Notice of 2017 Annual Meeting of Shareholders

2017 Proxy Statement

and

2016 Annual Report

Kroger Family of Companies

Supermarkets

Kroger
Ralphs
King Soopers
Owen's
City Market
Dillons
Smith's
Jay C Food Stores
Fry's Food Stores
QFC Quality Food Centers
Baker's
Pay Less Super Markets
Gerbes Super Markets
Copps
Kroger Fresh Fare
Harris Teeter Neighborhood Food & Pharmacy
Mariano's
metro market
Pick 'n Save

Price-Impact Stores

Food 4 Less
Foods Co.
Ruler Foods

Multi-Department Stores

Fred Meyer
Fry's Marketplace
Smith's Marketplace
Kroger Marketplace
Dillons Marketplace
King Soopers Marketplace

Convenience Stores

TurkeyHill
KwikShop
Loaf 'N Jug
QuikStop
TomThumb

Jewelry Stores

Fred Meyer Jewelers
Littman Jewelers

Specialty Retailers

Vitacost
Murray's

Services

Kroger Personal Finance
The Little Clinic Convenient Neighborhood Medical Care
Kroger Specialty Pharmacy
84.51°

FELLOW SHAREHOLDERS:

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

America's Grocer

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

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

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

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

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

Committed to Long-term Value Creation

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

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

A Collective Sense of Urgency

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

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

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

Market Share Growth Amid Deflation

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

Committed to Our Customer 1st Strategy

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

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

Investing for Today and the Future

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

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

Anything, Anytime, Anywhere

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

Data-driven Decisions

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

Digital and Delivery

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

Digitization of the Store

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

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

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

Customer Megatrends

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

Introducing Kroger Meal Kits

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

Kroger Specialty Pharmacy

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

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

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

Strong Corporate Brands

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

Thank You to Recent Retirees

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

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

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

Our Social Contract

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

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

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

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

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

Sustainability

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

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

Diversity

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

Core Strengths

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

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

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

Sincerely,

Rodney McMullen
Chairman and CEO

Kroger Safe Harbor Statement

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

2016 Community Service Award

Congratulations to the winners of The Kroger Co. Community Service Award for 2016:

Division	Recipient
Atlanta	Les Jones
Central	Bethany Shuford
Cincinnati	Pamela Quittschreiber
Columbus	Kasey Ell
Delta	Greg Pollan
Dillon Stores	Erin Rainey
Food 4 Less	Mary Gonzalez
Fred Meyer	Julee Richards
Fry's	Denise Matthys
Jay C Stores	Jessica Shelton
King Soopers/City Market	Kathy Ladner
Louisville	Frank Smith
Mariano's	Erin McKeon
Michigan	Amanda Taylor
Mid-Atlantic	Richard Green
Nashville	Rodney Smith
QFC	Jeffrey Lewis
Ralphs	Nick Huber
Roundy's	Ginny A'mico
Smith's	Joey Ybarra
Houston	Chandra Buchanan
Dallas	Andrea Adams
Pace Dairy	Charlie Melvin
KB Specialty	Nancy Herd
Kenlake Foods	Karl Smith
La Habra Bakery	Rob Farmer
Riverside Creamery	Marsha Martinez
C-Stores	Timothy Bain
Corporate	Alita Wesley
Logistics	Mark Bliss
The Little Clinic	Sue Lorenz
Fred Meyer Jewelers	Ezra Mccallister

Notice of 2017 Annual Meeting of Shareholders

Fellow Kroger Shareholders:

It is our pleasure to invite you to join our Board of Directors, senior leadership, and other Kroger associates at The Kroger Co. Annual Meeting of Shareholders.

When:	Thursday, June 22, 2017, at 11:00 a.m. eastern time.
Where:	School for Creative and Performing Arts Corbett Theater 108 W. Central Parkway Cincinnati, OH 45202
Items of Business:	1. To elect eleven director nominees. 2. To approve our executive compensation, on an advisory basis. 3. To select the frequency of future advisory votes on executive compensation, on an advisory basis. 4. To ratify the selection of our independent auditor for fiscal year 2017. 5. To vote on four shareholder proposals, if properly presented at the meeting. 6. To transact other business as may properly come before the meeting.
Who can Vote:	Holders of Kroger common shares at the close of business on the record date April 26, 2017 are entitled to notice of and to vote at the meeting.
How to Vote:	Your vote is important! Please vote your proxy in one of the following ways: 1. *Via the internet*, by visiting www.proxyvote.com. 2. *By telephone*, by calling the number on your proxy card, voting instruction form or notice. 3. *By mail*, by marking, signing, dating and mailing your proxy card if you requested printed materials, or your voting instruction form. No postage is required if mailed in the United States. 4. *In person*, by attending the meeting in Cincinnati.
Attending the Meeting:	Shareholders holding shares at the close of business on the record date, or their duly appointed proxies, may attend the meeting. If you plan to attend the meeting, you must bring either: (1) the notice of meeting that was separately mailed to you or (2) the top portion of your proxy card, either of which will be your admission ticket. You must also bring valid photo identification, such as a driver's license or passport.
Webcast of the Meeting:	If you are unable to attend the meeting, you may listen to a live webcast of the meeting by visiting ir.kroger.com at 11:00 a.m. eastern time on June 22, 2017.

We appreciate your continued confidence in Kroger, and we look forward to seeing you at the meeting.

May 10, 2017
Cincinnati, Ohio

By Order of the Board of Directors,
Christine S. Wheatley, Secretary

Proxy Statement

May 10, 2017

We are providing this notice, proxy statement and annual report to the shareholders of The Kroger Co. ("Kroger", "we", "us", "our") in connection with the solicitation of proxies by the Board of Directors of Kroger (the "Board") for use at the Annual Meeting of Shareholders to be held on June 22, 2017, at 11:00 a.m. eastern time, at the School for Creative and Performing Arts, Corbett Theater, 108 W. Central Parkway, Cincinnati, Ohio 45202, and at any adjournments thereof.

