits at a cost that is fair to all in order to invest in our business to create career opportunities for existing — and future Associates.

COMMUNITY ACTIVITIES

Kroger has a long tradition of supporting the communities where our Associates and Customers live and work. More than $150 million was contributed in Kroger’s name during 2006, through donations from our Customers, Associates and the Company, both directly and through our foundations.

Kroger has been supporting the fight to end hunger in America for more than 25 years. In 2006, we were selected “Retailer of the Year” by the food banks of the America’s Second Harvest network. This is the fourth time in six years that Kroger has received this award. It reflects the long-standing and close working relationship we have with more than 85 local food banks.

Last year, our family of stores contributed more than 30 million pounds of food and other products to food banks serving the local communities where we operate. Those donations provided more than 22 million meals to families and individuals across the country through food banks, soup kitchens and emergency pantries. We appreciate the role our Associates, Customers and vendors play in helping us make a difference — in every community we serve.

Each year, Kroger proudly recognizes some of our Associates who make outstanding contributions to their communities. We congratulate the winners of The Kroger Co. Community Service Award for 2006:

Jim Herzberg, Atlanta Division
Betty Porter, Central Division
Keith Eve, Cincinnati/Dayton Division
Kevin Flohr, City Market
Gary L. Moore, Delta Division
Mariana Barrenechea, Dillon Stores
Marnie L. Green, Food 4 Less
Cindi Corderman, Fred Meyer
Randy Poston, Fry’s
Dave Fannin, Great Lakes Division
Mark Combs, Jay C Stores
Matt LeClaire, King Soopers
Ed Southern, Mid-Atlantic
Dorian Shields, Mid-South

Sue Brooks, QFC
Debbie Muhler, Ralphs
Emily Brito, Smiths
Jim Dickinson, Southwest Division
Veronica Johnson, Country Oven Bakery
Lisa Webb, Pace Dairy
Lewis and Maria Tracy, Layton Dairy
Art Anderson, Delight Products
Anne Sturgis, General Office

ENVIRONMENTAL STEWARDSHIP

As one of the largest retailers in the country, Kroger is committed to being a responsible steward of the environment. Conserving energy and controlling the costs associated with energy usage has long been a focus for Kroger. We have made good progress in recent years and continue to look for opportunities to do more.

Since 2000, Kroger has reduced our energy consumption by over 20%, or more than 1.3 billion kilowatt-hours, across all of our square footage. Thats enough energy to light, heat and cool every house in Nashville, Tennessee for one year.

We have learned that one of the most effective ways to reduce energy consumption is by establishing best practices, which we do with the help of every Associate in every store. Our local energy teams create and implement store-specific energy reduction plans. We also have programs in place to train and educate all of our Associates about good energy habits.

Our ongoing efforts in this important area are supported throughout the Company.

PROMOTIONS AND RETIREMENTS

Diversity is one of Krogers core values and to underscore its importance, Kroger named Carver Johnson as the Companys first Chief Diversity Officer last year. Mr. Johnson, who has been with Kroger since 1999, and his team focus on hiring, training and retaining a diverse work force and oversee Krogers supplier diversity efforts. Kroger has been a leader in the use of minority and women-owned business enterprises (M/WBE) in all aspects of our business for more than 25 years, spending $1 billion annually with M/WBEs.

Several individuals were named to lead retail divisions this year, continuing Krogers strong track record of developing leaders and creating opportunities for them within the Company.

Robert Moeder was named President of Krogers Central Division, bringing more than 30 years of retail and division management experience in Kroger to his new position. Mark Prestidge was promoted to President of Krogers Delta Division, after holding several leadership positions in the supermarket industryMichael Ellis was named President of the Companys Fred Meyer division after serving in several leadership positions within Kroger.

On behalf of our entire Company, we extend our appreciation and congratulations to Richard Tillman, who retired after a 42-year career with Kroger. Mr. Tillman joined Kroger as a part-time food store clerk and held a variety of positions with increasing responsibility throughout his career, including President of Kroger’s Delta division.

DELIVERING IMPROVED SERVICE, SELECTION AND VALUE

Kroger’s Customer 1st strategic plan served Customers, Associates and Shareholders well in 2006. We believe it will continue to enable the Company to achieve our objectives in 2007 and beyond.

We are very pleased with Kroger’s growth and performance last year. We know there is much hard work ahead and we know our Associates are up to the challenge.

We must continue to listen closely to our Customers and put their expectations and needs first — in every area of our business, every day — to achieve sustainable, profitable sales growth and continue to create value for our Shareholders.

Thank you for your continued support and trust.

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

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

Cincinnati, Ohio, May 15, 2007

To All Shareholders
of The Kroger Co.:

The annual meeting of shareholders of The Kroger Co. will be held at the MUSIC HALL BALLROOM, MUSIC HALL, 1243 Elm Street, Cincinnati, Ohio, on June 28, 2007, at 11 A.M., E.D.T., for the following purposes:

1. To elect the directors for the ensuing year;
2. To consider, act upon and approve the Kroger Cash Bonus Plan;
3. To consider, act upon and approve a proposal on rules of conduct for shareholder meetings and meetings outside of Cincinnati;
4. To consider and act upon a proposal to ratify the selection of independent auditors for the year 2007;
5. To act upon a shareholder proposal, if properly presented at the annual meeting; and
6. To transact such other business as may properly be brought before the meeting;

all as set forth in the Proxy Statement accompanying this Notice. Holders of common shares of record at the close of business on April 30, 2007 will be entitled to vote at the meeting.

ATTENDANCE

Only shareholders and persons holding proxies from shareholders may attend the meeting. Please **bring to the meeting the admission ticket** that is attached to the proxy card.

If your shares are held in the name of a broker, trust, bank, or other nominee, please bring a proxy or letter from that broker, trust, bank or nominee confirming that you are the beneficial owner of those shares. The left side portion of the voting instruction form that you receive from your broker will serve as your admission ticket.

YOUR MANAGEMENT DESIRES TO HAVE A LARGE NUMBER OF SHAREHOLDERS REPRESENTED AT THE MEETING, IN PERSON OR BY PROXY. PLEASE VOTE YOUR PROXY ELECTRONICALLY VIA THE INTERNET OR TELEPHONE, OR SIGN AND DATE THE ENCLOSED PROXY AND MAIL IT IN THE ENCLOSED SELF-ADDRESSED ENVELOPE. NO POSTAGE IS REQUIRED IF MAILED WITHIN THE UNITED STATES.

