

Compensation Discussion and Analysis

Executive Summary

Named Executive Officers

This Compensation Discussion and Analysis provides a discussion and analysis of our compensation program for our named executive officers (“NEOs”). For the 2016 fiscal year ended January 28, 2017, the NEOs were:

<u>Name</u>	<u>Title</u>
W. Rodney McMullen	Chairman and Chief Executive Officer
J. Michael Schlotman	Executive Vice President and Chief Financial Officer
Michael J. Donnelly	Executive Vice President of Merchandising
Christopher T. Hjelm	Executive Vice President and Chief Information Officer
Frederick J. Morganthall II	Executive Vice President of Retail Operations

Executive Compensation in Context: Our Pay for Performance Strategy, our Business Strategy and Fiscal Year 2016 Results

Our 2016 compensation program demonstrates the strong connection between performance and pay as executives are measured against metrics aligned with our Customer 1st Strategy. While we made progress in several of our strategic initiatives and operational performance, our financial performance fell short of our goals in several areas. Kroger’s growth plan includes four key performance indicators: positive identical supermarket sales without fuel (“ID Sales”) growth, slightly expanding non-fuel first in, first out (“FIFO”) operating margin, growing return on invested capital (“ROIC”), and annual market share growth. In 2016, our results were as follows¹:

- *ID Sales.* ID Sales increased 1.0% in 2016 compared to 2015.
- *Non-Fuel FIFO Operating Margin.* Our non-fuel FIFO operation margin decreased during 2016.
- *ROIC.* Our ROIC for 2016 was 13.09%, compared to 13.93% for 2015.
- *Market Share.* Our market share grew for a twelfth consecutive year.
- *Earnings.* Net earnings per diluted share were \$2.05. Excluding the restructuring of certain multi-employer pension plan obligations, adjusted net earnings were \$2.12 per diluted share.

During 2016, we were consistent in our long-term financial strategy to use our financial flexibility to drive growth while also returning capital to shareholders, all while maintaining our current investment grade debt rating. In 2016, Kroger used cash to:

- *Repurchase shares.* In 2016, we repurchased \$1.8 billion in Kroger common shares.
- *Fund the dividend.* We returned \$429 million to shareholders through our dividend in 2016, and we increased our dividend for the tenth consecutive year since we reinstated the dividend in 2006.
- *Made significant capital investments.* We made \$3.6 billion in capital investments during the year, excluding mergers, acquisitions and purchases of leased facilities.
- *Expand our specialty pharmacy business.* We merged with ModernHEALTH for approximately \$390 million.

¹ For a more detailed discussion of our 2016 results, including a reconciliation of how we calculate ROIC and adjusted net earnings, please see pages 14-15 and 20-21 of our 10-K for fiscal year 2016. Management believes these metrics are useful to investors and analysts.

Total compensation during 2016 is an indicator of Kroger's performance compared to our business plan, reflecting how our compensation program responds to business challenges and the marketplace.

Summary of Key Compensation Practices

What we do:	What we do not do:
<ul style="list-style-type: none"> ✓ Align pay and performance ✓ Significant share ownership guidelines of 5x salary for our CEO and 3x salary for our Executive Vice Presidents ✓ Multiple performance metrics under our short- and long-term performance-based plans discourage excessive risk taking ✓ Balance between short-term and long-term compensation to discourage short-term risk taking at the expense of long-term results ✓ Engagement of an independent compensation consultant ✓ Robust clawback policy ✓ Ban on hedging, pledging and short sales of Kroger securities ✓ Limited perquisites 	<ul style="list-style-type: none"> ✗ No employment contracts with executives ✗ No special severance or change of control programs applicable only to executive officers ✗ No tax gross-up payments under Kroger executive plans ✗ No re-pricing or backdating of options ✗ No guaranteed salary increases or bonuses ✗ No payment of dividends or dividend equivalents until performance units are earned ✗ No single-trigger cash severance benefits upon a change in control

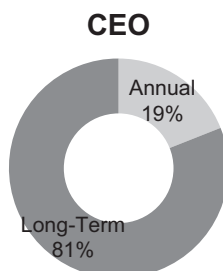
Summary of Fixed and At-Risk Pay Elements

The fixed and at-risk pay elements of NEO compensation are reflected in the following table and charts. The amounts used in the charts are based on the amounts reported in the Summary Compensation Table for 2016, excluding the Change in Pension Value and Nonqualified Deferred Compensation Earnings column.

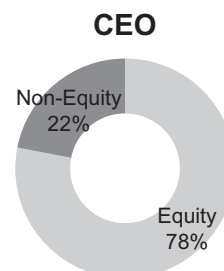
	Pay Element	Description	Purpose	
ANNUAL	Base Salary	<ul style="list-style-type: none"> Fixed cash compensation Reviewed annually No automatic or guaranteed increases 	<ul style="list-style-type: none"> Provide a base level of cash compensation Recognize individual performance, scope of responsibility and experience 	FIXED
	All Other Compensation	<ul style="list-style-type: none"> Insurance premiums paid by the Company Dividends paid on unvested restricted stock Matching and automatic contributions to defined contribution benefit plans 	<ul style="list-style-type: none"> Provide benefits competitive with peers 	
	Annual Cash Bonus	<ul style="list-style-type: none"> Variable cash compensation Payout depends on actual performance against annually established goals 	<ul style="list-style-type: none"> Metrics and targets align with annual business goals Reward and incentivize approximately 47,600 Kroger employees, including NEOs, for annual performance on key financial and operational measures 	
LONG-TERM	Long-Term Cash Bonus and Performance Units (the “Long-Term Incentive Plan”)	<ul style="list-style-type: none"> Variable compensation payable as long-term cash bonus and performance units 3-year performance period Payout depends on actual performance against established goals 	<ul style="list-style-type: none"> Metrics and targets align with long-term business strategy Reward and incentivize approximately 170 key employees, including the NEOs, for long-term performance on key financial and operational measures Drive sustainable performance that ties to long-term value creation for shareholders 	AT-RISK
	Restricted Stock and Stock Options (time-based equity awards)	<ul style="list-style-type: none"> Stock options and restricted stock vest over 5 years Exercise price of stock options is closing price on day of grant 	<ul style="list-style-type: none"> Retain executive talent Align the interests of executives with long-term shareholder value Provide direct alignment to stock price appreciation 	



85% of CEO pay is At Risk

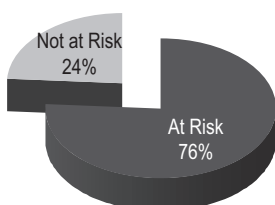


81% of CEO pay is Long-Term



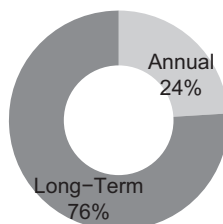
78% of CEO pay is Equity

Average of Other NEOs



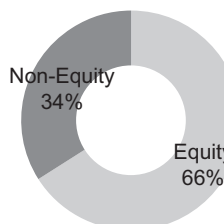
76% of Other NEO pay is At Risk

Average of Other NEOs



76% of Other NEO pay is Long-Term

Average of Other NEOs



66% of Other NEO pay is Equity

Our Compensation Philosophy and Objectives

As one of the largest retailers in the world, our executive compensation philosophy is to attract and retain the best management talent as well as motivate these employees to achieve our business and financial goals. Kroger's incentive plans are designed to reward the actions that lead to long-term value creation. The Compensation Committee believes that there is a strong link between our business strategy, the performance metrics in our short-term and long-term incentive programs, and the business results that drive shareholder value.

We believe our strategy creates value for shareholders in a manner consistent with our focus on our core values: honesty, integrity, respect, inclusion, diversity and safety.

To achieve our objectives, the Compensation Committee seeks to ensure that compensation is competitive and that there is a direct link between pay and performance. To do so, it is guided by the following principles:

- A significant portion of pay should be performance-based, with the percentage of total pay tied to performance increasing proportionally with an executive's level of responsibility.
- Compensation should include incentive-based pay to drive performance, providing superior pay for superior performance, including both a short- and long-term focus.
- Compensation policies should include an opportunity for, and a requirement of, equity ownership to align the interests of executives and shareholders.
- Components of compensation should be tied to an evaluation of business and individual performance measured against metrics that directly drive our business strategy.

The Compensation Committee has three related objectives regarding compensation:

- First, the Compensation Committee believes that compensation must be designed to attract and retain those best suited to fulfill the challenging roles that officers fill at Kroger.
- Second, a majority of compensation should help align the interests of our officers with the interests of our shareholders.
- Third, compensation should create strong incentives for the officers to achieve the annual business plan targets established by the Board, and to achieve Kroger's long-term strategic objectives.

Components of Executive Compensation at Kroger

Compensation for our NEOs is comprised of the following:

- Annual Compensation:
 - Salary
 - Performance-Based Annual Cash Bonus
- Long-Term Compensation:
 - Performance-Based Long-Term Incentive Plan (consisting of a long-term cash bonus and performance units)
 - Non-qualified stock options
 - Restricted stock
- Retirement and other benefits
- Limited perquisites

The annual and long-term performance-based compensation awards described herein were made pursuant to our 2014 Long-Term Incentive and Cash Bonus Plan, which was approved by our shareholders in 2014.

Annual Compensation – Salary

Our philosophy with respect to salary is to provide a sufficient and stable source of fixed cash compensation. All of our compensation cannot be at-risk or long-term. It is important to provide a meaningful annual salary to attract and retain a high caliber leadership team, and to have an appropriate level of cash compensation that is not variable.

Salaries for the NEOs (with the exception of the CEO) are established each year by the Compensation Committee, in consultation with the CEO. The CEO's salary is established by all of the independent directors. Salaries for the NEOs are reviewed annually in June.

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

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

The assessment of individual contribution is a qualitative determination, based on the following factors:

- Leadership;
- Contribution to the officer group;
- Achievement of established objectives, to the extent applicable;
- Decision-making abilities;
- Performance of the areas or groups directly reporting to the officer;
- Increased responsibilities;
- Strategic thinking; and
- Furtherance of Kroger's core values.

The amounts shown below reflect the salaries of the NEOs effective at the end of each fiscal year.

	Salary		
	2014	2015	2016
W. Rodney McMullen ⁽¹⁾	\$1,200,000	\$1,240,000	\$1,277,550
J. Michael Schlotman ⁽²⁾	\$ 760,000	\$ 840,000	\$ 870,240
Michael J. Donnelly ⁽²⁾	\$ 662,900	\$ 750,000	\$ 772,500
Christopher T. Hjelm ⁽²⁾⁽³⁾		700,000	\$ 721,000
<u>Frederick J. Morganthall II⁽²⁾⁽³⁾</u>		<u>670,000</u>	<u>\$ 721,000</u>

(1) Mr. McMullen was named CEO of Kroger as of January 1, 2014 and Chairman of the Board as of January 1, 2015.

(2) Messrs. Schlotman, Donnelly, Hjelm and Morganthall were each promoted to the position of Executive Vice President effective September 1, 2015.

(3) Messrs. Hjelm and Morganthall became NEOs in 2015.

Annual Compensation – Performance-Based Annual Cash Bonus

The NEOs, along with approximately 47,600 of their fellow Kroger associates, participate in a performance-based annual cash bonus plan. Approximately 8,900 of those associates are eligible for the same plan as the NEOs. The remaining associates are eligible for an annual cash bonus plan of which 40% is based on the Kroger corporate plan and 60% is based on the metrics and targets for their respective supermarket division or operating unit of the Company.

Over time, the Compensation Committee and our independent directors have placed an increased emphasis on our strategic plan by making the targets more difficult to achieve. The annual cash bonus plan is structured to encourage high levels of performance. A threshold level of performance must be achieved before any payouts are earned, while a payout of up to 200% of target can be achieved for superior performance.

The amount of annual cash bonus that the NEOs earn each year is based upon Kroger's performance compared to targets established by the Compensation Committee and the independent directors based on the business plan adopted by the Board of Directors.

The annual cash bonus plan is designed to encourage decisions and behavior that drive the annual operating results and the long-term success of the Company. Kroger's success is based on a combination of factors, and accordingly the Compensation Committee believes that it is important to encourage behavior that supports multiple elements of our business strategy.