Our principal executive offices are located at 1014 Vine Street, Cincinnati, Ohio 45202-1100. Our telephone number is 513-762-4000. This notice, proxy statement and annual report, and the accompanying proxy card were first furnished to shareholders on May 10, 2017.

Who can vote?

You can vote if, as of the close of business on April 26, 2017, you were a shareholder of record of Kroger common shares.

Who is asking for my vote, and who pays for this proxy solicitation?

Your proxy is being solicited by Kroger's Board of Directors. Kroger is paying the cost of solicitation. We have hired D.F. King & Co., Inc., 48 Wall Street, New York, New York, a proxy solicitation firm to assist us in soliciting proxies and we will pay them a fee estimated not to exceed $16,000.

We also will reimburse banks, brokers, nominees, and other fiduciaries for postage and reasonable expenses incurred by them in forwarding the proxy material to beneficial owners of our common shares.

Proxies may be solicited personally, by telephone, electronically via the Internet, or by mail.

Who are the members of the Proxy Committee?

Robert D. Beyer, W. Rodney McMullen, and Ronald L. Sargent, all Kroger Directors, are the members of the Proxy Committee for our 2017 Annual Meeting.

How do I vote my proxy?

You can vote your proxy in one of the following ways:

1. *Via the internet,* by visiting www.proxyvote.com.
2. *By telephone,* by calling the number on your proxy card, voting instruction form, or notice.
3. *By mail,* by marking, signing, dating and mailing your proxy card if you requested printed materials, or your voting instruction form. No postage is required if mailed in the United States.
4. *In person,* by attending the meeting in Cincinnati.

What do I need to attend the meeting in person in Cincinnati?

If you plan to attend the meeting, you must bring either: (1) the notice of meeting that was separately mailed to you or (2) the top portion of your proxy card, either of which will be your admission ticket. You must also bring valid photo identification, such as a driver's license or passport.

Can I change or revoke my proxy?

The common shares represented by each proxy will be voted in the manner you specified unless your proxy is revoked before it is exercised. You may change or revoke your proxy by providing written notice to Kroger's Secretary at 1014 Vine Street, Cincinnati, Ohio 45202, in person at the meeting or by executing and sending us a subsequent proxy.

How many shares are outstanding?

As of the close of business on April 26, 2017, the record date, our outstanding voting securities consisted of 912,603,414 common shares.

How many votes per share?

Each common share outstanding on the record date will be entitled to one vote on each of the 11 director nominees and one vote on each other proposal. Shareholders may not cumulate votes in the election of directors.

What voting instructions can I provide?

You may instruct the proxies to vote "For" or "Against" each proposal, or you may instruct the proxies to "Abstain" from voting.

What happens if proxy cards or voting instruction forms are returned without instructions?

If you are a registered shareholder and you return your proxy card without instructions, the Proxy Committee will vote in accordance with the recommendations of the Board.

If you hold shares in street name and do not provide your broker with specific voting instructions on proposals 1, 2, 3, 5, 6, 7, or 8, which are considered non-routine matters, your broker does not have the authority to vote on those proposals. This is generally referred to as a "broker non-vote." Proposal 4, ratification of auditors, is considered a routine matter and, therefore, your broker may vote your shares according to your broker's discretion.

The vote required, including the effect of broker non-votes and abstentions for each of the matters presented for shareholder vote, is set forth below.

What are the voting requirements for each of the proposals?

Proposal No. 1, Election of Directors – An affirmative vote of the majority of the total number of votes cast "For" or "Against" a director nominee is required for the election of a director in an uncontested election. A majority of votes cast means that the number of shares voted "For" a director nominee must exceed the number of votes "Against" such director. Broker non-votes and abstentions will have no effect on this proposal.

Proposal No. 2, Advisory Vote to Approve Executive Compensation – Advisory approval by shareholders of executive compensation requires the affirmative vote of the majority of shares participating in the voting. Broker non-votes and abstentions will have no effect on this proposal.

Proposal No. 3, Advisory Vote on the Frequency of Future Advisory Votes on Executive Compensation – The option, be it every one, two, or three years, that receives the highest number of votes cast by shareholders will represent the vote on frequency of the advisory vote on executive compensation. Accordingly, broker non-votes and abstentions will have no effect on this proposal.

Proposal No. 4, Ratification of Independent Auditors – Ratification by shareholders of the selection of independent public accountants requires the affirmative vote of the majority of shares participating in the voting. Abstentions will have no effect on this proposal.

Proposal Nos. 5, 6, 7, and 8, Shareholder Proposals – The affirmative vote of the majority of shares participating in the voting on a shareholder proposal is required for such proposal to pass. Accordingly, broker non-votes and abstentions will have no effect on these proposals.

How does the Board of Directors recommend that I vote?

Proposal	For More Information	Board Recommendation
Item No. 1, Election of Directors	See page 5	**FOR**
Item No. 2, Advisory Vote to Approve Executive Compensation	See page 49	**FOR**
Item No. 3, Advisory Vote on Frequency of Future Advisory Votes on Executive Compensation	See page 50	**ONE YEAR**
Item No. 4, Ratification of Independent Auditors	See page 50	**FOR**
Item Nos. 5, 6, 7, and 8, Shareholder Proposals	See page 53	**AGAINST**

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on June 22, 2017

The Notice of 2017 Annual Meeting, Proxy Statement and 2016 Annual Report and the means to vote by internet are available at www.proxyvote.com.

