

FELLOW SHAREHOLDERS:

Every day we open our doors and welcome more than eight-and-a-half million people who are hungry for more than food. They want to make their lives easier, healthier, brighter and a bit lighter. Our purpose at Kroger is to do just that – to make a difference for our customers, our communities and our associates. When our business delivers on that purpose, we create value for our shareholders.

What makes Kroger different? It all starts with our more than 431,000 associates who share a passion for people, a passion for results, and a passion for food. We like to say that Kroger is more than the sum of its parts. Like a great meal, there is no single characteristic – no one person or thing – that explains Kroger's success. Rather, it is a unique and powerful combination of factors that make Kroger unique, including our:

- Customer 1st Strategy and our team's extraordinary execution of it;
- Exceptional merchandisers, operators and deep bench of leaders;
- Ability to leverage scale as a large company *and* remain local and relevant to individual customers through our use of data;
- Strong manufacturing base and diverse Corporate Brands offering; and our
- Commitment to making our customers lives better through the use of technology and innovation, to name just a few.

There is another aspect of our company culture that I want to reiterate: *Our team is never satisfied with yesterday's results.* We are constantly challenging ourselves to do better. And this shows in the everyday interactions with our customers – who are giving Kroger higher and higher marks in each of the four key areas of our Customer 1st Strategy: our customer service, the quality of our products, low prices and overall shopping experience.

Can a collective sense of urgency be a differentiator? We think so. And while our core business is and will remain strong, we are strategically expanding beyond our core and innovating in new and exciting ways that we believe have transformative potential for our business, customers and associates.

The following letter will outline our growth strategy and why Kroger is positioned as an exceptionally strong long-term investment. But first, a few words about our terrific performance in 2015.

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A Triple Crown 2015

Some of my fondest memories as a child were listening to baseball games on the radio. I have been a life-long fan of the game. When I think about extraordinary performance results in baseball, I think about the batting Triple Crown. The Triple Crown occurs when a player posts league-leading results in key performance areas – generally batting average, runs batted in and home runs. It occurs rarely: only 17 times since 1878, and with a forty-year drought from 1967 until 2012.

As CEO, when I judge Kroger's overall performance, I think about how well we are delivering for our customers, for our associates, and for our shareholders. I'm pleased to report that it has been a Triple Crown year for Kroger. Because in fiscal 2015, we:

- Achieved our 12th consecutive year of positive identical supermarket sales growth,
- Improved overall engagement with and created more opportunity for associates, and
- Delivered financial results in line with our long-term growth objectives and a total shareholder return of 13.63%.

In fact, we exceeded all of our financial performance targets for the year. Growth in identical supermarket sales and net earnings per diluted share, FIFO operating profit margin expansion and return on invested capital were all better than our long-term guidance. We also achieved our eleventh consecutive year of market share growth. In 2015, we continued to return cash to shareholders. Kroger's

Board of Directors approved a quarterly dividend increase of 13.5%, a two-for-one split of Kroger's common shares, and a \$500 million share repurchase program. We have delivered double-digit compound annual growth in our dividend since it was reinstated in 2006, and we continue to expect an increasing dividend over time. The stock split announced in June both increased liquidity in the trading of our shares and, importantly, made Kroger's common shares more accessible to all of our associates. Kroger's strong financial position has enabled the company to return approximately \$12 billion to shareholders through share repurchases since January 2000, and approximately \$2.6 billion in dividends since 2006.

Unlike baseball's Triple Crown, Kroger's 2015 performance wasn't a rarity. Kroger is a compelling investment because of our ability to deliver remarkably consistent results. That consistency can at times make it easy for our results to be taken for granted. But I can assure you this: we don't take Kroger's success for granted – not for a second. To repeat what I said above, what makes our team of associates so special is that we are never satisfied with what we've already accomplished. Kroger may be 133 years old, but we are just getting started.

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Improving our Core, Beyond the Core, and Innovation – A Strategy for Long-Term Value Creation

Our growth strategy is designed to deliver consistent sales growth and sustainable shareholder value for the long-term. We aim to provide a net earnings per diluted share growth rate of 8 – 11% plus an increasing dividend. Our Board of Directors reviews and approves our strategy annually.

We look at growth initiatives in three categories: our core business, beyond the core, and innovation. Balance among these three areas is crucial to our strategy. Too many companies over-focus on innovation in the hopes of discovering the next “big thing”. Balance – the integration of these strategic elements across our business – is how we'll continue to win with customers and create sustainable long-term value for shareholders.