Establishing Annual Cash Bonus Potentials

The Compensation Committee establishes annual cash bonus potentials for each NEO, other than the CEO, whose annual cash bonus potential is established by the independent directors. Actual payouts represent the extent to which performance meets or exceeds the goals established by the Compensation Committee. Actual payouts may be as low as zero if performance does not meet the goals established by the Compensation Committee or as high as 200% of the potential bonus amount if the performance far exceeds these pre-established goals.

The Compensation Committee considers multiple factors in making its determination or recommendation as to annual cash bonus potentials:

- The individual's level within the organization, as the Compensation Committee believes that more senior executives should have a more substantial part of their compensation dependent upon Kroger's performance;
- The individual's salary, as the Compensation Committee believes that a significant portion of a NEO's total cash compensation should be dependent upon Kroger's performance;
- The individual's level in the organization and the internal relationship of annual cash bonus potentials within Kroger;
- Individual performance;
- The recommendation of the CEO for all NEOs other than the CEO; and
- The compensation consultant's benchmarking report regarding annual cash bonus potential and total compensation awarded by our peer group.

The annual cash bonus potential in effect at the end of the fiscal year for each NEO is shown below. Actual annual cash bonus payouts are prorated to reflect changes, if any, to bonus potentials during the year.

	Annual Cash Bonus Potential		
	2014	2015	2016
W. Rodney McMullen ⁽¹⁾	\$1,600,000	\$1,650,000	\$ 1,775,000
J. Michael Schlotman ⁽²⁾	\$ 550,000	\$ 600,000	\$ 600,000
Michael J. Donnelly ⁽²⁾	\$ 550,000	\$ 600,000	\$ 600,000
Christopher T. Hjelm ⁽²⁾⁽³⁾		\$ 600,000	\$ 600,000
Frederick J. Morganthall II ⁽²⁾⁽³⁾		\$ 600,000	\$ 600,000

(1) Mr. McMullen was named CEO of Kroger as of January 1, 2014 and Chairman of the Board as of January 1, 2015.

(2) Messrs. Schlotman, Donnelly, Hjelm and Morganthall were each promoted to the position of Executive Vice President effective September 1, 2015.

(3) Messrs. Hjelm and Morganthall became NEOs in 2015.

2016 Annual Cash Bonus Plan Metrics and Connection to our Business Plan

The 2016 annual cash bonus plan had the following measurable performance metrics, all of which are interconnected, and individually necessary to sustain our business model and achieve our growth strategy:

Metric	Weight	Rationale for Use
<i>ID Sales</i>	30%	<ul style="list-style-type: none"> ID Sales represent sales, without fuel, at our supermarkets that have been open without expansion or relocation for five full quarters. We believe this is the best measure of the real growth of our sales across the enterprise. A key driver of our model is strong ID Sales; it is the engine that fuels our growth.
<i>Net Operating Profit, without Supermarket Fuel Operating Profit ("Net Operating Profit")⁽¹⁾</i>	30%	<ul style="list-style-type: none"> This metric changed from EBITDA to Net Operating Profit, the difference being depreciation. Because we are investing significant capital into assets, we changed this metric to focus on an earnings result that includes the amortization of that investment. Net Operating Profit is an important way for us to evaluate our earnings from operating the business; we cannot achieve solid Net Operating Profit without a strong operating model. This is the best measure of the profitability of the business taking into account the capital invested to generate the earnings. Unlike earnings per share, which can be affected by management decisions on share buybacks, this measure of earnings is relevant for all of our approximately 47,600 associates who are eligible for the annual cash bonus plan.
<i>Customer 1st Strategy</i>	30%	<ul style="list-style-type: none"> Kroger's Customer 1st Strategy is the focus, in our decision-making, on the customer. The "Four Keys" of our Customer 1st Strategy are People, Products, Shopping Experience and Price. This proprietary metric includes a mixture of strategic and operational metrics that measure the improvement in how Kroger is perceived by customers in each of the Four Keys. Annual cash bonus payout is based on certain elements of the Customer 1st Strategy, to highlight annual objectives that are intended to receive the most focused attention in that year.
<i>Total Operating Costs as a Percentage of Sales, without Fuel⁽²⁾</i>	10%	<ul style="list-style-type: none"> An essential part of Kroger's model is to increase productivity and efficiency, and to take costs out of the business in a sustainable way. We strive to be disciplined, so that as the Company grows, expenses are properly managed.
Total of 4 Metrics	100%	
<i>ClickList Bonus</i>	5% "Kicker"	<ul style="list-style-type: none"> An additional 5% is earned if Kroger achieves certain goals with respect to our ClickList expansion and operations. The change from last year's kicker based on fuel reflects our focus on a different aspect of the business this year. The ClickList bonus was added to the annual cash bonus plan as an incentive to encourage the addition of ClickList locations at a faster rate, while maintaining certain operating and financial standards. The ClickList bonus of 5% is only available if the pre-determined measures are met. If any of the goals are not met, no portion of the ClickList bonus is earned.

(1) Net Operating Profit is calculated as gross profit, minus operating, general and administrative expenses, minus depreciation and amortization, excluding supermarket fuel and the non-Kroger portion of earnings of consolidated variable interest entities.

(2) Total Operating Costs is calculated as the sum of (i) operating, general and administrative expenses, depreciation and amortization, and rent expense, without Supermarket fuel, and (ii) warehouse and transportation costs, shrink, and advertising expenses, for our supermarket operations, without fuel.

The use of these four primary metrics creates checks and balances on the various behaviors and decisions that impact the long-term success of the Company. The ID Sales, Net Operating Profit and Customer 1st Strategy metrics are weighted equally to highlight the need to simultaneously achieve all three metrics in order to maintain our growth.

We aligned the weighting of ID Sales and Net Operating Profit metrics to emphasize sales growth balanced with the focus on profit. Kroger's business is not sustainable if we merely increase our ID Sales, but do not have a corresponding increase in earnings. Furthermore, payouts in the ID Sales and Net Operating Profit metrics are interrelated. A certain minimum payoff level on ID Sales must be reached for the Net Operating Profit metric to exceed 100%. Similarly, a certain minimum payoff level on Net Operating Profit must be reached for the payoff on the ID Sales metric to exceed 100%. In addition, a certain minimum payoff level on both the ID Sales metric and Net Operating Profit metric must be reached for the payoff of the Customer 1st Strategy metric to exceed 100%.

By supporting the Customer 1st Strategy and the Four Keys, we will better connect with our customers. Our unique competitive advantage is our ability to deliver on the Four Keys, which are the items that matter most to our customers.

As we strive to achieve our aggressive growth targets, we also continuously aim to reduce our total operating costs as a percentage of sales, without fuel. Productivity improvements and other reductions in operating costs allow us to reduce costs in areas that do not matter to our customers so that we can invest money in the areas that matter the most to our customers, like the Four Keys. We carefully manage operating cost reductions to ensure a consistent delivery of the customer experience. This again shows the need to have multiple metrics, to create checks and balances on the various behavior and decisions that are influenced by the design of the bonus plan.

Results of 2016 Annual Cash Bonus Plan

The 2016 goals established by the Compensation Committee, the actual 2016 results and the bonus percentage earned for each of the performance metrics of the 2016 annual cash bonus plan were as follows:

Performance Metrics	Goals		Actual Performance	Actual Performance Compared to Target (A)	Weight (B)	Amount Earned (A) x (B)
	Minimum	Target (100%)				
ID Sales	1.50%	3.50%	1.0%	0%	30%	0%
Net Operating Profit	\$2.74 Billion	\$3.65 Billion	\$3.21 Billion	29.27%	30%	8.78%
Customer 1st Strategy ⁽¹⁾	*	*	*	*	30%	11.10%
Total Operating Costs as Percentage of Sales, without Fuel ⁽²⁾	Over budget by 25 basis points	Over budget by 5 basis points	Over budget by 37 basis points	0%	10%	0%
ClickList Bonus ⁽³⁾	*	*	*	*	0% or 5%	0%
Total Earned						19.88%

- (1) The Customer 1st Strategy goal also was established by the Compensation Committee at the beginning of the year, but is not disclosed as it is competitively sensitive.
- (2) Total Operating Costs without fuel were budgeted at 26.22% as a percentage of sales for fiscal year 2016.
- (3) An additional 5% would have been earned if Kroger had achieved certain goals with respect to its ClickList expansion and operation. These goals were established by the Compensation Committee at the beginning of the year, but are not disclosed as they are competitively sensitive.

Following the close of the year, the Compensation Committee reviewed Kroger's performance against each of the metrics outlined above and determined the extent to which Kroger achieved those objectives. The Compensation Committee determined that Kroger's results in 2016 did not meet some of our business objectives. Due to our performance when compared to the goals established by the Compensation Committee, the NEOs earned 19.88% of their bonus potentials.

In 2016, as in all years, the Compensation Committee retained discretion to reduce the annual cash bonus payout for all executive officers, including the NEOs, if the Compensation Committee determined for any reason

that the bonus payouts were not appropriate given their assessment of Company performance — however, no adjustments were made in 2016 that affected NEO bonuses. The independent directors retained that discretion for the CEO’s bonus. The Compensation Committee and the independent directors also retained discretion to adjust the goals for each metric under the plan should unanticipated developments arise during the year. The Compensation Committee, and the independent directors in the case of the CEO, determined that the annual cash bonus payouts earned appropriately reflected the Company’s performance in 2016 and therefore should not be adjusted.

The actual annual cash bonus percentage payout for 2016 represented performance that did not meet all of our business plan objectives. The strong link between pay and performance is illustrated by a comparison of earned amounts under our annual cash bonus plan in previous years, such as 2007, 2011, 2014 and 2015, when payouts significantly exceeded 100%. In those years, we achieved and/or exceeded all of our business plan objectives. A comparison of actual annual cash bonus percentage payouts in prior years demonstrates the variability of annual cash bonus incentive compensation and its strong link to our performance:

Fiscal Year	Annual Cash Bonus Payout Percentage
2016	19.9%
2015	126.7%
2014	121.5%
2013	104.9%
2012	85.9%
2011	138.7%
2010	53.9%
2009	38.5%
2008	104.9%
2007	128.1%

As described above, the annual cash bonus payout percentage is applied to each NEO’s bonus potential, which is determined by the Compensation Committee, and the independent directors in the case of the CEO. The actual amounts of performance-based annual cash bonuses paid to the NEOs for 2016 are reported in the Summary Compensation Table in the “Non-Equity Incentive Plan Compensation” column and footnote 4 to that table.

Long-Term Compensation

The Compensation Committee believes in the importance of providing an incentive to the NEOs to achieve the long-term goals established by the Board. As such, a majority of compensation is conditioned on the achievement of the Company’s long-term goals and is delivered via four long-term compensation vehicles: long-term cash bonus, performance units, stock options and restricted stock. Long-term compensation promotes long-term value creation and discourages the over-emphasis of attaining short-term goals at the expense of long-term growth.

The Compensation Committee considers several factors in determining the target value of long-term compensation awarded to the NEOs or, in the case of the CEO, recommending to the independent directors the amount awarded. These factors include:

- The compensation consultant’s benchmarking report regarding long-term compensation awarded by our peer group;
- The officer’s level in the organization and the internal relationship of long-term compensation awards within Kroger;
- Individual performance; and
- The recommendation of the CEO, for all NEOs other than the CEO.

Long-term incentives are structured to be a combination of performance- and time-based compensation that reflects elements of financial and common shares performance to provide both retention value and alignment with company performance. Long-term cash bonus and performance unit payouts are contingent on the achievement of certain strategic performance and financial measures and incentivize recipients to promote long-term value creation and enhance shareholder wealth by supporting the Company’s long-term strategic goals. Stock options and restricted stock are linked to common shares performance creating alignment between executives and

company shareholders. Options have no initial value and recipients only realize benefits if the value of our common shares increases following the date of grant.

A majority of long-term compensation is equity-based (performance units, stock options, and restricted stock) and is tied to the future value of our common shares, further aligning the interests of our NEOs with our shareholders. All four components of long-term compensation are intended to focus executive behaviors on our long-term strategy. Each component is described in more detail below.

Amounts of long-term compensation awards issued and outstanding for the NEOs are set forth in the Executive Compensation Tables section.