If you are unable to attend the annual meeting, you may listen to a live webcast of the meeting, which will be accessible through our website (www.kroger.com) at 11 a.m., E.D.T.

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

PROXY STATEMENT

Cincinnati, Ohio, May 15, 2007

The accompanying proxy is solicited by the Board of Directors of The Kroger Co., and the cost of solicitation will be borne by Kroger. We will reimburse banks, brokers, nominees, and other fiduciaries for postage and reasonable expenses incurred by them in forwarding the proxy material to their principals. Kroger has retained D.F. King & Co., Inc., 48 Wall Street, New York, New York, to assist in the solicitation of proxies and will pay that firm a fee estimated at present not to exceed $12,500. Proxies may be solicited personally, by telephone, electronically via the Internet or by mail.

David B. Dillon, Steven R. Rogel, and John T. LaMacchia, all of whom are Kroger directors, have been named members of the Proxy Committee.

The principal executive offices of The Kroger Co. are located at 1014 Vine Street, Cincinnati, Ohio 45202-1100. Our telephone number is 513-762-4000. This Proxy Statement and Annual Report, and the accompanying proxy, were first sent or given to shareholders on May 15, 2007.

As of the close of business on April 30, 2007, our outstanding voting securities consisted of 710,217,716 shares of common stock, the holders of which will be entitled to one vote per share at the annual meeting. The shares represented by each proxy will be voted unless the proxy is revoked before it is exercised. Revocation may be in writing to Kroger's Secretary or in person at the meeting or by appointment of a subsequent proxy. Shareholders may not cumulate votes in the election of directors. At the 2006 annual meeting, shareholders voted to amend Kroger's Articles of Incorporation to eliminate cumulative voting.

The effect of broker non-votes and abstentions on matters presented for shareholder vote is as follows:

Item No. 1, Election of Directors The election of directors is, pursuant to Ohio law, determined by plurality. Broker non-votes and abstentions will have no effect on this proposal.

Item No. 2, Approval of Kroger Cash Bonus Plan Approval by shareholders of the Kroger Cash Bonus Plan requires the affirmative vote of the majority of shares participating in the voting. Accordingly, broker non-votes and abstentions will have no effect on this proposal.

Item No. 3, Rules of Conduct for Shareholder Meetings; Meetings Outside of Cincinnati The affirmative vote representing a majority of the outstanding shares of our common stock is required to amend Kroger s Regulations to provide for rules of conduct in connection with shareholder meetings and permitting these meetings outside of Cincinnati, Ohio. Abstentions and broker non-votes will have the same effect as votes against this proposal.

Item No. 4, Selection of Auditors Ratification by shareholders of the selection of auditors requires the affirmative vote of the majority of shares participating in the voting. Accordingly, abstentions will have no effect on this proposal.

Item No. 5, Shareholder proposal The affirmative vote of a majority of shares participating in the voting on this proposal is required for its adoption. Proxies will be voted AGAINST this proposal unless the Proxy Committee is otherwise instructed on a proxy properly executed and returned. Abstentions and broker non-votes will have no effect on this proposal.

PROPOSALS TO SHAREHOLDERS

ELECTION OF DIRECTORS
(ITEM NO. 1)

The Board of Directors, as now authorized, consists of 16 members divided into two classes. Although shareholders voted in 2006 to declassify the Board and cause all directors to be elected annually, the directors elected in 2005 will continue to serve their remaining terms until the annual meeting in 2008. All other members are to be elected at the annual meeting to serve until the annual meeting in 2008, or until their successors have been elected by the shareholders or by the Board of Directors pursuant to Kroger s Regulations and qualified. Candidates for director receiving the greatest number of votes cast by holders of shares entitled to vote at a meeting at which a quorum is present are elected, up to the maximum number of directors to be chosen at the meeting. Pursuant to guidelines adopted by the Board, in an uncontested election, any nominee who receives a greater number of votes withheld from his or her election than votes for such election promptly will tender his or her resignation following certification of the shareholder vote. The Corporate Governance Committee of our Board of Directors will consider the resignation offer and recommend to the Board whether to accept the resignation. The committee memberships stated below are those in effect as of the date of this proxy statement. It is intended that, except to the extent that authority is withheld, the accompanying proxy will be voted for the election of the following persons:

Name	Professional Occupation (1)	Age	Director Since

NOMINEES FOR DIRECTOR FOR TERMS OF OFFICE

CONTINUING UNTIL 2008

Reuben V. Anderson	Mr. Anderson is a member in the Jackson, Mississippi, office of Phelps Dunbar, a regional law firm based in New Orleans. Prior to joining this law firm, he was a justice of the Supreme Court of Mississippi. Mr. Anderson is a director of Trustmark National Bank and AT&T Inc. He is a member of the Corporate Governance and Public Responsibilities Committees.	64	1991
John L. Clendenin	Mr. Clendenin is Chairman Emeritus of BellSouth Corporation, a holding company with subsidiaries in the telecommunications business. From January 1984 through December 1996 he was its Chairman of the Board and Chief Executive Officer. Mr. Clendenin is a director of Equifax Incorporated, The Home Depot, Inc., Powerwave Technologies, Inc., and Acuity Brands, Inc. He is a member of the Compensation and Corporate Governance Committees.	72	1986

Name	Professional Occupation (1)	Age	Director Since
David B. Dillon	Mr. Dillon was elected Chairman of the Board of Kroger in 2004, Chief Executive Officer in 2003, and President and Chief Operating Officer in 2000. He served as President in 1999, and as President and Chief Operating Officer from 1995-1999. Mr. Dillon was elected Executive Vice President of Kroger in 1990 and President of Dillon Companies, Inc. in 1986. He is a director of Convergys Corporation.	56	1995
David B. Lewis	Mr. Lewis is Chairman, President and Chief Executive Officer of Lewis & Munday, a Detroit based law firm with offices in Washington, D.C. and Seattle. He is a director of H&R Block. Mr. Lewis has served on the Board of Directors of Conrail, Inc., LG&E Energy Corp., Lewis & Thompson Agency, Inc., M.A. Hanna, TRW, Inc. and Comerica, Inc. He is chair of the Audit	62	2002

