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While 2016 presented challenges, we start 2017 with optimism. We are optimistic about the rising American economy and for Kroger's growth opportunities in the \$1.5 trillion food market. Our optimism, above all, is driven by our talented associates and their ability to make a difference for our customers, our communities, and each other.

America's Grocer

We are proud to be America's grocer, serving more than 8.5 million customers every day in nearly 2,800 supermarket locations in the U.S.

We are encouraged by the resurgence of confidence in "America's economic dynamism" that Warren Buffet recently described in his letter to shareholders. At the beginning of our new fiscal year in February, consumer confidence hit a 15-year high due to an improving labor market and a renewed, positive outlook about the future. We join in this economic enthusiasm.

For our part, we continue to create new jobs in our stores. At a time when many entry-level jobs are being eliminated due to the changing economy and advancements in technology, Kroger is creating new opportunities for people as a place to train and acquire the skills they need to be successful throughout their lives. Last year, our family of companies created more than 12,000 new U.S. jobs. Over the past eight years, Kroger has added more than 86,000 new jobs to the American economy. We continue to honor our military men and women through dedicated veterans hiring initiatives. We hired more than 9,000 veterans and their family members in 2016. These figures represent organic job growth in our stores, and do not include jobs created as a result of capital investment to build new stores or jobs associated with mergers.

Of course, factoring in Kroger's more than \$3.6 billion in capital investments last year means we helped create even more temporary construction jobs that lift local economies all across the country.

Kroger remains a company where you can turn a job into a career and develop the skills to manage a multi-million-dollar business without a college degree. We are especially proud that approximately 70 percent of our store managers started their Kroger careers as entry-level, part-time clerks. Today, we employ more than 443,000 associates. Our investments in human capital in 2016 – in wages, health care, retirement benefits, and training – reached more than \$15.6 billion.

Committed to Long-term Value Creation

Our investment in people has always been part of Kroger's strategy to grow and create sustainable, long-term shareholder value. We remain committed to delivering net earnings per diluted share growth of 8 – 11% on a three-to-five year time horizon. This is an achievable target, even in a challenging environment. Over both the last three and the last five years, Kroger has exceeded our long-term net earnings per diluted share growth rate.

As we work toward our long-term objective, we also continue to return value to shareholders in the near term through share buybacks and an increasing dividend over time, subject to board approval. In 2016, Kroger returned more than \$2.2 billion to shareholders through share buybacks and dividends combined. Kroger has delivered double-digit compound growth in our dividend since it was reinstated in 2006.

A Collective Sense of Urgency

In last year's letter, I talked about Kroger's collective sense of urgency, and that urgency has only intensified. We always build our business plan assuming the environment is going to get *more* competitive next year not less. We operate every day with a company-wide goal to win share in a competitive market by delivering for our customers – and thereby delivering for our shareholders.

The year behind us didn't turn out the way we wanted it to, largely as a result of the persistent deflationary environment. Transitions between inflation and deflation are very difficult operating environments, and we spent much of last year in the middle of just such a transition.

We are clear-eyed about the challenges ahead. Our team is constantly challenging itself to do better. Our Board of Directors is also actively engaged, reviewing and approving our strategy annually and constantly challenging our management to elevate performance.

Market Share Growth Amid Deflation

2016 wasn't without its bright spots. Kroger achieved its 12th consecutive year of market share growth last year and, while we were disappointed with our fourth quarter identical supermarket sales result, our annual identical supermarket sales were positive at 1.0% – and we outpaced many of our competitors. Tonnage continued to grow during the year, and we achieved a record high unit share in our Corporate Brands portfolio. We also announced an exciting merger with the world's greatest purveyor of specialty cheese, Murray's Cheese.

Committed to Our Customer 1st Strategy

In order to continue to win market share, we have to continue to adapt to our customers' ever-changing needs. As a result, we regularly evolve our Customer 1st Strategy based on where we believe and anticipate the customer is going. We're constantly mining our data to assess product trends, making careful judgments about what customers will want three, five and even 10 years from now. So while our overarching strategy doesn't change, the tactics we put in place to execute the strategy will. Ten years ago natural and organic was not a central focus in our stores because it was not a central focus for our customers. Five years ago we made a concerted effort to make natural and organic the "plus a little" part of our product strategy (we want our most loyal customers to say "At Kroger, I get the products I want, plus a little"). Today, natural and organic foods are integral to our success – indeed, they are the products our customers have come to expect – and reached \$16 billion in annual sales in 2016.