Long-Term Incentive Plan Design

In contrast to the performance-based annual cash bonus plan, described above, which has approximately 47,600 participants, our performance-based Long-Term Incentive Plan has approximately 170 participants, including the NEOs. Each year we adopt a similar Long-Term Incentive Plan, which provides for overlapping three year performance periods. The Long-Term Incentive Plan, which consists of a performance-based long-term cash bonus and performance units, has the following characteristics:

- The long-term cash bonus potential is equal to the participant's salary at the end of the fiscal year preceding the plan effective date (or for those participants entering the plan after the commencement date, the date of eligibility for the plan).
- In addition, a fixed number of performance units is awarded to each participant at the beginning of the performance period (or for those participants entering the plan after the commencement date, the date of eligibility for the plan). The earned awards are paid out in Kroger common shares based on actual performance, along with a cash amount equal to the dividends paid during the performance period on the number of issued common shares ultimately earned.
- The actual long-term cash bonus and number of performance units earned are each determined based on our performance against the same metrics established by the Compensation Committee (the independent directors, for the CEO) at the beginning of the performance period.
- Performance at the end of the three-year period is measured against the baseline of each performance metric established at the beginning of the performance period.
- The payout percentage, based on the extent to which the performance metrics are achieved, is applied to both the long-term cash bonus potential and the number of performance units awarded.
- Actual payouts cannot exceed 100% of the long-term cash bonus potential or 100% of the number of performance units awarded.

The Compensation Committee anticipates adopting a new Long-Term Incentive Plan each year, measuring improvement over successive three-year periods. Each year when establishing the performance metric baselines and percentage payouts per unit of improvement, the Compensation Committee considers the difficulty of achieving compounded improvement over time. Under the 2016 Long-Term Incentive Plan, Kroger awarded 517,823 performance units to approximately 170 employees, including the NEOs.

Long-Term Incentive Plan Metrics and Connection to our Business Strategy

Metric	Rationale for Use
<i>Customer 1st Strategy</i>	<ul style="list-style-type: none"> Kroger's Customer 1st Strategy is the focus, in our decision-making, on the customer. The Four Keys of our Customer 1st Strategy are People, Products, Shopping Experience and Price. This proprietary metric measures the improvement in how Kroger is perceived by customers in each of the Four Keys. Long-Term Incentive Plan payout is based on all of the elements of the Customer 1st Strategy, to maintain our top executives' consistent focus on the entirety of the Customer 1st Strategy. This is in contrast to the annual cash bonus payout, which is based on certain elements of the Customer 1st Strategy, to highlight annual objectives that are intended to receive the most focused attention in that year.
<i>Improvement in Associate Engagement</i>	<ul style="list-style-type: none"> Kroger measures associate engagement in an annual survey of associates. This metric is included in the Long-Term Incentive Plan as an acknowledgement that our Company's success is directly tied to our associates connecting with and serving our customers every day, whether in our stores, manufacturing plants, distribution centers or offices.
<i>Reduction in Operating Costs⁽¹⁾ as a Percentage of Sales, without Fuel</i>	<ul style="list-style-type: none"> An essential part of Kroger's model is to increase productivity and efficiency, and to take costs out of the business in a sustainable way. We strive to be disciplined, so that as the Company grows, expenses are properly managed. An operating costs metric is included in both the annual cash bonus plan and Long-Term Incentive Plans. Operating costs, without fuel, can be improved temporarily on an annual basis, but it is more difficult to maintain these reductions over time. It is the role of the approximately 170 employees in the 2016 Long-Term Incentive Plan to continue to reduce operating costs as a percentage of sales, without fuel, over time and to ensure such reductions are sustainable over the long-term. Including this metric in the Long-term Incentive Plan, incentivizes these key employees to implement policies for sustainable improvement over a long period of time.
<i>ROIC⁽²⁾</i>	<ul style="list-style-type: none"> Part of our long-term growth strategy is to make substantial capital investments over time. We have a pipeline of high quality projects and new store openings, and we continue to increase the square footage in our fill-in markets. With significant capital spend, it is essential that we achieve the proper returns on our investments. This measure is intended to hold executives accountable for the returns on the capital investments.

- (1) Operating Costs is a non-GAAP measure and is calculated as the sum of (i) operating, general and administrative expenses, depreciation and amortization, and rent expense, without fuel, and (ii) warehouse and transportation costs, shrink, and advertising expenses, for our supermarket operations, without fuel. Operating costs will exclude one-time expenses incurred in lieu of future anticipated obligations. Future expenses that are avoided by virtue of the incurrence of the one-time expense will be deemed to be total operating costs in the year in which they otherwise would have been incurred.
- (2) Return on invested capital is a non-GAAP measure and is calculated by dividing adjusted operating profit for the prior four quarters by the average invested capital. Adjusted operating profit is calculated by excluding certain items included in operating profit, and adding our last-in, first out ("LIFO") charge, depreciation and amortization, and rent. Average invested capital will be calculated as the sum of (i) the average of our total assets, (ii) the average LIFO reserve, (iii) the average accumulated depreciation and amortization, and (iv) a rent factor equal to total rent for the last four quarters multiplied by a factor of eight; minus (i) the average

taxes receivable, (ii) the average trade accounts payable, (iii) the average accrued salaries and wages, and (iv) the average other current liabilities, excluding accrued income taxes.

The following table summarizes the Long-Term Incentive Plans adopted for the years shown:

	<u>2014 Plan</u>	<u>2015 Plan</u>	<u>2016 Plan</u>
Performance Period	2014 to 2016	2015 to 2017	2016 to 2018
Payout Date	March 2017	March 2018	March 2019
Long-term Cash Bonus Potential	Salary at end of fiscal year 2013*	Salary at end of fiscal year 2014*	Salary at end of fiscal year 2015*
Performance Metrics			
Customer 1st Strategy	2% payout per unit improvement	4% payout per unit improvement	4% payout per unit improvement
Improvement in Associate Engagement	4% payout per unit improvement	4% payout per unit improvement	4% payout per unit improvement
Reduction in Operating Cost as a Percentage of Sales, without Fuel	0.50% payout per 0.01% reduction in operating costs Baseline: 26.88%	0.50% payout per 0.01% reduction in operating costs Baseline: 26.41%	0.50% payout per 0.01% reduction in operating costs Baseline: 26.16%
ROIC	1% payout per 0.01% improvement in ROIC Baseline: 13.05%	1% payout per 0.01% improvement in ROIC Baseline: 13.50%	1% payout per 0.01% improvement in ROIC Baseline: 13.73%

* Or date of plan entry, if later.

The Compensation Committee has made adjustments to the percentage payouts for the components of the Long-Term Incentive Plans over time to account for the increasing difficulty of achieving compounded improvement.

Results of 2014 Long-Term Incentive Plan

The 2014 Long-Term Incentive Plan, which measured improvements over the three year period from 2014 to 2016, paid out in March 2017 and was calculated as follows:

Metric	Baseline	Result	Improvement (A)	Payout per Improvement (B)	Percentage Earned (A) x (B)
Customer 1 st Strategy ⁽¹⁾	*	*	8 units of improvement	2.00%	16.00%
Improvement in Associate Engagement ⁽¹⁾	*	*	no improvement	4.00%	0.00%
Reduction in Operating Cost as a Percentage of Sales, without Fuel	26.88%	26.59%	29 basis point improvement	0.50%	14.50%
Return on Invested Capital	13.05%	13.09%	4 basis point improvement	1.00%	4.00%
Total					34.50%

(1) The Customer 1st Strategy and Improvement in Associate Engagement components were established by the Compensation Committee at the beginning of the performance period, but are not disclosed as they are competitively sensitive.

Accordingly, each NEO received a long-term cash bonus in an amount equal to 34.5% of that executive's long-term cash bonus potential, and was issued the number of Kroger common shares equal to 34.5% of the number of performance units awarded to that executive, along with a cash amount equal to the dividends paid on that number of common shares during the three year performance period. The cash payout and dividends paid on common shares earned under the 2014 Long-Term Incentive Plan are reported in the "Non-Equity Incentive Plan Compensation" and "All Other Compensation" columns of the Summary Compensation Table and footnotes 4 and 6 to that table, respectively, and the common shares issued under the plan are reported in the 2016 Option Exercises and Stock Vested Table and footnote 2 to that table.

Stock Options and Restricted Stock

Stock options and restricted stock continue to play an important role in rewarding NEOs for the achievement of long-term business objectives and providing incentives for the creation of shareholder value. Awards based on Kroger's common shares are granted annually to the NEOs and a large number of other employees. Kroger historically has distributed time-based equity awards widely, aligning the interests of employees with your interest as shareholders.

In 2016, Kroger granted 4,840,274 stock options to approximately 1,254 employees, including the NEOs. The options permit the holder to purchase Kroger common shares at an option price equal to the closing price of Kroger common shares on the date of the grant.

During 2016, Kroger awarded 3,558,520 shares of restricted stock to approximately 8,652 employees, including the NEOs.

Options are granted only on one of the four dates of Board meetings conducted after Kroger's public release of its quarterly earnings results. The Compensation Committee determines the vesting schedule for stock options and restricted stock.

During 2016, the Compensation Committee granted to the NEOs stock options and restricted stock, each with a five-year vesting schedule.

As discussed below under Stock Ownership Guidelines, covered individuals, including the NEOs, must hold 100% of common shares issued pursuant to performance units earned, the shares received upon the exercise of stock options or upon the vesting of restricted stock, except those necessary to pay the exercise price of the options and/or applicable taxes, until applicable stock ownership guidelines are met, unless the disposition is approved in advance by the CEO, or by the Board or Compensation Committee for the CEO.

Retirement and Other Benefits

Kroger maintains several defined benefit and defined contribution retirement plans for its employees. The NEOs 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 (the "Code") on benefits to highly compensated individuals under qualified plans. Additional details regarding certain retirement benefits available to the NEOs can be found below in the 2016 Pension Benefits Table and the accompanying narrative.

Kroger also maintains an executive deferred compensation plan in which some of the NEOs participate. This plan is a nonqualified plan under which participants can elect to defer up to 100% of their cash compensation each year. Additional details regarding our nonqualified deferred compensation plans available to the NEOs can be found below in the 2016 Nonqualified Deferred Compensation Table and the accompanying narrative.

Kroger also maintains The Kroger Co. Employee Protection Plan ("KEPP"), which covers all of our management employees who are classified as exempt under the federal Fair Labor Standards Act and certain administrative or technical support personnel who are not covered by a collective bargaining agreement, with at least one year of service. KEPP provides for severance benefits and extended Kroger-paid health care, as well as the continuation of other benefits as described in the plan, when an employee is actually or constructively terminated without cause within two years following a change in control of Kroger (as defined in KEPP). Participants are entitled to severance pay of up to 24 months' salary and target annual bonus. The actual amount is dependent upon pay level and years of service. KEPP can be amended or terminated by the Board at any time prior to a change in control.

Performance-based long-term cash bonus, performance unit, stock option, and restricted stock agreements with award recipients provide that those awards "vest," with 50% of the long-term cash bonus potential being paid,

common shares equal to 50% of the performance units being awarded, options becoming immediately exercisable, and restrictions on restricted stock lapsing upon a change in control as described in the grant agreements.

None of the NEOs is party to an employment agreement.

Perquisites

Executives receive limited perquisites because the Compensation Committee does not believe that it is necessary for the attraction or retention of management talent to provide executives a substantial amount of compensation in the form of perquisites. In 2016, the NEOs received the following benefits: premiums paid on life insurance policies, premiums paid on accidental death and dismemberment insurance, and premiums paid on long-term disability insurance policies.

Process for Establishing Executive Compensation

The Compensation Committee of the Board has the primary responsibility for establishing the compensation of our executive officers, including the NEOs, with the exception of the CEO. The Compensation Committee's role regarding the CEO's compensation is to make recommendations to the independent members of the Board; those members of the Board establish the CEO's compensation.

The Compensation Committee directly engages a compensation consultant from Mercer Human Resource Consulting to advise the Compensation Committee in the design of compensation for executive officers.

The Mercer consultant conducts an annual competitive assessment of executive positions at Kroger for the Compensation Committee. The assessment is one of several bases, as described above, on which the Compensation Committee determines compensation. The consultant assesses:

- base salary;
- target performance-based annual cash bonus;
- target annual cash compensation (the sum of salary and annual cash bonus potential);
- annualized long-term compensation, such as performance-based long-term cash bonus potential and performance units, stock options and restricted stock; and
- total direct compensation (the sum of target annual cash compensation and annualized long-term compensation).