	Committee and vice chair of the Public Responsibilities Committee.		
Don W. McGeorge	Mr. McGeorge was elected President and Chief Operating Officer of Kroger in 2003. Before that he was elected Executive Vice President in 2000 and Senior Vice President in 1997.	52	2003
W. Rodney McMullen	Mr. McMullen was elected Vice Chairman of Kroger in 2003. Before that he was elected Executive Vice President in 1999 and Senior Vice President in 1997. Mr. McMullen is a director of Cincinnati Financial Corporation.	46	2003
Jorge P. Montoya	Mr. Montoya was the President of The Procter & Gamble Company's Global Snacks & Beverage division, and President of Procter & Gamble Latin America, from 1999 until his retirement in 2004. Prior to that, he was an Executive Vice President of Procter & Gamble from 1995 to 1999. Mr. Montoya is a director of Gap, Inc. and Rohm & Haas Company. He is a member of the Compensation and Public Responsibilities Committees.	60	2007
Clyde R. Moore	Mr. Moore is the Chairman and Chief Executive Officer of First Service Networks, a national provider of facility and maintenance repair services. He is a director of First Service Networks. Mr. Moore is a member of the Audit and Compensation Committees.	53	1997

Name	Professional Occupation (1)	Age	Director Since
Susan M. Phillips	Dr. Phillips is Dean and Professor of Finance at The George Washington University School of Business, a position she has held since 1998. She was a member of the Board of Governors of the Federal Reserve System from December 1991 though June 1998. Before her Federal Reserve appointment, Dr. Phillips served as Vice President for Finance and University Services and Professor of Finance in The College of Business Administration at the University of Iowa from 1987 through 1991. She is a director of State Farm Mutual Automobile Insurance Company, State Farm Life Insurance Company, State Farm Companies Foundation, National Futures Association, the Chicago Board Options Exchange and the Chicago Futures Exchange. Dr. Phillips	62	2003

	also is a trustee of the Financial Accounting Foundation. She is a member of the Audit and Financial Policy Committees.		
Steven R. Rogel	Mr. Rogel was elected Chairman of the Board of Weyerhaeuser Company in 1999 and has been President and Chief Executive Officer and a director thereof since December 1997. Before that time he was Chief Executive Officer, President and a director of Willamette Industries, Inc. Mr. Rogel served as Chief Operating Officer of Willamette Industries, Inc. until October 1995 and, before that time, as an executive and group vice president for more than five years. He is a director of Union Pacific Corporation. Mr. Rogel has been appointed by the Board to serve as Lead Director. He is chair of the Corporate Governance Committee and a member of the Financial Policy Committee.	64	1999
James A. Runde	Mr. Runde is a special advisor and a former Vice Chairman of Morgan Stanley, where he has been employed since 1974. He was a member of the Board of Directors of Burlington Resources Inc. prior to its acquisition by ConocoPhillips in 2006. Mr. Runde serves as a trustee of Marquette University and the Pierpont Morgan Library. He is a member of the Compensation and Financial Policy Committees.	60	2006

Name	Professional Occupation (1)	Age	Director Since
Ronald L. Sargent	Mr. Sargent is Chairman and Chief Executive Officer of Staples, Inc., where he has been employed since 1989. Prior to joining Staples, Mr. Sargent spent 10 years with Kroger in various positions. In addition to serving as a director of Staples, Mr. Sargent is a director of Mattel, Inc. He is a member of the Audit and Public Responsibilities Committees.	51	2006

DIRECTORS WHOSE TERMS OF OFFICE CONTINUE UNTIL 2008

Robert D. Beyer	Mr. Beyer is Chief Executive Officer of The TCW Group, Inc., an investment management firm, where he has been employed since 1995. From 1991 to 1995, he was the co-Chief Executive Officer of	47	1999

	Crescent Capital Corporation, which was acquired by TCW in 1995. Mr. Beyer is a member of the Board of Directors of TCW and its parent, Société Générale Asset Management, S.A. He is also a member of the Board of Directors of The Allstate Corporation. Mr. Beyer is chair of the Financial Policy Committee and a member of the Compensation Committee.		
John T. LaMacchia	Mr. LaMacchia is Chairman of the Board of Tellme Networks, Inc., a provider of voice application networks. From September 2001 through December 2004 he was also Chief Executive Officer of Tellme Networks. From October 1993 through February 1999, Mr. LaMacchia was President and Chief Executive Officer of Cincinnati Bell Inc. From May 1999 to May 2000 he was Chief Executive Officer of CellNet Data Systems, Inc., a provider of wireless data communications. He is chair of the Compensation Committee and a member of the Corporate Governance Committee.	65	1990
Katherine D. Ortega	Ms. Ortega served as an Alternate Representative of the United States to the 45th General Assembly of the United Nations in 1990-1991. Prior to that, she served as Treasurer of the United States. Ms. Ortega is a director of Rayonier Inc., Washington Mutual Investors Fund and JPMorgan Value Opportunities Fund, and Trustee of the American Funds Tax Exempt Series I. She is chair of the Public Responsibilities Committee and a member of the Financial Policy Committee.	72	1992

Name	Professional Occupation (1)	Age	Director Since
Bobby S. Shackouls	Until the merger of Burlington Resources Inc. and ConocoPhillips, which became effective on March 31, 2006, Mr. Shackouls was Chairman of the Board of Burlington Resources Inc., a natural resources business, since July 1997 and its President and Chief Executive Officer since December 1995. He had been a director of that company since 1995 and President and Chief Executive Officer of Burlington Resources Oil and Gas Company (formerly known as Meridian Oil Inc.), a wholly-owned subsidiary of Burlington Resources, since 1994. Mr. Shackouls is a	56	1999

director of ConocoPhillips. He is vice chair of the Audit and Corporate Governance Committees.