Kroger's Corporate Governance Practices

Kroger is committed to strong corporate governance. We believe that strong governance builds trust and promotes the long-term interests of our shareholders. Highlights of our corporate governance practices include the following:

Board Governance Practices

- ✓ Strong Board oversight of enterprise risk.
- ✓ All director nominees are independent, except for the CEO.
- ✓ All five Board committees are fully independent.
- ✓ Robust code of ethics.
- ✓ Annual evaluation of the Chairman and CEO by the independent directors, led by the independent Lead Director.
- ✓ Annual Board and committee self-assessments.
- ✓ Commitment to Board refreshment and diversity.
- ✓ Regular executive sessions of the independent directors, at the Board and committee level.
- ✓ Strong independent Lead Director with clearly defined role and responsibilities.
- ✓ High degree of Board interaction with management to ensure successful oversight and succession planning.
- ✓ All directors are elected with a simple majority standard for all uncontested director elections and by plurality in contested director elections.

Shareholder Rights

- ✓ Annual election of all directors.
- ✓ No poison pill (shareholder rights plan).
- ✓ Shareholders have the right to call a special meeting.
- ✓ Regular engagement with shareholders to understand their perspectives and concerns on a broad array of topics, including corporate governance matters.
- ✓ Commitment to responsiveness to shareholder feedback.

Compensation Governance

- ✓ Pay program tied to performance and business strategy.
- ✓ Majority of pay is long-term and at-risk with no guaranteed bonuses or salary increases.
- ✓ Stock ownership guidelines align executive and director interests with those of shareholders.
- ✓ Prohibition on all hedging, pledging and short sales of Kroger securities by directors and executive officers.
- ✓ No tax gross-up payments under Kroger executive plans.

Proposals to Shareholders

Item 1. Election of Directors

You are being asked to elect 11 director nominees for a one-year term. The Board of Directors recommends that you vote FOR the election of all director nominees.

As of the date of this proxy statement, Kroger's Board of Directors consists of twelve members. In accordance with Kroger's director retirement policy, Susan M. Phillips will be retiring from the Board immediately prior to the 2017 Annual Meeting and has not been nominated for re-election. In connection with Dr. Phillips' retirement, the Board will reduce its size to eleven directors. All nominees, if elected at the 2017 Annual Meeting, will serve until the annual meeting in 2018, or until their successors have been elected by the shareholders or by the Board pursuant to Kroger's Regulations, and qualified.

Kroger's Articles of Incorporation provide that the vote required for election of a director nominee by the shareholders, except in a contested election or when cumulative voting is in effect, is the affirmative vote of a majority of the votes cast for or against the election of a nominee.

The experience, qualifications, attributes, and skills that led the Corporate Governance Committee and the Board to conclude that the following individuals should serve as directors are set forth opposite each individual's name. The committee memberships stated below are those in effect as of the date of this proxy statement.

Nominees for Directors for Terms of Office Continuing until 2018

Nora A. Aufreiter Age 57 Director Since 2014 *Committees:* Financial Policy Public Responsibilities	Ms. Aufreiter is a Director Emeritus of McKinsey & Company, a global management consulting firm. She retired in June 2014 after more than 27 years with McKinsey, most recently as a director and senior partner. During that time, she worked extensively in the U.S., Canada, and internationally with major retailers, financial institutions and other consumer-facing companies. Before joining McKinsey, Ms. Aufreiter spent three years in financial services working in corporate finance and investment banking. She is a member of the Board of Directors of The Bank of Nova Scotia, The Neiman Marcus Group, and Cadillac Fairview, one of North America's largest owners, operators and developers of commercial real estate. Ms. Aufreiter also serves on the boards of St. Michael's Hospital and the Canadian Opera Company, and is a member of the Dean's Advisory Board for the Ivey Business School in Ontario, Canada. Ms. Aufreiter has over 30 years of broad business experience in a variety of retail sectors. Her vast experience in leading McKinsey's North American Retail Practice, North American Branding service line and the Consumer Digital and Omnichannel service line is of particular value to the Board. She also brings to the Board valuable insight on commercial real estate.
Robert D. Beyer, *Lead Director* Age 57 Director Since 1999 *Committees:* Corporate Governance Financial Policy	Mr. Beyer is Chairman of Chaparal Investments LLC, a private investment firm and holding company that he founded in 2009. From 2005 to 2009, Mr. Beyer served as Chief Executive Officer of The TCW Group, Inc., a global investment management firm. From 2000 to 2005, he served as President and Chief Investment Officer of Trust Company of the West, the principal operating subsidiary of TCW. Mr. Beyer is a member of the Board of Directors of Leucadia National Corporation. In the past five years he also served as a director of The Allstate Corporation. Mr. Beyer brings to Kroger his experience as CEO of TCW, a global investment management firm serving many of the largest institutional investors in the U.S. He has exceptional insight into Kroger's financial strategy, and his experience qualifies him to serve as a member of the Board. While at TCW, he also conceived and developed the firm's risk management infrastructure, an experience that is useful to Kroger's Board in performing its risk management oversight functions. His abilities and service as a director were recognized by his peers, who selected Mr. Beyer as an Outstanding Director in 2008 as part of the Outstanding Directors Program of the Financial Times. His strong insights into corporate governance form the foundation of his leadership role as Lead Director on the Board.