In addition to the factors identified above, the consultant also reviews actual payout amounts against the targeted amounts.

The consultant compares these elements against those of other companies in a group of publicly traded companies selected by the committee. For 2016, our peer group consisted of:

Best Buy	Home Depot	Target
Cardinal Health	Johnson & Johnson	TJX Companies
Costco Wholesale	Lowes	Wal-Mart
CVS Health	Procter & Gamble	Walgreens Boots Alliance
Express Scripts	Sysco	

The make-up of the compensation peer group is reviewed annually and modified as circumstances warrant. The Compensation Committee modified the peer group in 2016 because of industry consolidation and other competitive forces. Previously, the Compensation Committee used a primary peer group consisting only of food and drug retailers. In addition, the Compensation Committee considered data from "general industry" companies provided by its independent compensation consultant, a representation of major publicly-traded companies of similar size and scope from outside the retail industry. This data provided reference points, particularly for senior staff positions where competition for talent extends beyond the retail sector. The new peer group includes a combination of food and drug retailers, other large retailers based on revenue size, and large consumer-facing companies. Median 2016 revenue for the peer group was \$83 billion, compared to our revenue of \$115 billion.

Considering the size of Kroger in relation to other peer group companies, the Compensation Committee believes that salaries paid to our NEOs should be competitively positioned relative to amounts paid by peer group companies for comparable positions. The Compensation Committee also aims to provide an annual cash bonus potential to our NEOs that, if the increasingly more challenging annual business plan objectives are achieved at

superior levels, would cause total cash compensation to be meaningfully above the median. Actual payouts may be as low as zero if performance does not meet the baselines established by the Compensation Committee.

The independent members of the Board have the exclusive authority to determine the amount of the CEO's compensation. In setting total compensation, the independent directors consider the median compensation of the peer group's CEOs. With respect to the annual bonus, the independent directors make two determinations: (1) they determine the annual cash bonus potential that will be multiplied by the annual cash bonus payout percentage earned that is generally applicable to all corporate management, including the NEOs and (2) the independent directors determine the annual cash bonus amount paid to the CEO by retaining discretion to reduce the annual cash bonus percentage payout the CEO would otherwise receive under the formulaic plan.

The Compensation Committee performs the same function and exercises the same authority as to the other NEOs. In its annual review of compensation for the NEOs the Compensation Committee:

- Conducts an annual review of all components of compensation, quantifying total compensation for the NEOs on tally sheets. The review includes a summary for each NEO of salary; performance-based annual cash bonus; long-term performance-based cash and performance unit compensation; stock options; restricted stock; accumulated realized and unrealized stock option gains and restricted stock and performance unit values; the value of any perquisites; retirement benefits; company paid health and welfare benefits; banked vacation; severance benefits available under KEPP; and earnings and payouts available under Kroger's nonqualified deferred compensation program.
- Considers internal pay equity at Kroger to ensure that the CEO is not compensated disproportionately. The Compensation Committee has determined that the compensation of the CEO and that of the other NEOs bears a reasonable relationship to the compensation levels of other executive positions at Kroger taking into consideration performance and differences in responsibilities.
- Reviews a report from the Compensation Committee's compensation consultant comparing NEO and other senior executive compensation with that of other companies, including both our peer group of competitors and a larger general industry group, to ensure that the Compensation Committee's objectives of competitiveness are met.
- Takes into account a recommendation from the CEO (except in the case of his own compensation) for salary, annual cash bonus potential and long-term compensation awards for each of the senior officers including the other NEOs. The CEO's recommendation takes into consideration the objectives established by and the reports received by the Compensation Committee as well as his assessment of individual job performance and contribution to our management team.

The Compensation Committee does not make use of a formula, but rather substantively considers each of the factors identified above in setting compensation.

Advisory Vote to Approve Executive Compensation

At the 2016 annual meeting, we held our sixth annual advisory vote on executive compensation. Over 95% of the votes cast were in favor of the advisory vote in 2016. The Compensation Committee believes it conveys our shareholders' support of the Compensation Committee's decisions and the existing executive compensation programs. As a result, the Compensation Committee made no material changes in the structure of our compensation programs or our pay for performance philosophy.

At the 2017 Annual Meeting, in keeping with our shareholders' request for an annual advisory vote, we will again hold an advisory vote to approve executive compensation (see page 49). The Compensation Committee will continue to consider the results from this year's and future advisory votes on executive compensation in their evaluation and administration of our compensation program. As required, at the 2017 Annual Meeting we also are holding an advisory vote on the frequency of holding future advisory votes on executive compensation (see page 50).

Stock Ownership Guidelines

To more closely align the interests of our officers and directors with your interests as shareholders, the Board has adopted stock ownership guidelines. These guidelines require non-employee directors, executive officers, and other key executives to acquire and hold a minimum dollar value of Kroger common shares as set forth below:

Position	Multiple
Chief Executive Officer	5 times base salary
President and Chief Operating Officer	4 times base salary
Executive Vice Presidents and Senior Vice Presidents	3 times base salary
Group Vice Presidents, Division Presidents, and Other Designated Key Executives	2 times base salary
Non-employee Directors	5 times annual base cash retainer

This year, we increased share ownership requirements for the directors from three times the annual base cash retainer to five times. All covered individuals are expected to achieve the target level within five years of appointment to their positions. Until the requirements are met, covered individuals, including the NEOs, must hold 100% of common shares issued pursuant to performance units earned, shares received upon the exercise of stock options and upon the vesting of restricted stock, except those necessary to pay the exercise price of the options and/or applicable taxes, and must retain all Kroger common shares unless the disposition is approved in advance by the CEO, or by the Board or Compensation Committee for the CEO.

Executive Compensation Recoupment Policy (Clawback)

If a material error of facts results in the payment to an executive officer at the level of Group Vice President or higher of an annual cash bonus or a long-term cash bonus in an amount higher than otherwise would have been paid, as determined by the Compensation Committee, then the officer, upon demand from the Compensation Committee, will reimburse Kroger for the amounts that would not have been paid if the error had not occurred. This recoupment policy applies to those amounts paid by Kroger within 36 months prior to the detection and public disclosure of the error. In enforcing the policy, the Compensation Committee will take into consideration all factors that it deems appropriate, including:

- the materiality of the amount of payment involved;
- the extent to which other benefits were reduced in other years as a result of the achievement of performance levels based on the error;
- individual officer culpability, if any; and
- other factors that should offset the amount of overpayment.

Compensation Policies as They Relate to Risk Management

As part of the Compensation Committee's review of our compensation practices, the Compensation Committee considers and analyzes the extent to which risks arise from such practices and their impact on Kroger's business. As discussed in this discussion and analysis, our policies and practices for compensating employees are designed to, among other things, attract and retain high quality and engaged employees. In this process, the Compensation Committee also focuses on minimizing risk through the implementation of certain practices and policies, such as the executive compensation recoupment policy, which is described above under "Executive Compensation Recoupment Policy (Clawback)". Accordingly, we do not believe that our compensation practices and policies create risks that are reasonably likely to have a material adverse effect on Kroger.

Prohibition on Hedging and Pledging

After considering best practices related to ownership of company shares, the Board has adopted a policy prohibiting Kroger directors and executive officers from engaging, directly or indirectly, in the pledging of, hedging transactions in, or short sales of, Kroger securities.

Section 162(m) of the Internal Revenue Code

Tax laws place a deductibility limit of \$1,000,000 on some types of compensation for the CEO and the next four most highly compensated officers (other than the chief financial officer) reported in this proxy because they are among the four highest compensated officers (“covered employees”). In Kroger’s case, this group of individuals is not identical to the group of NEOs. 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 are not performance-based. As a result, compensation expense for those awards to the covered employees is not deductible, to the extent that the related compensation expense, plus any other expense for compensation that is not performance-based, exceeds \$1,000,000.

Kroger’s bonus plans rely on performance criteria, which have been approved by shareholders. As a result, bonuses paid under the plans to the covered employees should be deductible by Kroger.

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 Compensation 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 Kroger’s management 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 Board that the Compensation Discussion and Analysis be included in Kroger’s proxy statement and incorporated by reference into its Annual Report on Form 10-K.

Compensation Committee:

Clyde R. Moore, Chair
Susan Kropf
Jorge P. Montoya
Susan M. Phillips
James A. Runde

Executive Compensation Tables

Summary Compensation Table

The following table and footnotes provide information regarding the compensation of the NEOs for the fiscal years presented.

Name and Principal Position ⁽¹⁾	Fiscal Year	Salary (\$)	Stock Awards (\$) ⁽²⁾	Option Awards (\$) ⁽³⁾	Non-Equity Incentive Plan Compensation (\$) ⁽⁴⁾	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) ⁽⁵⁾	All Other Compensation (\$) ⁽⁶⁾	Total (\$)
W. Rodney McMullen	2016	1,251,781	5,125,034	2,699,044	719,945	3,139,537	282,051	13,217,392
Chairman and Chief Executive Officer	2015	1,216,665	4,332,252	2,300,092	2,999,693	618,033	279,656	11,746,391
	2014	1,118,726	3,740,251	1,951,394	2,441,546	3,498,396	232,602	12,982,915
J. Michael Schlotman	2016	850,360	1,973,247	1,040,436	372,855	1,436,752	141,427	5,815,076
Executive Vice President and Chief Financial Officer	2015	793,825	2,489,148	1,040,847	1,394,752	44,163	148,104	5,910,839
	2014	745,313	1,490,700	520,372	1,103,750	1,922,821	113,922	5,896,878
Michael J. Donnelly	2016	757,036	1,480,011	780,323	341,308	2,207,236	188,569	5,754,484
Executive Vice President of Merchandising	2015	700,684	1,919,013	585,529	1,274,152	321,545	175,112	4,976,035
	2014	651,315	748,051	390,279	1,024,261	341,775	100,305	3,255,986
Christopher T. Hjelm	2016	703,367	1,480,011	780,323	326,280	832	104,505	3,398,518
Executive Vice President and Chief Information Officer	2015	653,368	1,992,003	780,633	1,302,852	168	98,992	4,828,016
Frederick J. Morganthall II	2016	691,487	1,480,011	780,323	381,643	852,235	91,912	4,277,609
Executive Vice President of Retail Operations	2015	619,944	1,595,918	390,414	1,453,450	—	300,353	4,360,079

(1) Messrs. Hjelm and Morganthall became NEOs in 2015.

(2) Amounts reflect the grant date fair value of restricted stock and performance units granted each fiscal year, as computed in accordance with FASB ASC Topic 718. The following table reflects the value of each type of award granted to the NEOs in 2016:

Name	Restricted Stock	Performance Units
Mr. McMullen	\$3,750,024	\$1,375,010
Mr. Schlotman	\$1,479,935	\$ 493,312
Mr. Donnelly	\$1,110,008	\$ 370,003
Mr. Hjelm	\$1,110,008	\$ 370,003
Mr. Morganthall	\$1,110,008	\$ 370,003

The grant date fair value of the performance units reflected in the stock awards column and in the table above is computed based on the probable outcome of the performance conditions as of the grant date. This amount is consistent with the estimate of aggregate compensation cost to be recognized by the Company over the three-year performance period of the award determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. The assumptions used in calculating the valuations are set forth in Note 12 to the consolidated financial statements in Kroger's 10-K for fiscal year 2016.

Assuming that the highest level of performance conditions is achieved, the aggregate fair value of the 2016 performance unit awards at the grant date is as follows:

Name	Value of Performance Units Assuming Maximum Performance
Mr. McMullen	\$2,750,020
Mr. Schlotman	\$ 986,624
Mr. Donnelly	\$ 740,005
Mr. Hjelm	\$ 740,005
Mr. Morganthall	\$ 740,005

- (3) These amounts represent the aggregate grant date fair value of option awards computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the valuations are set forth in Note 12 to the consolidated financial statements in Kroger's 10-K for fiscal year 2016.
- (4) Non-equity incentive plan compensation earned for 2016 consists of amounts earned under the 2016 performance-based annual cash bonus plan and the 2014 Long-Term Incentive Plan. The amount reported for Mr. Morganthall also includes the 2016 amount earned under the Harris Teeter Merger Cash Bonus Plan (described below).