(1) Except as noted, each of the directors has been employed by his or her present employer (or a subsidiary) in an executive capacity for at least five years.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

COMMITTEES OF THE BOARD

The Board of Directors has a number of standing committees including Audit, Compensation, and Corporate Governance Committees. All standing committees are composed exclusively of independent directors. All Board Committees have charters that can be found on our corporate website at www.thekrogerco.com under *Guidelines on Issues of Corporate Governance*. During 2006, the Audit Committee met nine times, the Compensation Committee met four times, and the Corporate Governance Committee met four times. Committee memberships are shown on pages 8 through 12 of this Proxy Statement. The Audit Committee reviews financial reporting and accounting matters pursuant to its charter and selects our independent accountants. The Compensation Committee recommends for determination by the independent members of our Board the compensation of the Chief Executive Officer, determines the compensation of Kroger's other senior management and administers certain long-term incentive programs. Additional information on the Compensation Committee's processes and procedures for consideration of executive compensation are addressed in the Compensation Discussion and Analysis below. The Corporate Governance Committee develops criteria for selecting and retaining members of the Board; seeks out qualified candidates for the Board; and reviews the performance of Kroger, the CEO, and the Board.

The Corporate Governance Committee will consider shareholder recommendations for nominees for membership on the Board of Directors. Recommendations relating to our annual meeting in June 2008, together with a description of the proposed nominee's qualifications and other relevant information, must be submitted in writing to Paul W. Heldman, Secretary, and received at our executive offices not later than January 15, 2008. Shareholders who desire to submit a candidate for director should send the name of the proposed candidate, along with information regarding the proposed candidate's background and experience, to the attention of Kroger's Secretary at our executive offices. The shareholder also should indicate the number of shares beneficially owned by the shareholder. The Secretary will forward the information to the Corporate Governance Committee for its consideration. The Committee will use the same criteria in evaluating candidates submitted by shareholders as it uses in evaluating candidates identified by the Committee. These criteria are:

- Demonstrated ability in fields considered to be of value in the deliberations of the Board, including business management, public service, education, science, law and government;
- Highest standards of personal character and conduct;
- Willingness to fulfill the obligations of directors and to make the contribution of which he or she is capable, including regular attendance and participation at Board and committee meetings, and preparation for all meetings including review of all meeting materials provided in advance of the meeting; and
- Ability to understand the perspectives of Kroger's customers, taking into consideration the diversity of our customers including regional and geographic differences.

The Corporate Governance Committee typically recruits candidates for Board membership through its own efforts and through suggestions from other directors and shareholders. The Committee has retained an outside search firm to assist in identifying and recruiting Board candidates who meet the criteria established by the Committee.

The Board elected Mr. Montoya, Mr. Runde and Mr. Sargent as directors to fill vacancies since the 2006 annual meeting. Non-management directors, our CEO, and a third-party search firm jointly recommended each of these directors.

CORPORATE GOVERNANCE

The Board of Directors has adopted *Guidelines on Issues of Corporate Governance*. These *Guidelines*, which include copies of the current charters for the Audit, Compensation and Corporate Governance Committees, and the other committees of the Board of Directors, are available on our corporate website at www.thekrogerco.com Shareholders may obtain a copy of the *Guidelines* by making a written request to Kroger’s Secretary at our executive offices.

INDEPENDENCE

The Board of Directors has determined that all of the directors, with the exception of Messrs. Dillon, McGeorge and McMullen, have no material relationships with Kroger and therefore are independent for purposes of the New York Stock Exchange listing standards. The Board made its determination based on information furnished by all members regarding their relationships with Kroger. After reviewing the information, the Board determined that all of the non-employee directors were independent because (i) they all satisfied the independence standards set forth in Rule 10A-3 of the Securities Exchange Act of 1934, (ii) they all satisfied the criteria for independence set forth in Rule 303A.02(b) of the New York Stock Exchange Listed Company Manual, and (iii) other than business transactions between Kroger and entities with which the directors are affiliated, the value of which falls below the thresholds identified by the New York Stock Exchange listing standards, none had any material relationships with us except for those arising directly from their performance of services as a director for Kroger.

LEAD DIRECTOR

The Lead Director presides over all executive sessions of the non-management directors; serves as the principal liaison to the non-management directors; and consults with the Chairman regarding information to be sent to the Board, meeting agendas and establishing meeting schedules. Unless otherwise determined by the Board, the chair of the Corporate Governance Committee is designated as the Lead Director.

AUDIT COMMITTEE EXPERTISE

The Board of Directors has determined that David B. Lewis and Susan M. Phillips, both independent directors who are members of the Audit Committee, are “audit committee financial experts” as defined by applicable SEC regulations and that all members of the Audit Committee are “financially literate” as that term is used in the NYSE listing standards.

CODE OF ETHICS

The Board of Directors has adopted *The Kroger Co. Policy on Business Ethics*, applicable to all officers, employees and members of the Board of Directors, including Kroger’s principal executive, financial and accounting officers. The *Policy* is available on our corporate website at www.thekrogerco.com. Shareholders may obtain a copy of the *Policy* by making a written request to Kroger's Secretary at our executive offices.

14

COMMUNICATIONS WITH THE BOARD

The Board has established two separate mechanisms for shareholders and interested parties to communicate with the Board. Any shareholder or interested party who has concerns regarding accounting, improper use of Kroger assets, or ethical improprieties may report these concerns via the toll-free hotline (800-689-4609) or email address (helpline@kroger.com) established by the Board's Audit Committee. The concerns are investigated by Kroger's Vice President of Auditing and reported to the Audit Committee as deemed appropriate by the Vice President of Auditing.

Shareholders or interested parties also may communicate with the Board in writing directed to Kroger's Secretary at our executive offices. The Secretary will consider the nature of the communication and determine whether to forward the communication to the chair of the Corporate Governance Committee. Communications relating to personnel issues or our ordinary business operations or seeking to do business with us, will be forwarded to the business unit of Kroger that the Secretary deems appropriate. All other communications will be forwarded to the chair of the Corporate Governance Committee for further consideration. The chair of the Corporate Governance Committee will take such action as he or she deems appropriate, which may include referral to the Corporate Governance Committee or the entire Board.

ATTENDANCE

The Board of Directors met six times in 2006. During 2006, all incumbent directors attended at least 75% of the aggregate number of Board meetings and committee meetings on which that director was a member. Members of the Board are expected to use their best efforts to attend all annual meetings of shareholders. Eleven of the thirteen members of the Board attended last year's annual meeting.