Grow Our Core

Kroger's core business is strong and growing. Our fundamental strategy, Customer 1st, continues to drive us forward. Productivity remains a top priority. We are not done taking costs out of the business in places where our customers don't notice so that we can reinvest the savings in ways that matter most to them. Since we launched our Customer 1st strategy in 2004, we have reduced prices annually by more than \$3.6 billion.

We are also narrowing our focus on Friendly & Fresh investments. These initiatives are designed to accelerate progress on the key factors that customers tell us determine where they shop – a store with genuinely friendly service, and produce, meat and seafood offerings at the peak of freshness. While it isn't as easy to see this type of non-price investment on the balance sheet, they are no less important than our price investments and remain a priority.

We are investing in markets with growth potential so we can serve more customers every day. In 2015 we merged with Milwaukee-based Roundy's, Inc. Roundy's brought to Kroger more than 22,000 talented associates and outstanding Pick 'n Save, Copps and Metro Market store locations in new markets in the state of Wisconsin, plus an innovative, urban format called Mariano's in Chicago. Roundy's shares our commitment to putting customers first and we see great potential for future growth together. Important to our success with mergers is that we don't need them to meet our long-term earnings per diluted share growth target of 8 – 11%. This frees us to only pursue deals that are the right fit for our company and will help create long-term value for shareholders.

We continue to expand our presence in fill-in markets across the country as well. These are markets where we already operate, yet offer a significant opportunity to grow the business. We are making incremental capital investments in these markets to grow market share, which will, in turn, improve return on invested capital.

Beyond the Core

We believe that a differentiator for Kroger is the convenient locations of our stores, nearly all of which are within two miles of our customers' homes. A strategic question for us is how do we leverage an asset like convenience to improve our customers' lives even more? Expanding *ClickList* – our order online, pick up at the store service – is one way. As of the end of the first quarter 2016, *ClickList* and Harris Teeter's *ExpressLane* service are operating in 221 stores. Customer feedback has been remarkable – they love it and tell us pickup is just as convenient, if not more convenient, than home delivery. We will continue expanding the availability of *ClickList* in more stores and more markets. Longer term, we are working toward providing our customers with a truly seamless shopping experience, where they can count on us for anything, anytime, anywhere.

Our private label Corporate Brands offering remains a competitive advantage for us. *Simple Truth* and *Simple Truth Organic* reached \$1.5 billion in annual sales in 2015. Customers are embracing our philosophy that you shouldn't have to pay higher prices just because a product is natural or organic. And we are there for them, continuing to grow our reputation as a destination for fresh, local and sustainable products, all at affordable prices. In 2015, our natural and organics sales totaled well over \$12 billion.

We continue identifying potential partners that enhance our ability to deliver on our strategy beyond the core. An example is our recently-announced strategic partnership with Lucky's Market, a specialty grocery store chain focused on natural, organic and locally-grown products. Our interest and investment in Lucky's is fueled by the company's great people and unique go-to-market strategy – with a 30,000 square foot store format that resembles an indoor farmers market and a culinary department that showcases amazing, restaurant-quality prepared foods.

Innovation

Across our business, we are innovating and striving for an even stronger, more personalized connection with our customers. We have found that the better we connect with customers one-on-one, the better experience they'll have and the more loyal to Kroger they will be. It may sound counter intuitive, but Kroger uses "big data" to help each customer in the most individual way, such as targeted offers for a new product we think they will like but haven't tried before.

I use a digital activity tracker to help me stay in shape (10,000 steps or more per day). What I like about activity trackers is the immediate feedback – at the end of the day, either you hit your step goal or you didn't. There's no deceiving yourself. That is the core principle behind Kroger's use of data: *Data helps you to be honest with yourself*. 84.51°, which we introduced in April 2015, helps us understand our data so we can be incredibly focused on actual customer preferences – especially when they run counter to our assumptions.

We continue to experiment with new technologies, new products and new store formats. Last year we launched a Digital Shelf Edge pilot. This proprietary technology can display high-resolution shelf tags and rich media content right at the point of purchase. Customers have been very receptive, and an added benefit is that digitizing price tags frees up store associates to focus even more on serving our customers. We view this as foundational technology, and while we still have a lot of work to do to prove it is scalable, we are excited about the possibilities for connecting with mobile devices and offering tailored content.

Corporate Brands is developing entirely new brands found exclusively in our family of stores. In 2015, we launched one such new line called *HemisFares*. Whether it is rich and creamy Sicilian Gelato or freshly-harvested, extra virgin olive oil from the La Mancha region of Spain, our goal with *HemisFares* is to bring only the best food finds to our customers by offering products imported directly from the most food-rich regions of the world.