Name	Annual Cash Bonus	Long-Term Cash Bonus	Harris Teeter Merger Bonus
Mr. McMullen	\$340,445	\$379,500	—
Mr. Schlotman	\$119,280	\$253,575	—
Mr. Donnelly	\$119,280	\$222,028	—
Mr. Hjelm	\$119,280	\$207,000	—
Mr. Morganthall	\$119,280	\$191,001	\$71,362

In accordance with the terms of the 2016 performance-based annual cash bonus plan, Kroger paid 19.88% to executives, including the NEOs. These amounts were earned with respect to performance in 2016 and paid in March 2017. See "Results of 2016 Annual Cash Bonus Plan" in the CD&A for more information on this plan.

The long-term cash bonus awarded under the 2014 Long-Term Incentive Plan is a performance-based bonus plan designed to reward participants for improving the long-term performance of the Company. The plan covered performance during fiscal years 2014, 2015 and 2016 and amounts earned under the plan were paid in March 2017. In accordance with the terms of the plan, participants earned and Kroger paid 34.50% of long-term cash bonus potentials. The long-term cash bonus potential equaled the participant's salary in effect on the last day of fiscal 2013, and for Mr. Morganthall, the day he became eligible for the plan. See "Results of 2014 Long-Term Incentive Plan" in the CD&A for more information on this plan.

Mr. Morganthall also received \$71,362 for 2016 performance under The Harris Teeter Merger Cash Bonus Plan, which was paid in March 2017. This plan is a performance-based bonus plan designed to reward participants for achieving synergies over the three year period following the merger between Harris Teeter and Kroger, fiscal years 2014, 2015 and 2016. Following the end of each fiscal year participants receive payouts of amounts earned based on that year's performance, subject to a maximum payout over the three-year period of 200% of the participant's bonus potential. The bonus potential is equal to the participant's salary in effect on the date of the merger.

- (5) For 2016, the amounts reported consist of the aggregate change in the actuarial present value of the NEO's accumulated benefit under a defined benefit pension plan (including supplemental plans), which applies to all eligible NEOs, and preferential earnings on nonqualified deferred compensation, which applies to Messrs. McMullen, Donnelly and Hjelm:

Name	Change in Pension Value	Preferential Earnings on Nonqualified Deferred Compensation
Mr. McMullen	\$3,050,107	\$89,430
Mr. Schlotman	\$1,436,752	—
Mr. Donnelly	\$2,202,185	\$ 5,051
Mr. Hjelm	\$ 645	\$ 187
Mr. Morganthall	\$ 852,235	—

Change in Pension Value. These amounts represent the aggregate change in the actuarial present value of accumulated pension benefits. Pension values may fluctuate significantly from year to year depending on a number of factors, including age, years of service, average annual earnings and the assumptions used to determine the present value, such as the discount rate. The increase in the actuarial present value of accumulated pension benefits for 2016 compared to 2015 is primarily due to a lower discount rate and an increase in accrued benefits. Please see the 2016 Pension Benefits section for further information regarding the assumptions used in calculating pension benefits.

Preferential Earnings on Nonqualified Deferred Compensation. Messrs. McMullen, Donnelly and Hjelm participate in The Kroger Co. Executive Deferred Compensation Plan (the "Kroger Deferred Compensation

Plan”). Under the plan, deferred compensation earns interest at a rate representing Kroger’s cost of ten-year debt, as determined by the CEO and approved by the Compensation Committee prior to the beginning of each deferral year. For each participant, a separate deferral account is created each year and the interest rate established for that year is applied to that deferral account until the deferred compensation is paid out. If the interest rate established by Kroger for a particular year exceeds 120% of the applicable federal long-term interest rate that corresponds most closely to the plan rate, the amount by which the plan rate exceeds 120% of the corresponding federal rate is deemed to be above-market or preferential. In fourteen of the twenty-three years in which at least one NEO deferred compensation, the rate set under the plan for that year exceeds 120% of the corresponding federal rate. For each of the deferral accounts in which the plan rate is deemed to be above-market, Kroger calculates the amount by which the actual annual earnings on the account exceed what the annual earnings would have been if the account earned interest at 120% of the corresponding federal rate, and discloses those amounts as preferential earnings. Amounts deferred in 2016 earn interest at a rate higher than 120% of the corresponding federal rate; accordingly, there are preferential earnings on these amounts. Mr. Morganthall participates in the Harris Teeter Supermarkets, Inc. Flexible Deferral Plan (the “HT Flexible Deferral Plan”), which does not provide above-market or preferential earnings on deferred compensation.

- (6) Amounts reported in the “All Other Compensation” column for 2016 include the dollar value of premiums paid by the Company for life insurance, Company contributions to defined contribution retirement plans, dividend equivalents paid on earned performance units, and dividends paid on unvested restricted stock. The following table identifies the value of each benefit.

Name	Life Insurance Premiums	Retirement Plan Contributions	Payment of Dividend Equivalents on Earned Performance Units	Dividends Paid on Unvested Restricted Stock
Mr. McMullen	\$85,715	—	\$30,662	\$165,674
Mr. Schlotman	\$65,391	—	\$ 8,177	\$ 67,859
Mr. Donnelly	\$62,074	\$74,188	\$ 6,132	\$ 46,175
Mr. Hjelm	\$41,084	\$12,670	\$ 6,132	\$ 44,619
Mr. Morganthall	\$12,518	\$ 4,403	\$ 5,580	\$ 69,410

Retirement plan contributions. The Company makes automatic and matching contributions to NEOs’ accounts under the applicable defined contribution plan on the same terms and using the same formulas as other participating employees. The aggregate amounts in the table above represent the following contributions in 2016:

- Mr. Donnelly – \$13,287 to the Dillon Companies, Inc. Employees’ Profit Sharing Plan and \$60,901 to the Dillon Companies, Inc. Excess Benefit Profit Sharing Plan;
- Mr. Hjelm – \$12,670 to The Kroger Co. 401(k) Retirement Savings Account Plan (the “Kroger 401(k) Plan”), which includes a \$2,000 automatic company contribution; and
- Mr. Morganthall – \$4,403 to the Kroger 401(k) Plan, which includes a \$2,000 automatic company contribution.

2016 Grants of Plan-Based Awards

The following table provides information about equity and non-equity incentive awards granted to the NEOs in 2016.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares of Stock or Units (#) ⁽⁴⁾	All Other Option Awards: Number of Securities Underlying Options (#) ⁽⁵⁾	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards
		Target (\$)	Maximum (\$)	Target (#)	Maximum (#)				
W. Rodney McMullen		\$ 1,712,500 ⁽¹⁾	\$ 3,425,000 ⁽¹⁾						
		\$ 0 ⁽²⁾	\$ 1,240,000 ⁽²⁾						
	7/13/2016			0 ⁽³⁾	73,373 ⁽³⁾				\$ 1,375,010
	7/13/2016					100,054			\$ 3,750,024
	7/13/2016						358,091	\$ 37.48	\$ 2,699,044
J. Michael Schlotman		\$ 600,000 ⁽¹⁾	\$ 1,200,000 ⁽¹⁾						
		\$ 0 ⁽²⁾	\$ 840,000 ⁽²⁾						
	7/13/2016			0 ⁽³⁾	26,324 ⁽³⁾				\$ 493,312
	7/13/2016					39,486			\$ 1,479,935
	7/13/2016						138,038	\$ 37.48	\$ 1,040,436
Michael J. Donnelly		\$ 600,000 ⁽¹⁾	\$ 1,200,000 ⁽¹⁾						
		\$ 0 ⁽²⁾	\$ 750,000 ⁽²⁾						
	7/13/2016			0 ⁽³⁾	19,744 ⁽³⁾				\$ 370,003
	7/13/2016					29,616			\$ 1,110,008
	7/13/2016						103,528	\$ 37.48	\$ 780,323
Christopher T. Hjelm		\$ 600,000 ⁽¹⁾	\$ 1,200,000 ⁽¹⁾						
		\$ 0 ⁽²⁾	\$ 700,000 ⁽²⁾						
	7/13/2016			0 ⁽³⁾	19,744 ⁽³⁾				\$ 370,003
	7/13/2016					29,616			\$ 1,110,008
	7/13/2016						103,528	\$ 37.48	\$ 780,323
Frederick J. Morganthall II		\$ 600,000 ⁽¹⁾	\$ 1,200,000 ⁽¹⁾						
		\$ 0 ⁽²⁾	\$ 670,000 ⁽²⁾						
	7/13/2016			0 ⁽³⁾	19,744 ⁽³⁾				\$ 370,003
	7/13/2016					29,616			\$ 1,110,008
	7/13/2016						103,528	\$ 37.48	\$ 780,323

- (1) These amounts relate to the 2016 performance-based annual cash bonus plan. The amount listed under “Target” represents the annual cash bonus potential of the NEO. By the terms of the plan, payouts are limited to no more than 200% of a participant’s annual cash bonus potential; accordingly, the amount listed under “Maximum” is two times that officer’s annual cash bonus potential amount. Mr. McMullen’s target and maximum amounts are prorated to reflect his increased annual cash bonus potential following the annual compensation review. The amounts actually earned under this plan were paid in March 2017 and are included in the Summary Compensation Table for 2016 in the “Non-Equity Incentive Plan Compensation” column and are described in footnote 4 to that table.
- (2) These amounts relate to the long-term cash bonus potential under the 2016 Long-Term Incentive Plan, which covers performance during fiscal years 2016, 2017 and 2018. The long-term cash bonus potential amount equals the annual base salary of the NEOs as of the last day of fiscal 2015. By the terms of the plan, payouts are limited to no more than 100% of a participant’s long-term cash bonus potential; accordingly, the amount listed under “Maximum” is the participant’s long-term cash bonus potential. Because the actual payout is based on the level of performance achieved, the target amount is not determinable and therefore, in accordance with SEC rules, the amount listed under “Target” is a representative amount based on 2016 performance.
- (3) These amounts represent performance units awarded under the 2016 Long-Term Incentive Plan, which covers performance during fiscal years 2016, 2017 and 2018. The amount listed under “Maximum” represents the maximum number of common shares that can be earned by the NEO under the award. Because the actual payout is based on the level of performance achieved, the target amount is not determinable and therefore, in accordance with SEC rules, the amount listed under “Target” is a representative amount based on 2016 performance. The grant date fair value reported in the last column is based on the probable outcome of the performance conditions as of the grant date, which is consistent with the estimate of aggregate compensation cost to be recognized by the Company over the three-year performance period of the award determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. The aggregate grant

date fair value of these awards is included in the Summary Compensation Table for 2016 in the "Stock Awards" column and described in footnote 2 to that table.

- (4) These amounts represent the number of shares of restricted stock granted in 2016. The aggregate grant date fair value reported in the last column is calculated in accordance with FASB ASC Topic 718. The aggregate grant date fair value of these awards is included in the Summary Compensation Table for 2016 in the "Stock Awards" column and described in footnote 2 to that table.
- (5) These amounts represent the number of stock options granted in 2016. Options are granted with an exercise price equal to the closing price of Kroger common shares on the grant date. The aggregate grant date fair value reported in the last column is calculated in accordance with FASB ASC Topic 718. The aggregate grant date fair value of these awards is included in the Summary Compensation Table for 2016 in the "Option Awards" column.

The Compensation Committee, and the independent members of the Board in the case of the CEO, established the bonus potential amounts for the performance-based annual cash bonus awards (shown in this table as "Target"), the number of performance units awarded (shown in this table as "Maximum"), and the bonus potential amounts for the long-term cash bonus awards (shown in this table as "Maximum"). Amounts are payable to the extent that performance meets specific performance metrics established by the Compensation Committee at the beginning of the performance period. As described in the CD&A, actual earnings under the performance-based annual cash bonus plan may exceed the target amount if the Company's performance exceeds the performance goals, but are limited to 200% of the target amount. The performance units and the long-term cash bonus potentials awarded under the 2016 Long-Term Incentive Plan are more particularly described in the CD&A.

The restricted stock and nonqualified stock options granted to the NEOs vest in equal amounts on each of the first five anniversaries of the grant date, so long as the officer remains a Kroger employee. Any dividends declared on Kroger common shares are payable on unvested restricted stock.