15

COMPENSATION DISCUSSION AND ANALYSIS

EXECUTIVE COMPENSATION — GENERAL PRINCIPLES

The Compensation Committee of the Board has the primary responsibility for establishing the compensation of Kroger's executive officers, including the named executive officers who are identified in the Summary Compensation table below, with the exception of the Chief Executive Officer. The Committee's role regarding the CEO's compensation is to make recommendations to the independent members of the Board; those independent Board members establish the CEO's compensation.

The Committee's philosophy on compensation generally applies to all levels of Kroger management. That approach requires Kroger to:

- Make total compensation competitive;
- Include opportunities for equity ownership as part of compensation; and
- Use incentive compensation to help drive performance by providing superior pay for superior results.

The following discussion and analysis addresses the compensation of the named executive officers. Additional detail is provided in the compensation tables and the accompanying narrative disclosures that follow this discussion and analysis.

EXECUTIVE COMPENSATION OBJECTIVES

The Committee has several related objectives regarding compensation. First, the Committee believes that compensation must be designed to attract and retain those best suited to fulfill the challenging roles that executive officers play at Kroger. Second, some elements of compensation should help align the interests of the officers with your interests as shareholders. Third, compensation should create strong incentives for the officers (a) to achieve the annual business plan targets established by the Board, and (b) to assure that the officers work within the framework of Krogers long-term strategic objectives. In developing compensation programs and amounts to meet these objectives, the Committee exercises restraint to assure that executive officer compensation does not exceed reasonable and competitive levels in light of Krogers performance and the needs of the business.

To meet these objectives, the Committee has taken a number of steps over the last several years, including the following:

- Conducted an annual review of all components of executive officer compensation, quantifying total compensation on tally sheets. The review includes an assessment for each officer, including the CEO, of salary; performance-based cash compensation, or bonus; equity and long-term incentive compensation; accumulated realized and unrealized stock option gains and restricted stock values; the value of any perquisites; retirement benefits; severance benefits available under The Kroger Co. Employee Protection Plan; and earnings and payouts available under Krogers non-qualified deferred compensation program.

- Considered internal pay equity at Kroger. The Committee is aware of reported concerns at other companies regarding disproportionate compensation awards to chief executive officers. The Committee has assured itself that the compensation of Krogers CEO and that of the other named executive officers bears a reasonable relationship to the compensation levels of other executive positions at Kroger.

- Recommended share ownership guidelines, adopted by the Board of Directors. These guidelines require directors, officers and some other key executives to acquire and hold a minimum dollar value of Kroger stock. The guidelines require the CEO to acquire and maintain ownership of Kroger shares equal to 5 times his base salary; the Vice Chairman and the Chief Operating Officer to acquire and maintain ownership at 4 times their base salaries; Executive Vice Presidents, Senior Vice Presidents and non-employee directors at 3 times their base salaries or annual cash retainers; and other officers and key executives at 2 times their base salaries.

ESTABLISHING EXECUTIVE COMPENSATION

The independent members of the Board have the exclusive authority to determine the amount of the CEOs salary; the bonus level for the CEO; the nature and amount of any equity awards made to the CEO; and any other compensation questions related to the CEO. In setting the bonus level for the CEO, the independent directors determine the dollar amount that will be multiplied by the percentage payout under the annual bonus plan applicable to all corporate management. The independent directors retain discretion to reduce the percentage payout the CEO would otherwise receive. The independent directors thus make a separate determination annually concerning both the CEOs bonus level as well as the percentage of bonus paid.

The Committee performs the same function and exercises the same authority as to the other named executive officers. The Committees annual review of compensation for the named executive officers includes the following:

- A detailed report, by officer, that describes current compensation, the value of equity compensation previously awarded, the value of retirement benefits earned, and any severance or other benefits payable upon a change of control.

- An internal equity comparison of compensation at various senior levels. This current and historical analysis is undertaken to assure that the relationship of CEO compensation to other senior officer compensation, and senior officer compensation to other levels in the organization, is equitable.

- A report from the Committee's compensation consultant (described below) "benchmarking" named executive officer and other senior executive compensation with that of other companies, primarily our competitors, to assure that the Committee's objectives of competitiveness are met.

- A recommendation from the CEO (except in the case of his own compensation) for salary, bonus level and equity awards for each of the senior officers including the other named executive officers. The CEO's recommendation takes into consideration the objectives established by and the reports received by the Committee as well as his assessment of individual job performance and contribution to our management team.

- Historical information regarding salary, bonus and equity compensation for a 3-year period.

In considering each of the factors above, the Committee does not make use of a formula, but rather subjectively reviews each in making its compensation determination.

THE COMMITTEE'S COMPENSATION CONSULTANT AND BENCHMARKING

The Committee directly engages a compensation consultant from Mercer Human Resource Consulting to advise the Committee in the design of compensation for executive officers. While the parent and affiliated companies of Mercer Human Resource Consulting perform other services for us, the Committee has found that the consultant is independent because (a) he was first engaged by the Committee before he became associated with Mercer; (b) he works exclusively for the Committee and not for our management; and (c) he does not benefit from the other work that Mercer performs for Kroger.

The consultant conducts an annual competitive assessment of executive positions at Kroger for the Committee. The assessment is one of several bases, as described above, on which the Committee determines compensation. The consultant assesses base salary; target annual performance-based bonus; target cash compensation (the sum of salary and bonus); annualized long-term incentive awards, such as stock options, other equity awards, and performance-based long-term bonuses; and total direct compensation (the sum of all these elements). The consultant compares these elements against those of other companies in a peer group of publicly-traded food and drug retailers. For 2006, the group consisted of:

Albertson's	Safeway
Costco Wholesale	Supervalu
CVS	Target
Great Atlantic & Pacific Tea	Walgreens
Rite Aid	Wal-Mart

The make-up of the compensation peer group is reviewed annually and modified as circumstances warrant. Industry consolidation and other competitive forces will change the peer group used. The consultant also provides the Committee data from companies in "general industry," a representation of major publicly-traded companies. These data are a reference point, particularly for senior staff positions where competition for talent extends beyond the retail sector.

Kroger is the second-largest company as measured by annual revenues when compared with this peer group and the largest traditional food and drug retailer. The Committee has therefore sought to ensure that salaries paid to our executive officers are at or above the median paid by competitors for comparable positions and to provide an annual bonus potential to our executive officers that, if annual business plan objectives are achieved, would cause their total cash compensation to be meaningfully above the median.