Our focus on the fundamentals of our people, products, the shopping experience, and price remains unchanged, and our commitment to them is stronger than ever. Executing our long-term strategy means intensifying our efforts to lower costs. We intend to continue winning with our people, our products, and the shopping experience, and *we will not lose* on price.

Investing for Today and the Future

Kroger has an incredible opportunity to grow in the \$1.5 trillion food market. I have total confidence in Kroger's long-term growth potential because I have total confidence in our team's talent and desire to be the best. Yes, we have a lot of work to do. But we wouldn't have it any other way. As we often say, our "to do" list is longer than our "done" list.

As our customers change and evolve, we are taking steps to meet them where they are and – more importantly – where they are going.

Anything, Anytime, Anywhere

We are building digital experiences so our customers can engage and shop for anything, anytime, anywhere. The excellent service they experience in the store will carry over seamlessly to our digital platforms. Whether shopping online, finding personalized and relevant promotions and recipes or downloading one of the more than one billion digital offers loaded to shopper cards each year, more and more customers are connecting digitally with Kroger.

Data-driven Decisions

In order to develop a sophisticated understanding of our customers' behavior, we are leveraging cutting-edge customer insights from 84.51° plus years of online shopping experience from both Vitacost.com and Harris Teeter. We're utilizing this rich data set to make decisions about location, assortment and promotions to engage our customers.

Digital and Delivery

We're making meaningful, targeted investments in digital initiatives. We've aggressively added more than 420 ClickList and Harris Teeter ExpressLane locations in 2016. This brings our total online ordering locations to more than 640. The response from our customers has been overwhelmingly positive – our customers consistently use words like “LOVE!” or “Game Changer!” when describing how the service is making their lives better. We are experimenting with ways to solve the last mile equation. We're testing both Uber and Shipt delivery in several locations with plans to expand in 2017.

Digitization of the Store

Another way we continue to push the boundaries with data and technology is through a series of initiatives at scale that, taken together, comprise what we believe may be one of the largest *Internet of Things* deployments in the world.

This includes our digital temperature monitoring deployment, which monitors and regulates temperatures in every refrigerated and frozen case in our stores. In addition to saving us money, freeing up our associates to take care of customers (rather than manually logging temperatures), and improving food safety by removing the potential for human error, this initiative is also giving us something of unrivaled value: even more data. Our operators and engineers can apply this new data toward process improvements, further cost savings initiatives, and perhaps even commercializing and selling this new technology to other retailers.

This is but one example of what Kroger's in-house team of inventors and innovators can do by leveraging one of the most impressive digital labs available in the world: 2,800 actual store locations and a real retail environment to test and learn in.

Customer Megatrends

We are also keenly aware of growing customer megatrends, like health and wellness and the desire for restaurant-quality fresh and prepared foods that are also very convenient. Our initiatives in these areas will continue to be a big focus of both our capital and Customer 1st investments.

Introducing Kroger Meal Kits

Our culinary team has developed delicious meal kits that are available in pilot stores today, and we have plans to quickly make them available at scale over the course of the next year. Meal kits are one of many offerings designed to meet our customers' changing definition of convenience. We believe Kroger can really excel in this small but growing segment.

Kroger Specialty Pharmacy

Kroger is a leading provider of health and wellness services, whether it is food, pharmacy, health and medical services or wellness checkups. We operate 2,255 pharmacy locations as well as 220 retail health clinics under The Little Clinic banner. Our pharmacists also provide health coaching, biometric screening and other wellness services designed to deliver positive health outcomes for patients.

In 2012, Kroger merged with Axiom Pharmacy, one of the nation's largest independent providers of specialty pharmacy services, offering a range of clinical services to patients with complex chronic conditions. In 2016, we

made a strategic investment to merge Axiom with ModernHEALTH, also one of the country's largest specialty pharmacy services providers. The two companies now operate together as Kroger Specialty Pharmacy, which offers our customers greatly expanded services in this growing market.

Strong Corporate Brands

Our Corporate Brands business was another really bright spot in 2016. Our brands are in more homes than ever before. We sold a record number of units last year. In fact, our customers fill their carts with more than 1.25 million Corporate Brand items *every hour*. Simple Truth grew at an impressive rate again in 2016, reaching total sales of \$1.7 billion. Simple Truth Organic accounted for more than \$1 billion of that total.