2016 Outstanding Equity Awards at Fiscal Year-End

The following table provides information about outstanding equity-based incentive compensation awards for the NEOs as of the end of 2016. The vesting schedule for each award is described in the footnotes to this table. The market value of unvested restricted stock and unearned performance units is based on the closing price of Kroger's common shares of \$33.36 on January 27, 2017, the last trading day of 2016.

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options Unexercisable (#)	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 (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
W. Rodney McMullen	120,000	—	\$14.14	6/28/2017	14,616 ⁽⁶⁾	\$ 487,590	14,610 ⁽¹⁵⁾	\$506,752 ⁽¹⁵⁾
	130,000	—	\$14.31	6/26/2018	29,232 ⁽⁷⁾	\$ 975,180	0 ⁽¹⁶⁾	0 ⁽¹⁶⁾
	130,000	—	\$11.17	6/25/2019	64,000 ⁽⁸⁾	\$2,135,040		
	140,000	—	\$10.08	6/24/2020	67,500 ⁽⁹⁾	\$2,251,800		
	182,880	—	\$12.37	6/23/2021	68,876 ⁽¹⁰⁾	\$2,297,703		
	155,904	38,976 ⁽¹⁾	\$10.98	7/12/2022	100,054 ⁽¹¹⁾	\$3,337,801		
	116,928	77,952 ⁽²⁾	\$18.88	7/15/2023				
	120,000	180,000 ⁽³⁾	\$24.67	7/15/2024				
	47,083	188,332 ⁽⁴⁾	\$38.33	7/15/2025				
	—	358,091 ⁽⁵⁾	\$37.48	7/13/2026				
J. Michael Schlotman	50,000	—	\$10.08	6/24/2020	8,196 ⁽⁶⁾	\$ 273,419	7,207 ⁽¹⁵⁾	\$249,982 ⁽¹⁵⁾
	91,280	—	\$12.37	6/23/2021	16,392 ⁽⁷⁾	\$ 546,837	0 ⁽¹⁶⁾	0 ⁽¹⁶⁾
	87,424	21,856 ⁽¹⁾	\$10.98	7/12/2022	12,000 ⁽¹²⁾	\$ 400,320		
	65,568	43,712 ⁽²⁾	\$18.88	7/15/2023	18,000 ⁽⁹⁾	\$ 600,480		
	32,000	48,000 ⁽³⁾	\$24.67	7/15/2024	30,888 ⁽¹⁰⁾	\$1,030,424		
	21,306	85,225 ⁽⁴⁾	\$38.33	7/15/2025	8,890 ⁽¹³⁾	\$ 296,570		
	—	138,038 ⁽⁵⁾	\$37.48	7/13/2026	39,486 ⁽¹¹⁾	\$1,317,253		
Michael J. Donnelly	40,000	—	\$14.31	6/26/2018	3,804 ⁽⁶⁾	\$ 126,901	4,054 ⁽¹⁵⁾	\$140,627 ⁽¹⁵⁾
	40,000	—	\$11.17	6/25/2019	9,608 ⁽⁷⁾	\$ 320,523	0 ⁽¹⁶⁾	0 ⁽¹⁶⁾
	40,000	—	\$10.08	6/24/2020	13,500 ⁽⁹⁾	\$ 450,360		
	70,720	—	\$12.37	6/23/2021	23,638 ⁽¹⁰⁾	\$ 788,564		
	40,576	10,144 ⁽¹⁾	\$10.98	7/12/2022	8,890 ⁽¹³⁾	\$ 296,570		
	30,432	20,288 ⁽²⁾	\$18.88	7/15/2023	29,616 ⁽¹¹⁾	\$ 987,990		
	24,000	36,000 ⁽³⁾	\$24.67	7/15/2024				
	11,985	47,944 ⁽⁴⁾	\$38.33	7/15/2025				
	—	103,528 ⁽⁵⁾	\$37.48	7/13/2026				
Christopher T. Hjelm	8,000	—	\$14.31	6/26/2018	3,804 ⁽⁶⁾	\$ 126,901	5,406 ⁽¹⁵⁾	\$187,506 ⁽¹⁵⁾
	16,000	—	\$11.17	6/25/2019	7,608 ⁽⁷⁾	\$ 253,803	0 ⁽¹⁶⁾	0 ⁽¹⁶⁾
	24,000	—	\$10.08	6/24/2020	13,500 ⁽⁹⁾	\$ 450,360		
	40,576	—	\$12.37	6/23/2021	23,168 ⁽¹⁰⁾	\$ 772,884		
	40,576	10,144 ⁽¹⁾	\$10.98	7/12/2022	8,890 ⁽¹³⁾	\$ 296,570		
	30,432	20,288 ⁽²⁾	\$18.88	7/15/2023	29,616 ⁽¹¹⁾	\$ 987,990		
	24,000	36,000 ⁽³⁾	\$24.67	7/15/2024				
	15,979	63,919 ⁽⁴⁾	\$38.33	7/15/2025				
	—	103,528 ⁽⁵⁾	\$37.48	7/13/2026				
Frederick J. Morganthall II	7,991	31,968 ⁽⁴⁾	\$38.33	7/15/2025	75,778 ⁽¹⁴⁾	\$2,527,954	2,703 ⁽¹⁵⁾	\$ 93,748 ⁽¹⁵⁾
	—	103,528 ⁽⁵⁾	\$37.48	7/13/2026	26,032 ⁽⁹⁾	\$ 868,428	0 ⁽¹⁶⁾	0 ⁽¹⁶⁾
					11,582 ⁽¹⁰⁾	\$ 386,376		
					6,088 ⁽⁷⁾	\$ 203,096		
					8,890 ⁽¹³⁾	\$ 296,570		
					29,616 ⁽¹¹⁾	\$ 987,990		

(1) Stock options vest on 7/12/2017.

(2) Stock options vest in equal amounts on 7/15/2017 and 7/15/2018.

(3) Stock options vest in equal amounts on 7/15/2017, 7/15/2018, and 7/15/2019.

(4) Stock options vest in equal amounts on 7/15/2017, 7/15/2018, 7/15/2019, and 7/15/2020.

(5) Stock options vest in equal amounts on 7/13/2017, 7/13/2018, 7/13/2019, 7/13/2020, and 7/13/2021.

- (6) Restricted stock vests on 7/12/2017.
- (7) Restricted stock vests in equal amounts on 7/15/2017 and 7/15/2018.
- (8) Restricted stock vests in equal amounts on 12/12/2017 and 12/12/2018.
- (9) Restricted stock vests in equal amounts on 7/15/2017, 7/15/2018, and 7/15/2019.
- (10) Restricted stock vests in equal amounts on 7/15/2017, 7/15/2018, 7/15/2019, and 7/15/2020.
- (11) Restricted stock vests in equal amounts on 7/13/2017, 7/13/2018, 7/13/2019, 7/13/2020, and 7/13/2021.
- (12) Restricted stock vests on 7/15/2017.
- (13) Restricted stock vests in equal amounts on 9/17/2017 and 9/17/2018.
- (14) Restricted stock vests in equal amounts on 1/30/2017, 1/30/2018, and 1/30/2019.
- (15) Performance units granted under the 2015 Long-Term Incentive Plan are earned as of the last day of fiscal 2017, to the extent performance conditions are achieved. Because the awards earned are not currently determinable, in accordance with SEC rules, the number of units and the corresponding market value reflect performance through 2016, including cash payments equal to projected dividend equivalent payments.
- (16) Performance units granted under the 2016 Long-Term Incentive Plan are earned as of the last day of fiscal 2018, to the extent performance conditions are achieved. Because the awards earned are not currently determinable, in accordance with SEC rules, the number of units and the corresponding market value reflect performance through 2016, including cash payments equal to projected dividend equivalent payments.

2016 Option Exercises and Stock Vested

The following table provides information regarding 2016 stock options exercised, restricted stock vested, and common shares issued pursuant to performance units earned under the 2014 Long-Term Incentive Plan.

Name	Option Awards ⁽¹⁾		Stock Awards ⁽²⁾	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
W. Rodney McMullen	120,000	\$3,046,800	140,542	\$4,857,680
J. Michael Schlotman	—	—	65,304	\$2,277,156
Michael J. Donnelly	40,000	\$ 948,128	46,440	\$1,599,430
Christopher T. Hjelm	—	—	44,323	\$1,523,755
Frederick J. Morganthall II	—	—	23,770	\$ 810,470

- (1) Stock options have a ten-year life and expire if not exercised within that ten-year period. The value realized on exercise is the difference between the exercise price of the option and the closing price of Kroger's common shares on the exercise date.
- (2) The Stock Awards columns include vested restricted stock and earned performance units, as follows:

Name	Vested Restricted Stock		Earned Performance Units	
	Number of Shares	Value Realized	Number of Shares	Value Realized
Mr. McMullen	114,667	\$4,111,704	25,875	\$745,976
Mr. Schlotman	58,404	\$2,078,229	6,900	\$198,927
Mr. Donnelly	41,265	\$1,450,235	5,175	\$149,195
Mr. Hjelm	39,148	\$1,374,560	5,175	\$149,195
Mr. Morganthall	19,061	\$ 674,710	4,709	\$135,760

Restricted stock. The table includes the number of shares acquired upon vesting of restricted stock and the value realized on the vesting of restricted stock, based on the closing price of Kroger common shares on the vesting date.

Performance Units. In 2014, participants in the 2014 Long-Term Incentive Plan were awarded performance units that were earned based on performance criteria established by the Compensation Committee at the beginning of

the three-year performance period. Actual payouts were based on the level of performance achieved, and were paid in common shares. The number of common shares issued and the value realized based on the closing price of Kroger common shares of \$28.83 on March 9, 2017, the date of deemed delivery of the shares, are reflected in the table above.

2016 Pension Benefits

The following table provides information regarding pension benefits for the NEOs as of the last day of 2016.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$) ⁽¹⁾
W. Rodney McMullen	Kroger Consolidated Retirement Benefit Plan	31	\$ 1,249,176
	Kroger Excess Benefit Plan	31	\$13,147,835
J. Michael Schlotman	Kroger Consolidated Retirement Benefit Plan	31	\$ 1,351,221
	Kroger Excess Benefit Plan	31	\$ 6,712,369
Michael J. Donnelly	Kroger Consolidated Retirement Benefit Plan	37	\$ 622,311
	Kroger Excess Benefit Plan	37	\$ 5,065,439
Christopher T. Hjelm	Kroger Consolidated Retirement Benefit Plan	— ⁽²⁾	\$ 10,731
Frederick J. Morgenthall II	Harris Teeter Employees' Pension Plan	30	\$ 1,033,528
	Harris Teeter Supplemental Executive Retirement Plan	30	\$ 8,839,037

- (1) The discount rate used to determine the present values was 4.23% for each of the Kroger Consolidated Retirement Benefit Plan (the "Kroger Pension Plan") and the Kroger Excess Benefit Plan (the "Excess Plan"), 4.38% for the Harris Teeter Supermarkets, Inc. Employees' Pension Plan (the "HT Pension Plan") and 4.38% for the Harris Teeter Supermarkets, Inc. Supplemental Executive Retirement Plan (the "HT SERP"), which are the same rates used at the measurement date for financial reporting purposes. Additional assumptions used in calculating the present values are set forth in Note 15 to the consolidated financial statements in Kroger's 10-K for fiscal year 2016.
- (2) The benefits for cash balance participants are not based on years of credited service. See the narrative discussion following this table for a description of how plan benefits are determined.

Kroger Pension Plan and Excess Plan

Messrs. McMullen, Schlotman, Donnelly and Hjelm participate in the Kroger Pension Plan, which is a qualified defined benefit pension plan. Messrs. McMullen, Schlotman and Donnelly also participate in the Excess Plan, which is a nonqualified deferred compensation plan as defined in Section 409A of the Code. The purpose of the Excess Plan is to make up the shortfall in retirement benefits caused by the limitations on benefits to highly compensated individuals under the qualified defined benefit pension plans in accordance with the Code.

Although participants generally receive credited service beginning at age 21, certain participants in the Kroger Pension Plan and the Excess Plan who commenced employment prior to 1986, including Messrs. McMullen and Schlotman, began to accrue credited service after attaining age 25 and one year of service. The Kroger Pension Plan and the Excess Plan generally determine accrued benefits using a cash balance formula, but retain benefit formulas applicable under prior plans for certain "grandfathered participants" who were employed by Kroger on December 31, 2000. Each of Messrs. McMullen, Schlotman and Donnelly is eligible for these grandfathered benefits. Mr. Hjelm is not a grandfathered participant, and therefore, his benefits are determined using the cash balance formula.