Based in part on the analysis performed by the Committee's compensation consultant, the Committee concluded in 2005 that when comparing total compensation of the named executive officers to that of the peer group:

- cash compensation for the named executive officers as a group fell approximately at the median, and
- long-term compensation for the named executive officers fell substantially below the median.

As a result, the Committee determined to increase the potential for the named executive officers to earn long-term compensation through the adoption of a performance-based long-term bonus plan. The long-term bonus plan is discussed in more detail below.

COMPONENTS OF EXECUTIVE COMPENSATION AT KROGER

Compensation for our named executive officers is comprised of the following:

- Salary
- Performance-Based Annual Cash Bonus (annual, non-equity incentive pay)
- Performance-Based Long-Term Cash Bonus (long-term, non-equity incentive pay)
- Equity
- Retirement and other benefits
- Perquisites

SALARY

We provide our named executive officers and other employees a fixed amount of cash compensation—salary—for the executive's work. Salaries for named executive officers are established each year by the Committee. Salaries for the named executive officers typically are reviewed in May of each year.

The amount of each executive's salary is influenced by numerous factors including:

- An assessment of individual contribution in the judgment of the CEO and the Committee (or, in the case of the CEO, of the Committee)
- Benchmarking with comparable positions at peer group companies
- Tenure with Kroger
- Relationship with the salaries of other executives at Kroger.

In 2006, the named executive officers received salary increases following the annual review of their compensation in May.

	Salaries	
	2005	2006
David B. Dillon	$ 1,100,000	$ 1,150,000
J. Michael Schlotman	$ 450,000	$ 505,000
W. Rodney McMullen	$ 773,000	$ 805,000
Don W. McGeorge	$ 773,000	$ 805,000
Donald E. Becker	$ 540,000	$ 575,000

The increases for Mr. Becker and Mr. Schlotman were greater than those for the others primarily because of benchmarking and their development in increased responsibilities.

PERFORMANCE-BASED ANNUAL CASH BONUS

A large percentage of our employees at all levels, including the named executive officers, are eligible to receive an annual performance-based cash bonus based on Kroger or unit performance. The Committee establishes bonus potentials for each executive officer, other than the CEO whose bonus potential is established by the independent directors. Actual payouts, which can exceed 100% of the potential amounts only in the case of extraordinary performance, represent the extent to which performance meets or exceeds the thresholds established by the Committee.

The Committee considers several factors in making its determination or recommendation as to bonus potentials. First, the individual's level within the organization is a factor in that the Committee believes that more senior executives should have a greater part of their compensation dependant upon Kroger's performance. Second, the individual's salary is a factor so that a substantial portion of a named executive officer's total cash compensation is dependant upon Kroger's performance. Finally, the Committee considers the report of its compensation consultant to assess the bonus potential of the named executive officers in light of total compensation paid to comparable executive positions in the industry.

The bonus potential of each named executive officer for 2005 and 2006 is shown below. Mr. Becker's bonus potential was increased because of an increase in salary and responsibility.

	Bonus	
	2005	2006
David B. Dillon	$ 1,500,000	$ 1,500,000
J. Michael Schlotman	$ 450,000	$ 450,000
W. Rodney McMullen	$ 950,000	$ 950,000
Don W. McGeorge	$ 950,000	$ 950,000
Donald E. Becker	$ 525,000	$ 550,000

The amount of bonus that the named executive officers earn each year is determined by Kroger's performance compared to targets established by the Committee based on the business plan adopted by the Board of Directors. In 2006, thirty percent of bonus was earned based on an identical sales target; thirty percent was based on a target for EBITDA; thirty percent was based on a set of measures for implementation and results under our strategic plan; and ten percent was based on the performance of new capital projects compared to their budgets.

Targets in all cases allow for minimal bonus to be earned at relatively low levels to provide incentive for achieving even higher levels of performance. The extent to which Kroger fell short of, met, or exceeded the targets established in each of these areas at the beginning of 2006 determined the percentage of each named executive officer's bonus potential paid for 2006.

In 2006, as in all years, the Committee retained discretion to reduce the bonus payout for named executives officers if the Committee determined for any reason that the bonus payouts were not appropriate. The independent directors retained that discretion for the CEO's bonus. Those bodies also retained discretion to adjust the targets under the plan should unanticipated developments arise during the year.

Following the close of the year, the Committee reviewed Kroger's performance against the identical sales, EBITDA, strategic plan and capital projects objectives. The Committee made one adjustment that reduced the bonuses of the named executive officers by less than one percent. The Committee determined that income from the sale of certain assets should not be included in EBITDA for purposes of the bonus calculation. The independent members of the Board made the same adjustment, resulting in the same reduction of bonus, for the CEO. No other adjustments were made. As a result, each of the named executive officers earned 141.118% of their bonus potentials.

The percentage paid for 2006 represented and resulted from an extraordinary performance against the business plan objectives. A comparison of bonus percentages for the named executive officers in prior years demonstrates the variability of incentive compensation:

Fiscal Year	**Bonus Percentage**
2006	141.118%
2005	132.094%
2004	55.174%
2003	24.1%
2002	9.9%

The actual amounts of annual performance-based cash bonuses paid to the named executive officers for 2006 are shown in the Summary Compensation table under the heading "Non-Equity Incentive Plan Compensation." These amounts represent the bonus potentials for each named executive officer multiplied by the percentage earned in 2006. In the case of Mr. Becker, the bonus potential was adjusted during 2006, and the amount he earned was based on a pro-rated bonus potential.

PERFORMANCE-BASED LONG-TERM CASH BONUS

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

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

The 2006 plan consists of two components. The first component measures the improvements through fiscal year 2009. The second, or phase-in component, measures the improvements through fiscal year 2007. Actual payouts will be based on the degree to which improvements are achieved, and will be awarded in increments based on the participants salary at the end of fiscal 2005. The Committee administers the plan and determines the bonus payout amounts based on achievement of the performance criteria. No amounts have yet been earned under this plan.