Thank You to Recent Retirees

We recently extended a voluntary retirement offer to certain non-store associates, which we announced in December 2016. Approximately 2,000 non-store associates were eligible for the offer, and about 1,300 accepted.

To say we are grateful for all of their contributions just is not enough. The fact is Kroger would not be the company it is today without their years of dedication and service to our customers, communities and colleagues.

On behalf of the entire Kroger family, I want to thank all of our associates who recently retired.

Our Social Contract

Kroger is committed to making the world a better place. Our purpose is to feed the human spirit, to create uplifting experiences and offer each other the food and inspiration we need to live our best lives.

Throughout our history, our company has always focused on making sure people have food and nourishment. We know that meals matter. Research shows that families who share meals together have children who do better in all aspects of their lives.

And yet, hunger remains the greatest challenge in our communities. In fact, looking at the state of hunger in America today, we see a startling absurdity: One in seven people in America go to bed hungry every night and yet 40 percent of the food produced in the United States is uneaten every year. We know Kroger can play a greater leadership role in changing those ratios because Kroger is already a recognized leader in both of these areas.

Kroger is committed to becoming a zero waste company by 2020, and as a founding member of Feeding America, the nation's largest domestic hunger relief organization, we are working hard to leverage our people, our assets, our technology and other resources to build upon what previous generations at Kroger had the foresight to invest their time, capital and talents to help establish. Thanks to the amazing generosity of our customers, associates, and partners, Kroger today donates more than one billion meals over every four years to feed hungry families in our communities. We lead our industry in developing a scalable fresh food donations program that rescues fresh meat, produce, dairy and bakery items from the waste bin.

As Ohio's governor, John Kasich, said in a recent State of the State address, "Hunger in our communities – that's not liberal or conservative, Republican or Democrat." We couldn't agree more, and that's why we are inviting all of our shareholders, customers, associates and other stakeholders to join us in both envisioning and working toward an America with zero hunger and zero waste.

Sustainability

Kroger's goal is to drive sustainability and innovation across the supply chain. In 2016, we released our 10th annual sustainability report and announced a series of bold goals to increase responsible sourcing and improve eco-stewardship by 2020. Our goals include expanding our 100% sustainable seafood commitment in partnership with the World Wildlife Fund, optimizing 100% of our Corporate Brand packaging, transitioning toward a 100% cage-free egg supply chain, and achieving our zero waste goal, among others. Thanks to the commitment of our

associates, Kroger earned a spot on the Dow Jones Sustainability Index for the fourth consecutive year. I invite you to learn more about our sustainability initiatives by visiting our website, sustainability.kroger.com.

Diversity

Kroger is a proud member of the Billion Dollar Roundtable and the United States Hispanic Chamber of Commerce *Million Dollar Club*. Earlier this year, Kroger was named one of the top eight corporations in the U.S. for inclusion by Omnikal, formerly Diversity Business Magazine.

Core Strengths

As I've shared with our shareholders recently, Kroger's core strengths remain our most valuable assets. On the people front: we have great associates, an effective and experienced management team, and a deep bench of future leaders; on the financial front: we have a strong balance sheet and the flexibility to create sustainable shareholder value; on the customer front: we have deep customer insights through our data analytics experts at 84.51° and – above all – an unwavering commitment to putting our customers first; and in our communities: Kroger's purpose is what drives us both individually and as a company to make a difference in the lives of our customers and each other, to make each day a little better, and to be a part of the solution to some of our communities' most vexing challenges.

On behalf of all of us, thank you for your continued confidence in Kroger.

For our associates, thank you for what you do every day for our customers and each other.

Sincerely,



Rodney McMullen
Chairman and CEO

Kroger Safe Harbor Statement

This letter contains "forward-looking statements" within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995 about future performance of Kroger, including with respect to Kroger's ability to achieve short- and long-term sales and earnings goals, sustainable long-term shareholder value, ability to execute on our growth strategy and business plan, ability to increase dividends, ability to grow market share, and ability to develop new brands and implement new technologies, among other statements. These statements are based on management's assumptions and beliefs in light of the information currently available to it. These statements are indicated by words such as "expect," "anticipate," "believe," "plans," "committed," "goal," "will," "designed," "remain," and "continue." These statements are subject to known and unknown risks, uncertainties and other important factors that could cause actual results and outcomes to differ materially from those contained in the forward-looking statements. These include the specific risk factors identified in "Risk Factors" and "Outlook" in Kroger's Annual Report on Form 10-K and any subsequent filings with the Securities and Exchange Commission.