Anne Gates Age 57 Director Since 2015 *Committees:* Audit Public Responsibilities	Ms. Gates is President of MGA Entertainment, Inc., a privately-held developer, manufacturer and marketer of toy and entertainment products for children, a position she has held since 2014. Ms. Gates held roles of increasing responsibility with The Walt Disney Company from 1992-2012. Her roles included executive vice president, chief financial officer for Disney Consumer Products, managing director for Disney Consumer Products Europe and Emerging Markets, and senior vice president of operations, planning and analysis. Prior to joining Disney, Ms. Gates worked for PepsiCo and Bear Stearns. Ms. Gates has over 15 years of experience in the retail and consumer products industry. She brings to Kroger financial expertise gained while serving as President of MGA and CFO of a division of The Walt Disney Company. Ms. Gates has a broad business background in finance, marketing, strategy and business development, including international business. Her expertise in toy and entertainment products is of particular value to the Board. Ms. Gates has been designated an Audit Committee financial expert.
Susan J. Kropf Age 68 Director Since 2007 *Committees:* Compensation Corporate Governance	Ms. Kropf was President and Chief Operating Officer of Avon Products Inc., a manufacturer and marketer of beauty care products, from 2001 until her retirement in January 2007. She joined Avon in 1970 and, during her tenure at Avon, Ms. Kropf also served as Executive Vice President and Chief Operating Officer, Avon North America and Global Business Operations from 1998 to 2000 and President, Avon U.S. from 1997 to 1998. Ms. Kropf was a member of Avon's Board of Directors from 1998 to 2006. She currently is a director of Avon Products, Inc., New Avon, LLC, Coach, Inc., and Sherwin Williams Company. In the past five years she also served as a director of MeadWestvaco Corporation. Ms. Kropf has unique and valuable consumer insight, having led a major, publicly-traded beauty and related consumer products company. She has extensive experience in manufacturing, marketing, supply chain operations, customer service, and product development, all of which assist her in her role as a member of Kroger's Board. Ms. Kropf has a strong financial background, and has significant boardroom experience through her service on the boards of various public companies, including experience serving on compensation, audit, and corporate governance committees. She was inducted into the YWCA Academy of Women Achievers.
W. Rodney McMullen, *Chairman and Chief Executive Officer* Age 56 Director Since 2003	Mr. McMullen was elected Chairman of the Board in January 2015 and Chief Executive Officer of Kroger in January 2014. Mr. McMullen served as Kroger's President and Chief Operating Officer from August 2009 to December 2013. Prior to that role, Mr. McMullen was elected to various roles at Kroger including Vice Chairman in 2003, Executive Vice President in 1999 and Senior Vice President in 1997. Mr. McMullen is a director of Cincinnati Financial Corporation and VF Corporation. Mr. McMullen has broad experience in the supermarket business, having spent his career spanning over 37 years with Kroger. He has a strong financial background, having served as our CFO, and played a major role as architect of Kroger's strategic plan. His service on the compensation, executive, and investment committees of Cincinnati Financial Corporation and the audit and nominating and governance committees of VF Corporation add depth to his extensive retail experience.

Jorge P. Montoya Age 70 Director Since 2007 *Committees:* Compensation Public Responsibilities	Mr. Montoya was President of The Procter & Gamble Company's Global Snacks & Beverage division, and President of Procter & Gamble Latin America, from 1999 until his retirement in 2004. Prior to that, he was an Executive Vice President of Procter & Gamble, a provider of branded consumer packaged goods, from 1995 to 1999. Mr. Montoya is a director of The Gap, Inc. Mr. Montoya brings to Kroger's Board over 30 years of leadership experience at a premier consumer products company. He has a deep knowledge of the Hispanic market, as well as consumer products and retail operations. Mr. Montoya has vast experience in marketing and general management, including international business. He was named among the 50 most important Hispanics in Business & Technology, in *Hispanic Engineer & Information Technology Magazine*.
Clyde R. Moore Age 63 Director Since 1997 *Committees:* Compensation Corporate Governance	Mr. Moore was the Chairman of First Service Networks, a national provider of facility and maintenance repair services, until his retirement in 2015. Prior to that he was Chairman and Chief Executive Officer of First Service Networks from 2000 to 2014. Mr. Moore has over 30 years of general management experience in public and private companies. He has sound experience as a corporate leader overseeing all aspects of a facilities management firm and numerous manufacturing companies. Mr. Moore's expertise broadens the scope of the Board's experience to provide oversight to Kroger's facilities, digital and manufacturing businesses.
James A. Runde Age 70 Director Since 2006 *Committees:* Compensation Financial Policy	Mr. Runde is a special advisor and a former Vice Chairman of Morgan Stanley, a financial services provider, where he was employed from 1974 until his retirement in 2015. Mr. Runde serves as a Trustee Emeritus of Marquette University and the Pierpont Morgan Library. Mr. Runde brings to Kroger's Board a strong financial background, having led a major financial services provider. He has served on the compensation committee of a major corporation.
Ronald L. Sargent Age 61 Director Since 2006 *Committees:* Audit Public Responsibilities	Mr. Sargent was Chairman and Chief Executive Officer of Staples, Inc., a business products retailer, where he was employed from 1989 until his retirement in January 2017. Prior to joining Staples, Mr. Sargent spent 10 years with Kroger in various positions. He is a director of Five Below, Inc. and Wells Fargo & Company. In the past five years he was a director of The Home Depot, Inc. and Staples, Inc. Mr. Sargent has over 35 years of retail experience, first with Kroger and then with increasing levels of responsibility and leadership at Staples, Inc. His efforts helped carve out a new market niche for the international retailer. His understanding of retail operations and consumer insights are of particular value to the Board. Mr. Sargent has been designated an Audit Committee financial expert.
Bobby S. Shackouls Age 66 Director Since 1999 *Committees:* Audit Corporate Governance	Mr. Shackouls was Chairman of the Board of Burlington Resources Inc., a natural resources business, from July 1997 until its merger with ConocoPhillips in 2006 and its President and Chief Executive Officer from December 1995 until 2006. Mr. Shackouls was also the President and Chief Executive Officer of Burlington Resources Oil and Gas Company (formerly known as Meridian Oil Inc.), a wholly-owned subsidiary of Burlington Resources, from 1994 to 1995. Mr. Shackouls is a director of PAA GP Holdings, LLC and Oasis Petroleum Inc. In the past five years, Mr. Shackouls was a director of PNGS GP LLC, the general partner of PAA Natural Gas Storage, L.P. Mr. Shackouls previously served as Kroger's Lead Director. Mr. Shackouls brings to the Board the critical thinking that comes with a chemical engineering background, as well as his experience leading a major natural resources company, coupled with his corporate governance expertise.