EQUITY

Awards based on Krogers common stock are granted periodically to the named executive officers and a large number of other employees. Equity participation aligns the interests of employees with your interest as shareholders, and Kroger historically has distributed equity awards widely. In 2006, Kroger granted 3,233,090 stock options to approximately 6,652 employees, including the named executive officers, under one of Krogers long-term incentive plans. The options permit the holder to purchase Kroger common stock at an option price equal to the trading price of Kroger common stock on the date of the grant. Historically options could be granted at any regularly scheduled meeting of the Committee. In 2007 the Committee adopted a policy of granting options only on one of the four Committee meetings conducted in the same week following Krogers public release of its quarterly earnings results.

Krogers long-term incentive plans also provide for other equity-based awards, including restricted stock. During 2006 Kroger awarded 2,225,833 shares of restricted stock to 14,240 employees, including the named executive officers. This amount is substantially higher than in past years, as we began reducing the number of stock options granted and increasing the number of shares of restricted stock awards. The change in Krogers broad-based equity program from predominantly stock options to a mixture of options and restricted shares was precipitated by (a) the perception of increased value that restricted shares offer, (b) the retention benefit to Kroger of restricted shares, and (c) changes in accounting conventions that permitted the change without added cost.

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

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

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

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

RETIREMENT AND OTHER BENEFITS

Kroger maintains a defined benefit and several defined contribution retirement plans for its employees. The named executive officers participate in one or more of these plans, as well as one or more excess plans designed to make up the shortfall in retirement benefits created by limitations under the Internal Revenue Code on benefits to highly compensated individuals under qualified plans. Additional details regarding retirement benefits available to the named executive officers can be found in the 2006 Pension Benefits table and the accompanying narrative description that follows this discussion and analysis.

Kroger also maintains an executive deferred compensation plan in which some of the named executive officers participate. This plan is a nonqualified plan under which participants can elect to defer up to 100% of their cash compensation each year. Compensation deferred during a deferral year bears interest at the rate equal to Kroger's cost of ten year debt, which is not a preferential rate of interest. Deferred amounts are paid out only in cash, in accordance with a deferral option selected by the participant at the time the deferral election is made.

We adopted The Kroger Co. Employee Protection Plan, or KEPP, during fiscal year 1988. That plan has been renewed in 1993, 1998, and in 2003. All of our management employees and administrative support personnel whose employment is not covered by a collective bargaining agreement, with at least one year of service, are covered. KEPP provides for severance benefits and extended Kroger-paid health care when an employee is actually or constructively terminated without cause within two years following

---

a change in control of Kroger (as defined in the plan). Participants who are at least 40 and who have more than six years of service are entitled to severance pay ranging from approximately 9 to 20 months' salary and bonus. The actual amount is dependent upon pay level and other benefits. KEPP can be amended or terminated by the Board at any time prior to a change in control. It will expire in 2008 unless renewed by the Board.

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

None of the named executive officers is party to an employment agreement. The CEO did have an employment contract that expired on November 30, 2006, and was not renewed.

PERQUISITES

The Committee does not believe that it is necessary for the attraction or retention of management talent to provide the named executive officers a substantial amount of compensation in the form of perquisites. In 2006, the only perquisites provided were:

- personal use of Kroger aircraft, which officers may lease from Kroger, and pay the average variable cost of operating the aircraft, making officers more available and allowing for a more efficient use of their time,
- payments of premiums of life insurance policies, and reimbursement of the tax effects of those payments,
- reimbursement for the tax effects of participation in a non-qualified retirement plan, and
- reimbursement of up to $4,500 for financial planning services, which reimbursement has been discontinued in 2007.

The total amount of perquisites furnished to the named executive officers is shown in the Summary Compensation table and described in more detail in footnote 5 to that table.

SECTION 162(M) OF THE INTERNAL REVENUE CODE

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

Although Kroger's bonus plans are not discretionary but rather rely on performance criteria, these plans have not been approved by shareholders in the past. As a result, they currently do not satisfy the Internal Revenue Code's requirements for deductibility. At the 2007 annual meeting of shareholders Kroger is submitting for approval of shareholders (see Item No. 2 below) its cash bonus plan. If approved by shareholders, bonuses paid under the plan to the CEO and the next four most highly compensated officers will be deductible by Kroger. In Kroger's case, this group of individuals is not identical to the group of named executive officers.

23

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

COMPENSATION COMMITTEE REPORT

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

Compensation Committee:

John T. LaMacchia, Chair

Robert D. Beyer

John L. Clendenin

Jorge P. Montoya

Clyde R. Moore

James A. Runde

24

SUMMARY COMPENSATION TABLE

The following table shows the compensation of the Chief Executive Officer, Chief Financial Officer and each of the Company's three most highly compensated executive officers other than the CEO and CFO (the "named executive officers") during fiscal 2006. Fiscal year 2006 consisted of 53 weeks.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($) (1)	Option Awards ($) (1)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3)	All Other Compensation ($) (4)	Total ($)
David B. Dillon Chairman and CEO	2006	$ 1,155,991	—	$ 519,160	$ 3,311,870	$ 2,116,770	$ 1,008,309	$ 142,437	$ 8,254,537
J. Michael Schlotman Senior Vice President and CFO	2006	$ 499,099	—	$ 97,835	$ 339,653	$ 635,031	$ 256,221	$ 31,819	$ 1,859,658
W. Rodney McMullen Vice Chairman	2006	$ 809,969	—	$ 195,956	$ 794,327	$ 1,340,621	$ 360,184	$ 44,530	$ 3,545,587
Don W. McGeorge President and COO	2006	$ 809,969	—	$ 195,956	$ 811,355	$ 1,340,621	$ 698,272	$ 83,891	$ 3,940,064
Donald E. Becker Executive Vice President	2006	$ 575,413	—	$ 533,782	$ 576,090	$ 767,496	$ 711,031	$ 87,552	$ 3,251,364

---

(1) This amount represents the dollar amount recognized for financial statement reporting purposes with respect to the fiscal year in accordance with FAS 123(R). See discussion of the assumptions made in the valuation in Note 10 to the financial statements in the Company's Form 10-K filed with the SEC on April 4, 2007. Expense excludes 6.5% estimate of forfeitures, but includes an acceleration of expense for options granted to those reaching age 55 with at least five years of service. The named executive officers had no forfeitures in 2006.

(2) The Compensation Committee awarded a 141.118% payout for the executive officers including the named executive officers, in accordance with the terms of the 2006 performance-based cash bonus program.

