

Fellow Shareholders:

FOOD IS MORE EXCITING than ever before. A majority of Americans identify as “foodies.” Customers have a virtually-unlimited number of options when you combine all the tastes, flavors and types of meals available today. And more shoppers plan to purchase food online this year than ever before.

Kroger’s vision is to serve America through food inspiration and uplift. We are uniquely positioned to be the partner our customers turn to for their needs because meals have been our expertise for 135 years and – every day since day one – we place the customer at the center of everything we do.

Every day, we serve more than nine million customers who walk through our doors, savor (and save with!) their favorite *Our Brands* products, search Kroger.com for recipes or digital savings, pick up their ClickList order or receive a home delivery. We have the scale, data, physical assets and human connection to win with our customers today and into the future. We are energetically creating a seamless digital experience for our customers and providing personalized inspiration to help America decide what’s for dinner. As we pursue our *Restock Kroger* plan, Kroger will change the way America eats.

Reflecting on 2017, there was much to celebrate. Kroger’s total sales reached \$122.7 billion. We grew digital sales by more than 90%, expanded ClickList to more than 1,000 locations, and now offer a seamless experience to more than two-thirds of our 60 million customers. We gained market share for the 13th consecutive year. Kroger’s Board of Directors raised the quarterly dividend for the 11th consecutive year. Our quarterly dividend has grown at a compound annual growth rate of 13.0% since we reinstated the dividend in 2006. We achieved \$17 billion in natural and organic sales, including \$2 billion in Simple Truth[®] sales. We created more than 10,000 new American jobs in our supermarkets across the country, demonstrating the essential role our industry plays in generating economic activity and opportunity in our communities. And we launched Zero Hunger | Zero Waste, our ambitious commitment to end hunger in the places we call home and eliminate waste across our business by 2025.

At our investor conference in October, we discussed the need for retail companies to constantly reinvent themselves to remain relevant. Kroger is right in the middle of such a reinvention. We are proactively addressing customer changes and we’re making strategic investments to create the future of retail: a seamless digital experience, customer-centric technology solutions, an enhanced associate experience, space-optimized stores and smart-priced products.

These efforts came together in the four drivers of *Restock Kroger: Redefine the Grocery Customer Experience, Partner for Customer Value, Develop Talent* and *Live Our Purpose*. Executing against these four drivers will create meaningful shareholder value. We expect *Restock Kroger* to generate \$6.5 billion of free cash flow before dividends and \$400 million in incremental FIFO operating profit over the next three years. Our long-term strategy and annual business plan are reviewed and approved by Kroger’s engaged Board of Directors.

What’s exciting about *Restock Kroger* are several aggressive plays that we haven’t run before:

We are redeploying capital to prioritize the digital experience and a seamless shopping experience for all customers so they can choose how, where and when they want to shop with us.

We are forming strategic partnerships to grow alternative revenue streams. For example, last year we launched *Kroger Precision Marketing, powered by 84.51°*, to monetize the media opportunity to reach the more than nine million sets of eyes in our stores and on our digital properties every day.

We are redoubling our efforts to expand our world-class data and personalization work with 84.51°, including using data insights to optimize space in our stores for the future.

We are investing in our associates more than ever before, starting with a half-billion-dollar investment in wages for many store associates announced as a part of *Restock Kroger*.

The federal Tax Cuts and Jobs Act is an important catalyst as it is enabling us to accelerate these *Restock Kroger* investments. We’re taking a balanced approach to ensure tax reform benefits our shareholders, customers and associates alike. Shareholders will benefit from approximately a third of the tax savings flowing through to net earnings per diluted share. Another third of our tax savings is being re-invested in *Redefining the Grocery Customer Experience* through lower prices, better service and added convenience. The final third is being invested to *Develop Talent* for the long term.

We applaud the many companies who share our enthusiasm for tax reform and announced significant bonuses for employees. At Kroger, we wanted to take a slightly different approach. Instead of a one-time award, we want to create an associate benefit that lasts. So we’ve increased the company’s 401(k) contribution match to help associates retire with more money in their pockets, plus expanded associate discounts to keep more money in their pockets today.

But what I'm most excited about is our offer of up to \$3,500 in annual tuition assistance to any associate who wants to attend classes to build a better future for themselves. Whether they are interested in a GED or undergraduate degree, an MBA or a professional certification, associates can take advantage of up to \$21,000 in total assistance as long as they've been with us for at least six months on a full or even part-time basis.

