

Fellow Shareholders:

2018 was year one of *Restock Kroger*, our three-year plan to create shareholder value by pursuing our vision to serve America through food inspiration and uplift.

I'm pleased to report that Kroger achieved what we set out to do last year. We delivered over \$1 billion in savings through cost controls and process improvements, invested for the future, and delivered against our operating profit and cash flow goals.

Landing the first year of a three-year plan is always the toughest and most critical, since everything that follows depends on the foundation we've built. That foundation positions us to deliver on our 2020 *Restock Kroger* objectives and transform the company for long-term growth.

Restock Kroger is our commitment our customers, associates and communities. By serving these stakeholders, our shareholders are rewarded. We are investing for the future while also growing today. We are introducing new ways to shop, fresh foods to savor, and new ways to save, all so that our customers will love shopping with us. We are investing in our associates more than ever before. We are establishing new ways to live our Purpose through Zero Hunger | Zero Waste. And, through it all, we are reinventing the retail growth model. Together, this will transform Kroger for the better.

Of course, transformational change is hard, and we recognize that we have a lot of work to do. Just look at the Fortune 500 list. You can count about a dozen companies that have truly transformed themselves in the last 10-15 years. And fewer than a quarter of the companies who were on the list 30 years ago are here at all today. But transformation is an imperative, and we are energized by that today just as we always have been throughout our 136-year history.

Stakeholder expectations continue to evolve. Customers want to shop on their terms for anything, anytime, anywhere. Associates want more opportunities to grow, both personally and professionally, and to be a part of teams that respect and care about them. Shareholders rightly want sustainable, long-term growth and profitability – plus a growing dividend. And all stakeholders want to know that we are inspired by purpose and motivated by a vision that Kroger uniquely can deliver.

It's an exciting time in the food retail industry. And even as the industry, our stakeholders and our company embrace change, several things remain constant: our relentless commitment to customers, our clarity of Purpose – To Feed the Human Spirit, and our customer Promise – everyone friendly and caring, everything fresh, uplift every way, and improve every day.

Restock Kroger has four main drivers: *Redefine the Grocery Customer Experience*, *Partner for Customer Value*, *Develop Talent*, and *Live Our Purpose*. Combined, these drivers come together to *Create Shareholder Value* through incremental operating profit and cash flow growth by 2020. Our long-term strategy and annual business plan are reviewed and approved by Kroger's engaged Board of Directors.

Redefine the Grocery Customer Experience

We are transforming Kroger to be the leading omnichannel retailer in the food industry.

Our customers don't distinguish between an in store and online experience; rather, they have a need or a problem to solve and want the easiest, most seamless solution. That could mean a delicious restaurant-style meal on the run, a meal kit for dinner tonight, an online order for Pickup or Delivery to stock up on grocery essentials for the week, a Ship order of pantry and household staples ... and the list goes on. We are rapidly expanding our capabilities to be relevant, available and accessible to our customers in both digital and physical environments.

We've been building Kroger's digital platform for several years. We are very pleased with the growth of digital sales, which grew 58% in 2018. The annual run rate for digital sales was about \$5 billion at the end of 2018. Going forward, we are trending toward a run rate of \$9 billion.

We continue working to seamlessly integrate our growing digital platform with our brick-and-mortar grocery business to serve customers anything, anytime, anywhere. At the end of 2018, we offered Pickup or Delivery to 91% of Kroger households. By the end of 2019, with full integration of Kroger Ship into our ecosystem, we will reach 100% of America.

Our Brands continues to shine. Our portfolio of brands grew at a record-setting pace in 2018, even reaching 30.5% unit share in the fourth quarter for the first time. Innovation remains a key driver of growth. We introduced 1,022 new items last year alone, which helped drive strong year-over-year sales lift across Kroger, Private Selection, and Simple Truth.

Simple Truth continued to outperform with double-digit sales growth in 2018. Simple Truth is now a \$2.3 billion brand. Designed to be a solution for customers who don't want to have to examine the label to understand what is in every product, all Simple Truth items are free from more than 101 ingredients that customers told us they don't want in their food. And in 2018 we formed partnerships that offer new platforms to expand the brand's reach even further, including our pilots with Walgreens and Alibaba's TMall platform in China.

Partner for Customer Value

Transformation requires innovative partnerships. We are identifying partners who will help us deliver customer value today and in the future.

We announced several exciting new partnerships in 2018, including Home Chef, Microsoft, Nuro, and Ocado among others. All of these partnerships accelerate our ability to provide customers anything, anytime, anywhere. And each partner shares our passion for exploring the nexus between technology and innovative customer experiences.

I'd like to highlight two of these partnerships, Home Chef and Ocado. We merged with Home Chef, an online meal kit company, in 2018. What made Home Chef such a compelling merger partner is their combination of technology-enabled culinary expertise and customer data driven decision making. Home Chef is #1 in customer satisfaction among meal kit companies because they are relentlessly focused on the customer. They continue to grow and shape the meal solutions category. Shortly after our merger, Home Chef launched their first ever in-store meal kits. Today the products are available in nearly 700 locations and we have plans for further expansion.

Our exclusive licensing agreement with Ocado, one of the world's largest dedicated online grocery retailers, will enable Kroger to provide a faster, more curated ecommerce shopping experience for customers than ever before. The Ocado Smart Platform utilizes advanced robotics and efficient automated warehouse technology to create an end-to-end supply chain solution that will advance our already-strong supply chain infrastructure. What does that mean for customers? Fresher food, delivered faster, to enjoy longer. We've identified the locations for the first three Ocado customer fulfillment centers, or "sheds", in the U.S. – southwest Ohio, central Florida and the Mid-Atlantic region – and will name additional locations in 2019.