(3) All amounts are attributable to change in pension value. During 2006, pension values increased significantly primarily due to increases in final average earnings used in determining pension benefits. Since the benefits are based on final average earnings and service, the effect of the final average earnings increase is larger for those with longer service. Please refer to the Pension Benefits table for further information regarding credited service. The Company does not provide any above-market or preferential earnings on nonqualified deferred compensation.

(4) These amounts include the reimbursement of life insurance premiums in the amounts of $69,435, $16,745, $22,221, $44,213 and $43,187 for Mr. Dillon, Mr. Schlotman, Mr. McMullen, Mr. McGeorge and Mr. Becker, respectively. These amounts also include reimbursement for the tax effects of paying such premiums in the amounts of $43,321, $9,704, $13,438, $25,761 and $26,945 for Mr. Dillon, Mr. Schlotman, Mr. McMullen, Mr. McGeorge and Mr. Becker, respectively. These amounts further include reimbursement for the tax effects of participation in a nonqualified retirement plan

in the amounts of $16,885, $5,370, $8,871, $13,649, and $16,931 for Mr. Dillon, Mr. Schlotman, Mr. McMullen, Mr. McGeorge, and Mr. Becker, respectively. For Mr. Dillon and Mr. Becker these amounts also include the value of financial planning services in the amounts of $4,500 and $489, respectively. Reimbursement for financial planning services has been discontinued in 2007. Excluded from these totals is income imputed to the named executive officer when accompanied on our aircraft during business travel by non-business travelers. These amounts for Mr. Dillon and Mr. McGeorge, calculated using the applicable terminal charge and Standard Industry Fare Level (SIFL) mileage rates, were $8,296 and $268, respectively. The other named executive officers had no such imputed income for 2006. Separately, we require that officers who make personal use of our aircraft reimburse us for the full amount of the variable cost associated with the operation of the aircraft on such flights in accordance with a time-sharing arrangement consistent with FAA regulations.

Kroger historically has paid incentive compensation to its named executive officers based on the extent to which objectives established by the Committee are achieved. This compensation has been referred to as “bonus” in prior year proxy statements, but is now categorized as “non-equity incentive plan compensation.” The amounts shown above as non-equity incentive plan compensation reflect the compensation earned in 2006 and payable in 2007. Kroger and Mr. Dillon were parties to a five-year employment agreement that expired on November 30, 2006 and was not renewed. Restricted stock awards were granted under a long-term incentive plan, and restrictions on those shares lapse with the passage of time.

GRANTS OF PLAN-BASED AWARDS

The following table provides information about equity and non-equity awards granted to the named executive officers in 2006:

2006 GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards Target ($) (1)	Estimated Future Payouts Under Equity Incentive Plan Awards Target (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Under-lying Options (#)	Exercise or Base Price of Option Awards ($/Sh) (4)	Closing Market Price ($/Sh)	Grant Date Fa[…] Value o[…] Stock a[…] Option[…] Awards[…]
David B. Dillon	1/29/2006	$1,500,000						
	5/4/2006		120,000(2)					$2,392,8[…]
	5/4/2006		240,000(3)			$19.94	$20.04	$1,658,0[…]
J. Michael Schlotman	1/29/2006	$ 450,000						
	5/4/2006		10,000(2)					$ 199,4[…]
	5/4/2006		20,000(3)			$19.94	$20.04	$ 138,1[…]
W. Rodney McMullen	1/29/2006	$ 950,000						
	5/4/2006		30,000(2)					$ 598,2[…]

	5/4/2006		60,000(3)	$19.94	$20.04	$ 414,51
Don W. McGeorge	1/29/2006	$ 950,000				
	5/4/2006		30,000(2)			$ 598,20
	5/4/2006		60,000(3)	$19.94	$20.04	$ 414,51
Donald E. Becker	1/29/2006	$ 543,868				
	5/4/2006		12,500(2)			$ 249,25
	5/4/2006		25,000(3)	$19.94	$20.04	$ 172,71

(1) These amounts represent the bonus base or potential of the respective named executive officer under the Company’s 2006 performance-based cash bonus program. As shown in the Summary Compensation table, actual payout was 141.118% of the bonus base of each named executive officer for 2006.

(2) This amount represents the number of restricted shares awarded under The Kroger Co. 2005 Long- Term Incentive Plan.

(3) This amount represents the number of stock options granted under The Kroger Co. 2005 Long-Term Incentive Plan.

(4) Options under The Kroger Co. 2005 Long-Term Incentive Plan are granted at fair market value of Kroger common stock on the date of the grant. Fair market value was defined as the average of the high and low trading prices of Kroger stock on the date of the grant.

The Compensation Committee of the Board of Directors, and the independent members of the Board in the case of the CEO, established bonus bases, shown in this table as “target” amounts, for the non-equity incentive plan awards for the named executive officers. Amounts were payable to the extent that performance met specific objectives established at the beginning of the year. As described in the Compensation Discussion and Analysis, actual earnings can exceed the target amounts if performance exceeds the thresholds. Restrictions on restricted stock awards made to the named executive officers lapse in equal amounts on each of the five anniversaries of the date the award is made, as long as the officer is then in our employ. Any dividends declared on Kroger common stock are payable on restricted stock.

Non-qualified stock options granted to the named executive officers vest in equal amounts on each of the five anniversaries of the date of grant. Those options were granted at the fair market value of Kroger common stock on the date of the grant. Options are granted only on one of the pre-established regularly scheduled Board meeting dates.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table discloses outstanding equity-based incentive compensation awards for the named executive officers as of the end of fiscal year 2006. Each outstanding award is shown separately. Option awards include performance-based nonqualified stock options. The vesting schedule for each award is described in the footnotes to this table.

OUSTANDING EQUITY AWARDS AT 2006 FISCAL YEAR-END

Option Awards	Stock Awards	
Equity Incentive	Equity Incentive Plan Awards: Number of Unearned	Equity Incentive Plan Awards: Market or Payout Value of Unearned

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Shares, Units or Other Rights That Have Not Vested (#)	Shares, Units or Other Rights That Have Not Vested ($)
David B. Dillon									
	30,000			$13.44	5/15/2007	120,000(11)	$3,102,000		
	35,000			$22.23	4/16/2008				
			35,000(6)	$22.23	4/16/2008				