Mark S. Sutton Age 55 Director Since 2017 *Committees:* Audit Public Responsibilities	Mr. Sutton is Chairman and Chief Executive Officer of International Paper, a leading global producer of renewable fiber-based packaging, pulp and paper products. Prior to becoming CEO, he served as President and Chief Operating Officer with responsibility for running the company's global business. Mr. Sutton joined International Paper in 1984 as an electrical engineer. He held roles of increasing responsibility throughout his career, including mill manager, vice president of corrugated packaging operations across Europe, the Middle East and Africa, vice president of corporate strategic planning, and senior vice president of several business units, including global supply chain, before being named CEO in 2014. He serves on the boards of the American Forest & Paper Association, the International Advisory Board of the Moscow School of Management – Skolkovo, Memphis Tomorrow and the New Memphis Institute. Mr. Sutton has over thirty years of leadership experience with increasing levels of responsibility and leadership at International Paper. He brings to the Board the critical thinking that comes with an electrical engineering background as well as his experience leading a global company. His strong strategic planning background and supply chain experience are of particular value to the Board. Mr. Sutton has been designated an Audit Committee financial expert.

The Board of Directors Recommends a Vote For Each Director Nominee.

Information Concerning the Board of Directors

Board Leadership Structure and Lead Independent Director

The Board is currently composed of eleven independent non-employee directors and one management director, Mr. McMullen, the Chairman and CEO. Kroger has a governance structure in which independent directors exercise meaningful and vigorous oversight.

As provided in Kroger's *Guidelines on Issues of Corporate Governance* (the "*Guidelines*"), the Board has designated one of the independent directors as Lead Director. The Lead Director works with the Chairman to share governance responsibilities, facilitate the development of Kroger's strategy and grow shareholder value. The Lead Director serves a variety of roles, consistent with current best practices, including:

- reviewing and approving Board meeting agendas, materials and schedules to confirm that the appropriate topics are reviewed, with sufficient information provided to directors on each topic and appropriate time is allocated to each;
- serving as the principal liaison between the Chairman, management and the non-employee directors;
- presiding at the executive sessions of independent directors and at all other meetings of the Board at which the Chairman is not present;
- calling meetings of independent directors at any time; and
- serving as the Board's representative for any consultation and direct communication, following a request, with major shareholders.

The Lead Director carries out these responsibilities in numerous ways, including:

- facilitating communication and collegiality among the Board;
- soliciting direct feedback from non-employee directors;
- overseeing the succession process, including site visits and meeting with a wide range of employees including corporate and division management associates;
- meeting with the CEO frequently to discuss strategy;
- serving as a sounding board and advisor to the CEO; and
- discussing Company matters with other directors between meetings.

Unless otherwise determined by the independent members of the Board, the chair of the Corporate Governance Committee is designated as the Lead Director. Robert Beyer, an independent director and the chair of the Corporate Governance Committee, is currently the Lead Director. Mr. Beyer is an effective Lead Director for Kroger due to, among other things, his independence, his deep strategic and operational understanding of Kroger obtained while serving as a Kroger director, his insight into corporate governance, his experience as the CEO of a global investment management firm, his experience on the boards of other large publicly traded companies, and his engagement and commitment to carrying out the role and responsibilities of the Lead Director.

With respect to the roles of Chairman and CEO, the *Guidelines* provide that the Board will determine whether it is in the best interests of Kroger and our shareholders for the roles to be combined. The Board exercises this judgment as it deems appropriate in light of prevailing circumstances. Upon retirement of our former Chairman, David B. Dillon, on December 31, 2014, the Board determined that it is in the best interests of Kroger and our shareholders for one person to serve as the Chairman and CEO, as was the case from 2004 through 2013, with another individual serving as independent Lead Director. The Board believes that this leadership structure improves the Board's ability to focus on key policy and operational issues and helps the Company operate in the long-term interest of shareholders. Additionally, this structure provides an effective balance between strong Company leadership and appropriate safeguards and oversight by independent directors. The Board believes that the structure of the Chairman and independent Lead Director position should continue to be considered as part of the succession planning process.

The Board and each of its committees conduct an annual self-evaluation to determine whether the Board is functioning effectively as a Board and at the committee level. As part of this annual self-evaluation, the Board assesses whether the current leadership structure and function continues to be appropriate for Kroger and its shareholders. The *Guidelines* provide the flexibility for the Board to modify our leadership structure in the future as appropriate. We believe that Kroger, like many U.S. companies, is well-served by this flexible leadership structure.

Committees of the Board of Directors

To assist the Board in undertaking its responsibilities, and to allow deeper engagement in certain areas of company oversight, the Board has established five standing committees: Audit, Compensation, Corporate Governance, Financial Policy and Public Responsibilities. All committees are composed exclusively of independent directors, as determined under the NYSE listing standards. The current charter of each Board committee is available on our website at ir.kroger.com under Corporate Governance – Committee Composition.