Grandfathered Participants

Benefits for grandfathered participants are determined using formulas applicable under prior plans, including the Kroger formula covering service to The Kroger Co. and the Dillon formula covering service to Dillon Companies, Inc. As "grandfathered participants", Messrs. McMullen, Schlotman and Donnelly will receive benefits under the Kroger Pension Plan and the Excess Plan, determined as follows:

- 1½% times years of credited service multiplied by the average of the highest five years of total earnings (base salary and annual cash bonus) during the last ten calendar years of employment, reduced by 1¼% times years of credited service multiplied by the primary social security benefit;

- normal retirement age is 65;
- unreduced benefits are payable beginning at age 62; and
- benefits payable between ages 55 and 62 will be reduced by $\frac{1}{3}$ of one percent for each of the first 24 months and by $\frac{1}{2}$ of one percent for each of the next 60 months by which the commencement of benefits precedes age 62.

In the event of a termination of employment other than death or disability, Messrs. McMullen, Schlotman and Donnelly currently are eligible for a reduced early retirement benefit, as each has attained age 55. If a “grandfathered participant” becomes disabled while employed by Kroger and after attaining age 55, the participant will receive the full retirement benefit. If a married “grandfathered participant” dies while employed by Kroger, the surviving spouse will receive benefits as though a retirement occurred on such date, based on the greater of: actual benefits payable to the participant if he or she was over age 55, or the benefits that would have been payable to the participant assuming he or she was age 55 on the date of death.

Cash Balance Participants

Mr. Hjelm began participating in the Kroger Pension Plan in August 2005 as a cash balance participant. Until the plan was frozen on December 31, 2006, cash balance participants received an annual pay credit equal to 5% of that year’s eligible earnings plus an annual interest credit equal to the account balance at the beginning of the plan year multiplied by the annual rate of interest on 30-year Treasury Securities in effect prior to the plan year. Beginning on January 1, 2007, cash balance participants receive an annual interest credit but no longer receive an annual pay credit. Upon retirement, cash balance participants generally are eligible to receive a life annuity which is the actuarial equivalent of his or her account balance, but may elect in some circumstances to receive a lump sum distribution equal to his or her account balance. If Mr. Hjelm becomes disabled while employed by Kroger, he will receive the full retirement benefit. If he dies while employed by Kroger, his beneficiary will receive a death benefit equal to the benefit he was eligible to receive if a retirement occurred on such date.

Offsetting Benefits

Mr. Donnelly also participates in the Dillon Companies, Inc. Employees’ Profit Sharing Plan (the “Dillon Profit Sharing Plan”), which is a qualified defined contribution plan under which Dillon Companies, Inc. and its participating subsidiaries may choose to make discretionary contributions each year that are allocated to each participant’s account. Participation in the Dillon Profit Sharing Plan was frozen in 2001 and participants are no longer able to make employee contributions, but certain participants, including Mr. Donnelly, are still eligible for employer contributions. Participants elect from among a number of investment options and the amounts in their accounts are invested and credited with investment earnings in accordance with their elections. Due to offset formulas contained in the Kroger Pension Plan, Mr. Donnelly’s accrued benefits under the Dillon Profit Sharing Plan offset a portion of the benefit that would otherwise accrue for him under the Kroger Pension Plan for his service with Dillon Companies, Inc. This offset is reflected in the table above.

Harris Teeter Pension Plan

Mr. Morganthall participates in the HT Pension Plan, which is a defined benefit pension plan. Participation in the HT Pension Plan was frozen effective October 1, 2005. For participants with age and service points as of December 31, 2005 equal to or greater than 45, which includes Mr. Morganthall, benefit accruals under the HT Pension Plan after September 30, 2005 will be offset by the actuarial equivalent of the portion of their account balance under the Harris Teeter Supermarkets, Inc. Retirement and Savings Plan (the “HT Savings Plan”) that are attributable to automatic retirement contributions made by Harris Teeter after September 30, 2005, plus earnings and losses on such contributions. For eligible participants meeting the years of service requirement who become Kroger employees, including Mr. Morganthall, their account balance under the Kroger 401(k) Plan attributable to company automatic contributions made while employed by Kroger and accruing benefits under the HT Pension Plan are aggregated with their applicable account balance under the HT Savings Plan in determining the offset. A participant’s normal annual retirement benefit under the HT Pension Plan at age 65 is an amount equal to 0.8% of his final average earnings multiplied by years of service at retirement, plus 0.6% of his final average earnings in excess of Social Security covered compensation multiplied by the number of years of service up to a maximum of 35 years. A participant’s final average earnings is the average annual cash compensation paid to the participant during the plan year, including salary, incentive compensation and any amount contributed to the HT Savings Plan, for the 5 consecutive years in the last 10 years that produce the highest average. Final average earnings for Mr. Morganthall exclude amounts paid under the Harris Teeter Merger Cash Bonus Plan and the Long-Term

Incentive Plan. Mr. Morganthall's compensation and years of service with the Company are taken into account for the purposes of calculation of this benefit.

Harris Teeter SERP

Mr. Morganthall also participates in the HT SERP, which is a nonqualified deferred compensation plan as defined in Section 409A of the Code. The purpose of the HT SERP is to supplement the benefits payable under the Harris Teeter retirement plans. Under the HT SERP, participants who retire at normal retirement age of 60 receive monthly retirement benefits equal to a benefit percentage between 55% and 60% of his or her final average earnings times his or her accrual fraction and reduced by his or her (1) assumed HT Pension Plan retirement benefit, and (2) assumed Social Security benefit. Mr. Morganthall is eligible for a benefit percentage of 60%. The final average earnings are the average annual earnings during the highest three calendar years out of the last ten calendar years preceding termination of employment. Final average earnings for Mr. Morganthall exclude amounts paid under the Harris Teeter Merger Cash Bonus Plan and the Long-Term Incentive Plan. Mr. Morganthall's compensation and years of service with Kroger and Harris Teeter are taken into account for the purposes of calculation of this benefit. The accrual fraction is a fraction, the numerator of which is the years of credited service, the denominator of which is 20, and which may not exceed 1.0. The benefits payable under the HT SERP are payable for the participant's lifetime with an automatic 75% survivor benefit payable to the participant's surviving eligible spouse for his or her lifetime. Mr. Morganthall is eligible to receive the full benefit as he has reached age 60. Harris Teeter uses a non-qualified trust to purchase and hold the assets to satisfy Harris Teeter's obligation under the HT SERP, and participants in the HT SERP are general creditors of Harris Teeter in the event Harris Teeter becomes insolvent.

2016 Nonqualified Deferred Compensation

The following table provides information on nonqualified deferred compensation for the NEOs for 2016.

Name	Executive Contributions in Last FY	Aggregate Earnings in Last FY⁽¹⁾	Aggregate Balance at Last FYE⁽²⁾
W. Rodney McMullen	\$82,500 ⁽³⁾	\$572,658	\$9,034,328
J. Michael Schlotman	—	—	—
Michael J. Donnelly	—	\$ 26,187	\$ 398,836
Christopher T. Hjelm	—	\$ 11,130	\$ 248,015
Frederick J. Morganthall II	—	\$ 58,913	\$ 739,257

- (1) These amounts include the aggregate earnings on all accounts for each NEO, including any above-market or preferential earnings. The following amounts earned in 2016 are deemed to be preferential earnings and are included in the "Change in Pension Value and Nonqualified Deferred Compensation Earnings" column of the Summary Compensation Table for 2016: Mr. McMullen, \$89,430; Mr. Donnelly, \$5,051; and Mr. Hjelm, \$187.
- (2) The following amounts in the Aggregate Balance column were reported in the Summary Compensation Tables covering fiscal years 2006 – 2015: Mr. McMullen, \$2,645,962; Mr. Donnelly, \$18,894; Mr. Hjelm, \$148,976; and Mr. Morganthall, \$116,493.
- (3) This amount represents the deferral of a portion of his salary in 2016. This amount is included in the "Salary" column of the Summary Compensation Table for 2016.

Kroger Executive Deferred Compensation Plan

Messrs. McMullen, Donnelly and Hjelm participate in the Kroger Deferred Compensation Plan, which is a nonqualified deferred compensation plan. Participants may elect to defer up to 100% of the amount of their salary that exceeds the sum of the FICA wage base and pre-tax insurance and other Code Section 125 plan deductions, as well as up to 100% of their annual and long-term cash bonus compensation. Kroger does not match any deferral or provide other contributions. Deferral account amounts are credited with interest at the rate representing Kroger's cost of ten-year debt as determined by Kroger's CEO and approved by the Compensation Committee prior to the beginning of each deferral year. The interest rate established for deferral amounts for each deferral year will be applied to those deferral amounts for all subsequent years until the deferred compensation is paid out. Amounts deferred in 2016 earn interest at a rate of 2.8%. Participants can elect to receive lump sum distributions or quarterly installments for periods up to ten years. Participants also can elect between lump sum distributions and quarterly

installments to be received by designated beneficiaries if the participant dies before distribution of deferred compensation is completed.

Participants may not withdraw amounts from their accounts until they leave Kroger, except that Kroger has discretion to approve an early distribution to a participant upon the occurrence of an unforeseen emergency. Participants who are “specified employees” under Section 409A of the Code, which includes the NEOs, may not receive a post-termination distribution for at least six months following separation. If the employee dies prior to or during the distribution period, the remainder of the account will be distributed to his or her designated beneficiary in lump sum or quarterly installments, according to the participant’s prior election.

Harris Teeter Flexible Deferral Plan

Mr. Morgenthall participates in the HT Flexible Deferral Plan, which is a nonqualified deferred compensation plan that provides certain highly compensated employees of Harris Teeter (including Harris Teeter employees that become Kroger employees), the opportunity to defer the receipt and taxation on a portion of their annual compensation and supplements the benefits under tax qualified retirement plans to the extent that such benefits are subject to limitation under the Code. Participants may elect to defer up to 50% of their base salary and up to 90% of their non-equity incentive bonus compensation earned as a Harris Teeter employee. Harris Teeter provides matching contributions of 50% of the participant’s contribution, up to a maximum of 4% of the participant’s pay, less assumed matching contributions under the HT Savings Plan. These deferred amounts and Company match are credited to the participant’s account. Plan participants may choose deemed investments in the HT Flexible Deferral Plan that represent choices that span a variety of diversified asset classes. Participants may elect to receive a lump sum distribution or annual installment payments for 2-15 years. Upon retirement, death, disability, or other separation of service, the participant will receive distributions in accordance with his election, subject to limitations under Section 409A. Mr. Morgenthall has reached the retirement age and is eligible for the full benefit. The HT Flexible Deferral Plan also allows for an in-service withdrawal for an unforeseeable emergency based on facts and circumstances that meet Internal Revenue Service and plan guidelines. Harris Teeter uses a non-qualified trust to purchase and hold the assets to satisfy Harris Teeter’s obligation under the HT Flexible Deferral Plan, and participants in the HT Flexible Deferral Plan are general creditors of Harris Teeter in the event Harris Teeter becomes insolvent.

Potential Payments upon Termination or Change in Control

Kroger does not have employment agreements or other contracts, agreements, plans or arrangements that provide for payments to the NEOs in connection with a termination of employment or a change in control of Kroger. However, KEPP, award agreements for stock options, restricted stock and performance units, and the long-term cash bonus plans provide for certain payments and benefits to participants, including the NEOs, in the event of a termination of employment or a change in control of Kroger, as defined in the applicable plan or agreement. Our pension plans and nonqualified deferred compensation plans also provide for certain payments and benefits to participants in the event of a termination of employment, as described above in the 2016 Pension Benefits section and the 2016 Nonqualified Deferred Compensation section, respectively.

KEPP

KEPP applies to all management employees who are classified as exempt under the federal Fair Labor Standards Act and to certain administrative or technical support personnel who are not covered by a collective bargaining agreement, with at least one year of service, including the NEOs. KEPP provides severance benefits when a participant’s employment is terminated actually or constructively within two years following a change in control of Kroger, as defined in KEPP. The actual amount of the severance benefit is dependent on pay level and years of service. Exempt employees, including the NEOs, are eligible for the following benefits:

- a lump sum severance payment equal to up to 24 months of the participant’s annual base salary and target annual bonus potential;
- a lump sum payment equal to the participant’s accrued and unpaid vacation, including banked vacation;
- continued medical and dental benefits for up to 24 months and continued group term life insurance coverage for up to 6 months; and
- up to \$10,000 as reimbursement for eligible outplacement expenses.