We're calling Kroger's new industry-leading education benefit **Feed Your Future**. Under the new benefit, we expect to increase by five times Kroger's total annual investment in associate education.

As someone who got his start stocking shelves on the night shift at Kroger in 1978, I can attest to education's life-changing power. I worked my way through college, and upon graduation I was so proud to accept a full-time job with Kroger. I've been here ever since.

Kroger has always been a place where people can 'come for a job and stay for a career.' We believe that making education benefits available to more associates and at more generous levels than ever before is the best way to support their future career growth. These investments support *Restock Kroger*, which means we fully expect a strong return.

All of these efforts are built on the foundation of operational excellence and everyday productivity improvements that have long-defined the Kroger way. We won't leave a penny on the table as we seek to reinvest savings to grow our business. Today more than ever, I am optimistic and confident about Kroger's future. I encourage you to keep up to date on our *Restock Kroger* progress by regularly visiting ir.kroger.com.

Kroger is also rising to the call from investors, customers and associates alike to live our purpose, To Feed the Human Spirit™.

Our stakeholders increasingly want to understand and participate in shaping companies' environmental and social sustainability commitments – and they are choosing to support companies with shared values and clarity of purpose.

One of Kroger's differentiating strengths is our physical presence in our communities. We are part of the fabric of the neighborhoods we serve, and 135 years in the grocery business have taught us a few things about people and about food. We know that meals matter. Families that share meals together have children who do better in all aspects of their lives. Throughout our history, Kroger has always provided the food and nourishment people need to live their best lives. Last year, in fact, Kroger donated more than 325 million meals to feed hungry families through our partnership with local *Feeding America* food banks. Yet there is a fundamental absurdity in the U.S. food system – 40% of the food produced here goes to waste, while 1 in 8 Americans struggle with hunger. In fact, 1 in 6 children go hungry every day. That just doesn't make sense.

We must do something about this, and we believe we can address this absurdity – perhaps better than anyone. Kroger has the tremendous scale – the physical assets, the technology, the resources, the people and the passion – combined with the local connection to our communities to tackle this challenge head on. Our plan is called Zero Hunger | Zero Waste and our aim is to end hunger in the communities we call home and eliminate waste across the company by 2025.

We are setting big goals, leveraging The Kroger Co. Foundation and company-wide community investment efforts, and asking our trusted partners to join us on the journey – especially *Feeding America* and the *World Wildlife Fund* – because we can't do it alone. We'll tell our story along the way to inspire and encourage our associates, customers and all of our stakeholders to join us on our 'moonshot' mission to transform Kroger communities and improve the health of millions of Americans by 2025.

This journey is just beginning, and we welcome you to join us, too. You can follow along at www.thekrogerco.com or [#zerohungerzerowaste](https://twitter.com/zerohungerzerowaste).

Kroger has successfully competed in an ever-changing retail landscape throughout our history. We know that our success in the future will depend on our ability to see where the customer is going and to proactively address their changing preferences. *Restock Kroger* is our plan to do just that. We know we can accomplish *Restock Kroger* because it is built on a foundation of our strengths, including:

- Kroger has more data than any of our competitors, which leads to deep customer knowledge and unparalleled personalization. We use this data to improve our customers' experience.
- We have incredibly convenient locations and platforms for pickup and delivery within one-to-two miles of our customers.
- We have a leadership team that combines deep experience with creative new talent.

- We have the scale to win with more than 60 million households shopping with us annually. We're regularly named America's most loved grocery store.
- We have a proven track record of consistently returning capital to shareholders through an increasing dividend and share buyback program.
- And, we have an abiding commitment to uplift and improve the lives of our associates, customers and communities.

Kroger's fundamentals are strong. Associates are inspired by Kroger's purpose and our vision to serve America through food inspiration and uplift. Our *Restock Kroger* plan creates an exciting ecosystem for those who want to develop, test and scale the innovative solutions that will fundamentally redefine the food and grocery customer experience. Enhanced associate benefits like **Feed your Future** will support individual growth and development and help to retain great talent who will in turn serve our customers. All of this will allow us to deliver for our shareholders, not only through selling groceries but through alternate sources of revenue as well.

We believe this is cause for optimism and we continue to believe our best days are ahead of us.

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

For our shareholders and other stakeholders: On behalf of all of us, thank you for your continued confidence in Kroger.

Sincerely,



Rodney McMullen
Chairman and CEO

Kroger Safe Harbor Statement

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