Name of Committee, Number of Meetings, and Current Members	Committee Functions
Audit Committee **Meetings in 2016:** 5 **Members:** Ronald L. Sargent, *Chair* Anne Gates Susan M. Phillips Bobby S. Shackouls Mark S. Sutton	• Oversees the Company's financial reporting and accounting matters, including review of the Company's financial statements and the audit thereof, the Company's financial reporting and accounting process, and the Company's systems of internal control over financial reporting • Selects, evaluates and oversees the compensation and work of the independent registered public accounting firm and reviews its performance, qualifications, and independence • Oversees and evaluates the Company's internal audit function, including review of its audit plan, policies and procedures and significant findings • Oversees risk assessment and risk management, including review of legal or regulatory matters that could have a significant effect on the Company • Reviews and monitors the Company's compliance programs, including the whistleblower program
Compensation Committee **Meetings in 2016:** 4 **Members:** Clyde R. Moore, *Chair* Susan J. Kropf Jorge P. Montoya Susan M. Phillips James A. Runde	• Recommends for approval by the independent directors the compensation of the CEO, and approves the compensation of other senior management • Administers the Company's executive compensation policies and programs, including determining grants of equity awards under the plans • Has sole authority to retain and direct the committee's compensation consultant • Assists the full Board with senior management succession planning
Corporate Governance Committee **Meetings in 2016:** 2 **Members:** Robert D. Beyer, *Chair* Susan J. Kropf Clyde R. Moore Bobby S. Shackouls	• Oversees the Company's corporate governance policies and procedures • Develops criteria for selecting and retaining directors, including identifying and recommending qualified candidates to be director nominees • Designates membership and chairs of Board committees • Reviews the Board's performance and director independence • Establishes and reviews the practices and procedures by which the Board performs its functions
Financial Policy Committee **Meetings in 2016:** 2 **Members:** James A. Runde, *Chair* Nora A. Aufreiter Robert D. Beyer	• Reviews and recommends financial policies and practices • Oversees management of the Company's financial resources • Reviews the Company's annual financial plan, significant capital investments, plans for major acquisitions or sales, issuance of new common or preferred stock, dividend policy, creation of additional debt and other capital structure considerations including additional leverage or dilution in ownership • Monitors the investment management of assets held in pension and profit sharing plans administered by the Company

Name of Committee, Number of Meetings, and Current Members	Committee Functions
Public Responsibilities Committee **Meetings in 2016:** 2 **Members:** Jorge P. Montoya, *Chair* Nora A. Aufreiter Anne Gates Ronald L. Sargent Mark S. Sutton	• Reviews the Company's policies and practices affecting its social and public responsibility as a corporate citizen, including: community relations, charitable giving, supplier diversity, sustainability, government relations, political action, consumer and media relations, food and pharmacy safety and the safety of customers and employees • Reviews and examines the Company's evaluation of and response to changing public expectations and public issues affecting the business

Director Nominee Selection Process

The Corporate Governance Committee is responsible for recommending to the Board a slate of nominees for election at each annual meeting of shareholders. The Corporate Governance Committee recruits candidates for Board membership through its own efforts and through recommendations from other directors and shareholders. In addition, the Corporate Governance Committee has retained an independent search firm to assist in identifying and recruiting director candidates who meet the criteria established by the Corporate Governance Committee.

These criteria are:

- demonstrated ability in fields considered to be of value to the Board in the deliberation and long-term planning of the Board and Kroger, including business management, public service, education, technology, law and government;
- highest standards of personal character and conduct;
- willingness to fulfill the obligations of directors and to make the contribution of which he or she is capable, including regular attendance and participation at Board and committee meetings, and preparation for all meetings, including review of all meeting materials provided in advance of the meeting; and
- ability to understand the perspectives of Kroger's customers, taking into consideration the diversity of our customers, including regional and geographic differences.

Board Diversity and Succession Planning

Our director nominees reflect a wide array of experience, skills and backgrounds. Each director is individually qualified to make unique and substantial contributions to Kroger. Collectively, our directors' diverse viewpoints and independent-mindedness enhance the quality and effectiveness of Board deliberations and decision making. Our Board is a dynamic group of new and experienced members, providing an appropriate balance of institutional knowledge and fresh perspectives about Kroger due to the varied length of tenure on the Board. This blend of qualifications, attributes and tenure results in highly effective board leadership.

The Corporate Governance Committee considers racial, ethnic and gender diversity to be important elements in promoting full, open and balanced deliberations of issues presented to the Board. The Corporate Governance Committee considers director candidates that help the Board reflect the diversity of our shareholders, associates, customers and the communities in which we operate. Some consideration also is given to the geographic location of director candidates in order to provide a reasonable distribution of members from Kroger's operating areas.

Board succession planning is an ongoing, year-round process. The Corporate Governance Committee recognizes the importance of thoughtful Board refreshment, and engages in a continuing process of identifying attributes sought for future Board members. The Corporate Governance Committee takes into account the Board and committee evaluations regarding the specific qualities, skills, and experiences that would contribute to overall Board and committee effectiveness, as well as the future needs of the Board and its committees in light of Kroger's current and long-term business strategies, and the skills and qualifications of directors who are expected to retire in the future.

Shareholder Engagement

Maintaining ongoing relationships with our shareholders, and understanding our shareholders' views, is a priority for both our Board and management team. We have a longstanding history of engaging with our

shareholders through our investor relations team's year-round outreach program. At the direction of our Board, we expanded our shareholder engagement program in 2016 to include outreach to our largest shareholders' governance teams. We requested meetings with shareholders representing more than half of our outstanding shares and ultimately held in-person meetings or telephone calls with shareholders representing approximately a quarter of our outstanding shares. During these engagements, we discussed and solicited feedback on a range of topics, including business strategy, corporate governance, executive compensation and sustainability. These conversations provided valuable insights into our shareholders' perspectives and their feedback was shared with, and considered by, our full Board.

Candidates Nominated by Shareholders

The Corporate Governance Committee will consider shareholder recommendations for director nominees for election to the Board. If shareholders wish to nominate a person or persons for election to the Board at our 2018 annual meeting, written notice must be submitted to Kroger's Secretary, and received at our executive offices, in accordance with Kroger's Regulations, not later than March 26, 2018. Such notice should include the name, age, business address and residence address of such person, the principal occupation or employment of such person, the number of Kroger common shares owned of record or beneficially by such person and any other information relating to the person that would be required to be included in a proxy statement relating to the election of directors. The Secretary will forward the information to the Corporate Governance Committee for its consideration. The Corporate Governance Committee will use the same criteria in evaluating candidates submitted by shareholders as it uses in evaluating candidates identified by the Corporate Governance Committee, as described above. See "Director Nominee Selection Process."