In the event that any payments or benefits received or to be received by an eligible employee in connection with a change in control or termination of employment (whether pursuant to KEPP or any other plan, arrangement

or agreement with Kroger or any person whose actions result in a change in control) would constitute parachute payments within the meaning of Section 280G of the Code and would be subject to the excise tax under Section 4999 of the Code, then such payments and benefits will either be (i) paid in full or (ii) reduced to the minimum extent necessary to ensure that no portion of such payments or benefits will be subject to the excise tax, whichever results in the eligible employee receiving the greatest aggregate amount on an after-tax basis.

Long-Term Incentive Awards

The following table describes the treatment of long-term incentive awards following a termination of employment or change in control of Kroger, as defined in the applicable agreement. In each case, the continued vesting, exercisability or eligibility for the incentive awards will end if the participant provides services to a competitor of Kroger.

Triggering Event	Stock Options	Restricted Stock	Performance Units	Performance-Based Long-Term Cash Bonus
Involuntary Termination	Forfeit all unvested options. Previously vested options remain exercisable for the shorter of one year after termination or the remainder of the original 10-year term.	Forfeit all unvested shares	Forfeit all rights to units for which the three year performance period has not ended	Forfeit all rights to long-term cash bonuses for which the three year performance period has not ended
Voluntary Termination/ Retirement - Prior to minimum age and five years of service ⁽²⁾	Forfeit all unvested options. Previously vested options remain exercisable for the shorter of one year after termination or the remainder of the original 10-year term.	Forfeit all unvested shares	Forfeit all rights to units for which the three year performance period has not ended	Forfeit all rights to long-term cash bonuses for which the three year performance period has not ended
Voluntary Termination/ Retirement - After minimum age and five years of service ⁽²⁾	Unvested options continue vesting on the original schedule. All options are exercisable for remainder of the original 10-year term.	Forfeit all unvested shares granted prior to 2013. Vesting continues on the original schedule for awards granted during or after 2013.	Pro rata portion ⁽¹⁾ of units earned based on performance results over the full three-year period	Pro rata portion ⁽¹⁾ of long-term cash bonuses earned based on performance results over the full three-year period
Death	Unvested options are immediately vested. All options are exercisable for remainder of the original 10-year term.	Unvested shares immediately vest	Pro rata portion ⁽¹⁾ of units earned based on performance results through the end of the fiscal year in which death occurs. Award will be paid following the end of such fiscal year.	Pro rata portion ⁽¹⁾ of long-term cash bonuses earned based on performance results through the end of the fiscal year in which death occurs. Award will be paid following the end of such fiscal year.
Disability	Unvested options are immediately vested. All options are exercisable for remainder of the original 10-year term.	Unvested shares immediately vest	Pro rata portion ⁽¹⁾ of units earned based on performance results over the full three-year period	Pro rata portion ⁽¹⁾ of long-term cash bonuses earned based on performance results over the full three-year period
Change in Control⁽³⁾	Unvested options are immediately vested and exercisable	Unvested shares immediately vest	50% of the units granted at the beginning of the performance period earned immediately	50% of the bonus granted at the beginning of the performance period earned immediately

- (1) The prorated amount is equal to the number of weeks of active employment during the performance period divided by the total number of weeks in the performance period.
- (2) The minimum age requirement is age 62 for stock options and restricted stock and age 55 for performance units and the long-term cash bonus.
- (3) These benefits are payable upon a change in control of Kroger, as defined in the applicable agreement, with or without a termination of employment.

Quantification of Payments upon Termination or Change in Control

The following table provides information regarding certain potential payments that would have been made to the NEOs if the triggering event occurred on the last day of the fiscal year, January 28, 2017, given compensation, age and service levels as of that date and, where applicable, based on the closing market price per Kroger common share on the last trading day of the fiscal year (\$33.36 on January 27, 2017). Amounts actually received upon the occurrence of a triggering event will vary based on factors such as the timing during the year of such event, the market price of Kroger common shares, and the officer's age, length of service and compensation level.

Name	Involuntary Termination	Voluntary Termination/Retirement	Death	Disability	Change in Control without Termination	Change in Control with Termination
W. Rodney McMullen						
Accrued and Banked Vacation	\$786,144	\$786,144	\$ 786,144	\$ 786,144	\$ 786,144	\$ 786,144
Severance	—	—	—	—	—	6,105,000
Continued Health and Welfare Benefits ⁽¹⁾	—	—	—	—	—	65,276
Stock Options ⁽²⁾	—	—	3,565,228	3,565,228	3,565,228	3,565,228
Restricted Stock ⁽³⁾	—	—	11,485,114	11,485,114	11,485,114	11,485,114
Performance Units ⁽⁴⁾	—	324,897	324,897	324,897	2,094,207	2,094,207
Long-Term Cash Bonus ⁽⁵⁾	—	223,978	223,978	223,978	1,220,000	1,220,000
Executive Group Life Insurance	—	—	5,060,000	—	—	—
J. Michael Schlotman						
Accrued and Banked Vacation	\$535,520	\$535,520	\$ 535,520	\$ 535,520	\$ 535,520	\$ 535,520
Severance	—	—	—	—	—	2,940,480
Continued Health and Welfare Benefits ⁽¹⁾	—	—	—	—	—	53,748
Stock Options ⁽²⁾	—	—	1,539,447	1,539,447	1,539,447	1,539,447
Restricted Stock ⁽³⁾	—	—	4,465,303	4,465,303	4,465,303	4,465,303
Performance Units ⁽⁴⁾	—	160,272	160,272	160,272	868,428	868,428
Long-Term Cash Bonus ⁽⁵⁾	—	141,852	141,852	141,852	800,000	800,000
Executive Group Life Insurance	—	—	3,367,530	—	—	—
Michael J. Donnelly						
Accrued and Banked Vacation	\$252,552	\$252,552	\$ 252,552	\$ 252,552	\$ 252,552	\$ 252,552
Severance	—	—	—	—	—	2,745,000
Continued Health and Welfare Benefits ⁽¹⁾	—	—	—	—	—	42,420
Stock Options ⁽²⁾	—	—	833,633	833,633	833,633	833,633
Restricted Stock ⁽³⁾	—	—	2,970,908	2,970,908	2,970,908	2,970,908
Performance Units ⁽⁴⁾	—	90,161	90,161	90,161	570,856	570,856
Long-Term Cash Bonus ⁽⁵⁾	—	123,729	123,729	123,729	706,450	706,450
Executive Group Life Insurance	—	—	3,040,000	—	—	—
Christopher T. Hjelm						
Accrued and Banked Vacation	\$ 55,460	\$ 55,460	\$ 55,460	\$ 55,460	\$ 55,460	\$ 55,460
Severance	—	—	—	—	—	2,531,932
Continued Health and Welfare Benefits ⁽¹⁾	—	—	—	—	—	52,564
Stock Options ⁽²⁾	—	—	833,633	833,633	833,633	833,633
Restricted Stock ⁽³⁾	—	—	2,888,509	2,888,509	2,888,509	2,888,509
Performance Units ⁽⁴⁾	—	120,217	120,217	120,217	651,371	651,371
Long-Term Cash Bonus ⁽⁵⁾	—	115,722	115,722	115,722	660,000	660,000
Executive Group Life Insurance	—	—	2,834,000	—	—	—
Frederick J. Morganthall II						
Accrued and Banked Vacation	\$ 83,190	\$ 83,190	\$ 83,190	\$ 83,190	\$ 83,190	\$ 83,190
Severance	—	—	—	—	—	2,642,016
Continued Health and Welfare Benefits ⁽¹⁾	—	—	—	—	—	35,516
Stock Options ⁽²⁾	—	—	0	0	0	0
Restricted Stock ⁽³⁾	—	—	5,270,413	5,270,413	5,270,413	5,270,413
Performance Units ⁽⁴⁾	—	60,105	60,105	60,105	490,342	490,342
Long-Term Cash Bonus ⁽⁵⁾	—	106,433	106,433	106,433	620,117	620,117
Executive Group Life Insurance	—	—	1,752,500	—	—	—

(1) Represents the aggregate present value of continued participation in the Company's medical, dental and executive term life insurance plans, based on the premiums payable by the Company during the eligible period. The eligible period for continued medical and dental benefits is based on the level and length of service, which is 23 months for Mr. Hjelm, and 24 months for the other NEOs. The eligible period for continued executive term life insurance coverage is six months for the NEOs. The amounts reported may ultimately be lower if the NEO is no longer eligible to receive benefits, which could occur upon obtaining other employment and becoming eligible for substantially equivalent benefits through the new employer.

- (2) Amounts reported in the death, disability and change in control columns represent the intrinsic value of the accelerated vesting of unvested stock options, calculated as the difference between the exercise price of the stock option and the closing price per Kroger common share on January 27, 2017. A value of \$0 is attributed to stock options with an exercise price greater than the market price on the last day of the fiscal year. In accordance with SEC rules, no amount is reported in the voluntary termination/retirement column because vesting is not accelerated, but the options may continue to vest on the original schedule if the conditions described above are met.
- (3) Amounts reported in the death, disability and change in control columns represent the aggregate value of the accelerated vesting of unvested restricted stock. In accordance with SEC rules, no amount is reported in the voluntary termination/retirement column because vesting is not accelerated, but the restricted stock may continue to vest on the original schedule if the conditions described above are met.
- (4) Amounts reported in the voluntary termination/retirement, death and disability columns represent the aggregate value of the performance units granted in 2015 and 2016, based on performance through the last day of fiscal 2016 and prorated for the portion of the performance period completed. Amounts reported in the change in control column represent the aggregate value of 50% of the maximum number of performance units granted in 2015 and 2016. Awards under the 2014 Long-Term Incentive Plan were earned as of the last day of 2016 so each NEO was entitled to receive (regardless of the triggering event) the amount actually earned, which is reported in the Stock Awards column of the 2016 Stock Vested Table.
- (5) Amounts reported in the voluntary termination/retirement, death and disability columns represent the aggregate value of the long-term cash bonuses granted in 2015 and 2016, based on performance through the last day of fiscal 2016 and prorated for the portion of the performance period completed. Amounts reported in the change in control column represent the aggregate value of 50% of the long-term cash bonus potentials under the 2015 and 2016 Long-Term Incentive Plans. Awards under the 2014 Long-Term Incentive Plan were earned as of the last day of 2016, so each NEO was entitled to receive (regardless of the triggering event) the amount actually earned, which is reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for 2016.

Item 2. Advisory Vote to Approve Executive Compensation

You are being asked to vote, on an advisory basis, to approve the compensation of our NEOs. The Board of Directors recommends that you vote FOR the approval of compensation of our NEOs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we give our shareholders the right to approve, on a nonbinding, advisory basis, the compensation of our NEOs as disclosed earlier in this proxy statement in accordance with the SEC's rules.

As discussed earlier in the CD&A, our compensation philosophy is to attract and retain the best management talent and to motivate these employees to achieve our business and financial goals. Our incentive plans are designed to reward the actions that lead to long-term value creation. To achieve our objectives, we seek to ensure that compensation is competitive and that there is a direct link between pay and performance. To do so, we are guided by the following principles:

- A significant portion of pay should be performance-based, with the percentage of total pay tied to performance increasing proportionally with an executive's level of responsibility;
- Compensation should include incentive-based pay to drive performance, providing superior pay for superior performance, including both a short- and long-term focus;
- Compensation policies should include an opportunity for, and a requirement of, equity ownership to align the interests of executives and shareholders; and
- Components of compensation should be tied to an evaluation of business and individual performance measured against metrics that directly drive our business strategy.

The vote on this resolution is not intended to address any specific element of compensation. Rather, the vote relates to the compensation of our NEOs as described in this proxy statement. The vote is advisory. This means that the vote is not binding on Kroger. The Compensation Committee of the Board is responsible for establishing executive compensation. In so doing, the Compensation Committee will consider, along with all other relevant factors, the results of this vote.