In early 2016 we launched *Main & Vine*, a new, community-focused concept grocery store in Gig Harbor, Washington. *Main & Vine* reimagines the grocery shopping experience by featuring produce and bulk items in the center of the store, rather than the perimeter as you'd see in most of our stores. The concept features an Event Center where shoppers can enjoy cooking demonstrations, food and beverage tastings, and find new recipe ideas, and it offers an array of products including fresh, organic, local and specialty foods alongside everyday products, all at affordable prices.

Making a Difference for Associates, Communities and the Planet

We believe that customers and associates increasingly make decisions based on how well companies take care of their people, their communities and the planet. This is especially true for Millennials, who make up more than half of Kroger's workforce today.

I often tell potential new hires that if you like people and love food, Kroger is the place to be. All associates have opportunities for personal and professional growth. Our store managers successfully manage multi-million-dollar businesses. More than two-thirds of them started their Kroger careers as part-time clerks. We are very proud of our *opportunity culture*, where associates can turn a job into a career.

As our business expands we are creating new jobs and new opportunities for current associates. We added 9,000 jobs in 2015 and have created more than 74,000 jobs over the past eight years. We continue to honor our military men and women through dedicated veterans hiring initiatives. Last year alone we hired more than 7,000 veterans, and we have hired more than 35,000 veterans since 2009.

In our communities, hunger remains our greatest challenge. Our commitment to hunger relief runs broad and deep. As a founding member of Feeding America, the nation's largest domestic hunger-relief organization, Kroger works with more than 100 local food banks that are part of Feeding America's network. Our associates sit on local food bank boards, lend technical expertise in areas such as food safety, procurement and logistics, and provide thousands of volunteer hours annually to sort, pack and serve food. Our associates also make possible Kroger's Perishable Donations Program, a process to rescue safe, edible fresh products and donate them quickly to local food banks. In 2015, Kroger donated food and funds valued at more than \$160 million, the equivalent of 276 million meals.

We make strategic investments in several other causes that our customers have identified as priorities for their communities. In 2015, we donated more than \$6 million to support women's health and breast cancer awareness programs. Fully half of it was contributed by customers and associates. Kroger remains the largest cumulative giver to the USO in support of the military and their families. We contributed \$3 million in 2015, which brings Kroger's cumulative donation since 2010 to more \$14 million.

We see our community connection as a competitive advantage for Kroger and a point of pride for our associates. Last year Kroger's family of companies donated \$51 million to support more than 145,000 community organizations selected by our customers through Community Rewards, an innovative program that delivers customer-driven donations based on purchases in our stores. This very popular program drives customer loyalty and enhances Kroger's reputation as a generous community partner.

Every day in our stores, distribution centers, manufacturing facilities and offices, we strive to make a positive difference for the planet as well. We do this in countless ways, both large and small.

Moving toward "zero waste" is one of Kroger's top sustainability priorities. Whether it is diverting waste from landfills, reducing our packaging, recycling plastic bags, or donating safe, perishable foods to food banks, we are improving recycling rates and finding cost effective and responsible alternatives for our waste. Today, 1,190 stores participate in food waste recycling initiatives, and 31 of our manufacturing plants are designated as "zero waste" facilities.

We are increasingly focused on a sustainable supply chain. As one of the largest global food retailers, we have opportunities to positively influence the food system from the farm to the table. Multiple initiatives are underway to do just that. Through our commitment to locally grown and produced foods in our communities and to Fair Trade and Rainforest Alliance certified products around the world; from making a difference in the U.S. dairy supply chain, to ensuring the sustainability of global fisheries, and increasing supplier audits in high-risk commodities and regions – we are working with suppliers to drive accountability into the supply chain.

I invite you to learn more about our sustainability initiatives by reading our annual sustainability report, available on our website sustainability.kroger.com.

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We strive to be a good steward of the planet – for our customers, associates and communities.

We strive to be a good steward of your investment – to deliver long-term growth you can count on.

And we strive to be better today than we were yesterday – always.

I have unshakeable confidence in Kroger's future because I have confidence in our associates' ability to make a difference.

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

Sincerely,



W. 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, execute on our growth strategy and business plan, ability to increase dividends, ability to grow market share, and our 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,” “guidance,” “plans,” “committed,” “goal,” “will,” “designed,” “remain,” “view,” “strive,” “aim” 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 (SEC).