Corporate Governance Guidelines

The Board has adopted the *Guidelines on Issues of Corporate Governance*, which includes copies of the current charters for each of the five standing committees of the Board. The *Guidelines* are available on our website at ir.kroger.com under Corporate Governance – Guidelines on Issues of Corporate Governance. Shareholders may also obtain a copy of the *Guidelines* by making a written request to Kroger's Secretary at our executive offices.

Independence

The Board has determined that all of the non-employee directors have no material relationships with Kroger and satisfy the criteria for independence set forth in Rule 303A.02 of the New York Stock Exchange Listed Company Manual. Therefore, all non-employee directors are independent for purposes of the NYSE listing standards. The Board made its determination based on information furnished by all members regarding their relationships with Kroger and its management, and other relevant information. The Board considered, among other things, that

- the value of any business transactions between Kroger and entities with which the directors are affiliated falls below the thresholds identified by the NYSE listing standards, and
- none had any material relationships with Kroger except for those arising directly from their performance of services as a director for Kroger.

Audit Committee Expertise

The Board has determined that Anne Gates, Ronald L. Sargent and Mark S. Sutton, independent directors who are members of the Audit Committee, are "audit committee financial experts" as defined by applicable SEC regulations and that all members of the Audit Committee are "financially literate" as that term is used in the NYSE listing standards and are independent in accordance with Rule 10A-3 of the Securities Exchange Act of 1934.

Code of Ethics

The Board has adopted *The Kroger Co. Policy on Business Ethics*, applicable to all officers, employees and directors, including Kroger's principal executive, financial and accounting officers. The *Policy* is available on our website at ir.kroger.com under Corporate Governance – Policy on Business Ethics. Shareholders may also obtain a copy of the *Policy* by making a written request to Kroger's Secretary at our executive offices.

Communications with the Board

The Board has established two separate mechanisms for shareholders and interested parties to communicate with the Board. Any shareholder or interested party who has concerns regarding accounting, improper use of

Kroger assets or ethical improprieties may report these concerns via the toll-free hotline (800-689-4609) or email address (helpline@kroger.com) established by the Board's Audit Committee. The concerns are investigated by Kroger's Vice President of Internal Audit and reported to the Audit Committee as deemed appropriate by the Vice President of Internal Audit.

Shareholders or interested parties also may communicate with the Board in writing directed to Kroger's Secretary at our executive offices. Communications relating to personnel issues or our ordinary business operations, or seeking to do business with us, will be forwarded to the business unit of Kroger that the Secretary deems appropriate. All other communications will be forwarded to the chair of the Corporate Governance Committee for further consideration. The chair of the Corporate Governance Committee will take such action as he or she deems appropriate, which may include referral to the full Corporate Governance Committee or the entire Board.

Attendance

The Board held five meetings in fiscal year 2016. During fiscal 2016, all incumbent directors attended at least 75% of the aggregate number of meetings of the Board and committees on which that director served. Members of the Board are expected to use their best efforts to attend all annual meetings of shareholders. All eleven members then serving on the Board attended last year's annual meeting.

Independent Compensation Consultants

The Compensation Committee directly engages a compensation consultant from Mercer Human Resource Consulting to advise the Compensation Committee in the design of Kroger's executive compensation. In fiscal 2016, Kroger paid that consultant $317,650 for work performed for the Compensation Committee. Kroger, on management's recommendation, retained the parent and affiliated companies of Mercer Human Resource Consulting to provide other services for Kroger in fiscal 2016, for which Kroger paid $3,056,150. These other services primarily related to insurance claims (for which Kroger was reimbursed by insurance carriers as claims were adjusted), insurance brokerage and bonding commissions provided by Marsh USA Inc., and pension plan compliance and actuary services provided by Mercer Inc. Kroger also made payments to affiliated companies for insurance premiums that were collected by the affiliated companies on behalf of insurance carriers, but these amounts are not included in the totals referenced above, as the amounts were paid over to insurance carriers for services provided by those carriers.

Although neither the Compensation Committee nor the Board expressly approved the other services, after taking into consideration the NYSE's independence standards and the SEC rules, the Compensation Committee determined that the consultant is independent and his work has not raised any conflict of interest because:

- the consultant was first engaged by the Compensation Committee before he became associated with Mercer;
- the consultant works exclusively for the Compensation Committee and not for our management;
- the consultant does not benefit from the other work that Mercer's parent and affiliated companies perform for Kroger; and
- neither the consultant nor the consultant's team perform any other services for Kroger.

The Compensation Committee may engage an additional compensation consultant from time to time as it deems advisable.

Compensation Committee Interlocks and Insider Participation

No member of the Compensation Committee was an officer or employee of Kroger during fiscal 2016, and no member of the Compensation Committee is a former officer of Kroger or was a party to any related person transaction involving Kroger required to be disclosed under Item 404 of Regulation S-K. During fiscal 2016, none of our executive officers served on the board of directors or on the compensation committee of any other entity that has or had executive officers serving as a member of Kroger's Board of Directors or Compensation Committee of the Board.

Board Oversight of Enterprise Risk

While risk management is primarily the responsibility of Kroger's management team, the Board is responsible for strategic planning and overall supervision of our risk management activities. The Board's oversight of the material risks faced by Kroger occurs at both the full Board level and at the committee level.