Develop Talent

Transformation starts with our people, which is why *Develop Talent* is a driver of *Restock Kroger*. Our talent development strategy has three parts: investing in associates, improving the associate experience, and developing high performing teams and leaders.

We are investing an incremental \$500 million in our associates over the three years of *Restock Kroger*. In 2018, we accelerated these planned investments to increase wages for our store associates. The federal tax reform was a catalyst enabling us to accelerate these investments. We chose to take a balanced approach to ensure tax reform benefited our shareholders, customers and associates alike. Shareholders are benefiting from approximately a third of the tax savings flowing through to net earnings per diluted share. Another third of the savings is being reinvested to improve the customer experience. And we are investing the final third to improve the associate experience through an increased 401k match, expanded associate discounts, and a new industry-leading education assistance program called *Feed Your Future*. Our combined efforts significantly improved employee retention in one of the tightest labor markets in years.

Feed Your Future strengthens human capital by improving access to education. We launched the program a year ago, which is available to all associates, full or part time, after six months of service. Among all the participants, 83% are hourly store associates.

Many people's first job is in retail. Kroger has always been a place where people can 'come for a job and stay for a career.' And, certainly, our hope with programs like *Feed Your Future* is that associates will bring their educational growth back to Kroger through increased performance and responsibility. But whether or not an associate remains with Kroger for the long term, we know that the investment we are making in them is going to last. It is going to give that person a better life, which is going to make the world a better place.

Live Our Purpose

Increasingly, customers, associates and investors are choosing to shop with, work for and invest in companies that are purpose driven and making the world a better place. At Kroger, our Purpose is to Feed the Human Spirit. And while we live our purpose in large ways and small every day across our stores, manufacturing plants, distribution facilities and offices, one of the most innovative ways we Feed the Human Spirit is through our social impact plan, Zero Hunger | Zero Waste.

136 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. 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 believe we can address this absurdity – perhaps better than anyone.

Zero Hunger | Zero Waste aims to end hunger in the places we call home and eliminate waste across the company by 2025.

In 2018, we celebrated several milestones on our journey. Kroger donated more than 316 million meals in food and funds to feed hungry families. That's more than 100 million pounds of nutritious food directed to local Feeding America food banks, and enough to feed nearly 80,000 food insecure people for a whole year. Our teams increased recycling by nearly 20% across the company, bringing total waste diversion to 76% as we work toward zero waste-to-landfill.

Also, in 2018 Kroger became the first major U.S. retailer to commit to phasing out single-use plastic grocery bags and transition to more sustainable options to better protect the planet. And we were thrilled to be recognized on Fortune magazine's Change the World 2018 list for using Kroger's scale for good – engaging our business to solve society's most complex issues – through Zero Hunger | Zero Waste.

We welcome you to join us on our journey, too. You can follow along at www.thekrogerco.com or #zerohungerzerowaste.

* * *

Create Shareholder Value

We are transforming from a grocery company to a growth company.

We are creating a virtuous circle built on our grocery business and the data that business generates. We use data both to serve our more than 60 million customers better and to create new business opportunities that leverage our consumer insights.

We are improving our seamless ecosystem by offering customers incredible physical and digital experiences, great meals and amazing products, friendly and caring associates, and unprecedented convenience.

A constantly-improving customer ecosystem generates traffic, customer data and insights.

These then fuel the growth of adjacent alternative profit streams like our Kroger Personal Finance, 84.51°, and Media businesses. It is worth noting that each of these businesses beat their operating profit targets for 2018. This was very encouraging because they are the biggest line items in our portfolio of alternative profit businesses.

It is a virtuous circle that works for customers and shareholders. Delivering an amazing customer experience creates incremental new profit streams, and new profit streams provide capital that can be reinvested in our core grocery business, making the seamless experience possible. Both parts are necessary to deliver sustainable, long-term growth and profitability.

Strategic Sale of Assets

Throughout 2018 we explored strategic alternatives for several business units that had greater potential for growth outside of the Kroger ecosystem. Those explorations resulted in the sale of our Convenience Store business, YouTech, and Turkey Hill business. These transactions generated value for shareholders and will allow for each of these businesses to reach their full potential. The sale of YouTech includes a long-term services agreement with Inmar to provide digital coupon services to the Kroger family of stores and we will continue to offer our customers Turkey Hill's popular ice cream, iced teas, lemonades and other products.

* * *

As America's grocer, Kroger has the winning combination of local presence plus a digital ecosystem, enhanced by strategic partnerships, that together enable us to offer our customers anything, anytime, anywhere. We are deploying our assets to serve more customers and create asset-light, margin-rich alternative profit streams. We are living our Purpose and pursuing our *Restock Kroger* vision to serve America through food inspiration and uplift.

Very few Fortune 500 companies have transformed themselves since the list's inception more than six decades ago. But Kroger has done so time and again by always focusing on the ever-evolving needs of our customers. We will transform because we have transformed, repeatedly, through our 136-year history.

When I think about Barney Kroger's fledgling business on Pearl Street near the Ohio River delivering groceries to customer homes by horse-drawn carriage ... and compare that to our business in Houston delivering groceries to customer homes by Nuro's self-driving R1 robot ... there are some dramatic differences but, really, it's about the same thing: delivering for our customers. It's just a different kind of horsepower.

* * *

For our associates: Thank you for what you do every day, for our customers, the communities we call home, 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 "achieve," "believe," "committed," "continue," "deliver," "effect," "future," "growth," "imperative," "may," "plan," "reinventing," "result," "strategy," "strong," "sustainable," "transform," "trend," "vision," and "will," as well as similar words or phrases. 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.