The Board receives presentations throughout the year from various department and business unit leaders that include discussion of significant risks as necessary. At each Board meeting, the Chairman and CEO addresses matters of particular importance or concern, including any significant areas of risk that require Board attention. Additionally, through dedicated sessions focusing entirely on corporate strategy, the full Board reviews in detail Kroger's short- and long-term strategies, including consideration of significant risks facing Kroger and their potential impact. The independent directors, in executive sessions led by the Lead Director, address matters of particular concern, including significant areas of risk, that warrant further discussion or consideration outside the presence of Kroger employees. At the committee level, reports are given by management subject matter experts to each committee on risks within the scope of their charters.

The Audit Committee has oversight responsibility not only for financial reporting of Kroger's major financial exposures and the steps management has taken to monitor and control those exposures, but also for the effectiveness of management's processes that monitor and manage key business risks facing Kroger, as well as the major areas of risk exposure and management's efforts to monitor and control that exposure. The Audit Committee also discusses with management its policies with respect to risk assessment and risk management.

Management, including our Chief Ethics and Compliance Officer, provides regular updates throughout the year to the respective Board committees regarding management of the risks they oversee, and each of these committees reports on risk to the full Board at each regular meeting of the Board.

We believe that our approach to risk oversight, as described above, optimizes our ability to assess inter-relationships among the various risks, make informed cost-benefit decisions, and approach emerging risks in a proactive manner for Kroger. We also believe that our risk structure complements our current Board leadership structure, as it allows our independent directors, through the five fully independent Board committees, and in executive sessions of independent directors led by the Lead Director, to exercise effective oversight of the actions of management, led by Mr. McMullen as Chairman and CEO, in identifying risks and implementing effective risk management policies and controls.

Director Compensation

2016 Director Compensation

The following table describes the 2016 compensation for non-employee directors. Mr. McMullen does not receive compensation for his Board service.

Name	Fees Earned or Paid in Cash	Stock Awards(1)	Option Awards(2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings(3)	Total
Nora A. Aufreiter	$ 84,543	$165,399	—	—	$249,942
Robert D. Beyer	$124,328	$165,399	—	$ 9,178	$298,906
Anne Gates	$ 94,489	$165,399	—	—	$259,888
Susan J. Kropf	$ 94,489	$165,399	—	—	$259,888
David B. Lewis(4)	$ 42,726	—	—	—	$ 42,726
Jorge P. Montoya	$ 99,462	$165,399	—	—	$264,862
Clyde R. Moore	$104,435	$165,399	—	$175,855	$445,690
Susan M. Phillips(4)	$ 94,489	$155,696	—	$ 2,978	$253,162
James A. Runde	$ 99,462	$165,399	—	—	$264,862
Ronald L. Sargent	$114,382	$165,399	—	$ 3,057	$282,838
Bobby S. Shackouls	$ 94,489	$165,399	—	—	$259,888
Mark S. Sutton(4)	$ 5,914	$ 82,258	—	—	$ 88,172

(1) Amounts reported in the Stock Awards column represent the aggregate grant date fair value of the annual incentive share award, computed in accordance with FASB ASC Topic 718. On July 13, 2016, each non-employee director then serving, except for Dr. Phillips, received 4,413 incentive shares with a grant date fair value of $165,399. Dr. Phillips received 2,225 incentive shares on July 13, 2016 with a grant date fair value of $83,393 and 2,157 incentive shares on January 12, 2017 with a grant date fair value of $72,303. Mr. Sutton received a prorated award of 2,454 incentive shares with a grant date fair value of $82,258 on January 12, 2017 when he joined the Board.

(2) Options are no longer granted to non-employee directors. The aggregate number of previously granted stock options that remained unexercised and outstanding at fiscal year-end was as follows:

Name	Options	Name	Options	Name	Options
Mr. Beyer	75,000	Mr. Montoya	75,000	Mr. Runde	75,000
Ms. Kropf	75,000	Mr. Moore	65,000	Mr. Sargent	75,000
Mr. Lewis	49,000	Ms. Phillips	75,000	Mr. Shackouls	7,800

(3) The amounts reported for Mr. Beyer, Dr. Phillips, and Mr. Sargent represent preferential earnings on nonqualified deferred compensation. For a complete explanation of preferential earnings, please refer to footnote 5 to the Summary Compensation Table. The amount reported for Mr. Moore represents the change in actuarial present value of his accumulated benefit under the pension plan for non-employee directors. Pension values may fluctuate significantly from year to year depending on a number of factors, including age, 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 his accumulated pension benefit for 2016 compared to 2015 is primarily due to a lower discount rate and an increase in projected yearly benefit payments.

(4) Mr. Lewis retired from the Board at the 2016 annual meeting; Mr. Sutton joined the Board in January 2017; and Dr. Phillips will retire at the 2017 Annual Meeting. Accordingly, Mr. Lewis and Mr. Sutton received prorated cash retainers and Dr. Phillips and Mr. Sutton received prorated incentive share awards.

Annual Compensation

Each non-employee director receives an annual cash retainer of $85,000. The chairs of each of the Audit Committee and the Compensation Committee receive an additional annual cash retainer of $20,000. The chair of each of the other committees receives an additional annual cash retainer of $15,000. Each member of the Audit

Committee receives an additional annual cash retainer of $10,000. The director designated as the Lead Director receives an additional annual cash retainer of $25,000. Each non-employee director also receives incentive shares (Kroger common shares) with a value of approximately $165,000.

The Board has determined that compensation of non-employee directors must be competitive on an ongoing basis to attract and retain directors who meet the qualifications for service on the Board. Non-employee director compensation will be reviewed from time to time as the Corporate Governance Committee deems appropriate.

Pension Plan

Non-employee directors first elected prior to July 17, 1997 receive an unfunded retirement benefit equal to the average cash compensation for the five calendar years preceding retirement. Only Mr. Moore is eligible for this benefit. Benefits begin at the later of actual retirement or age 65.

Nonqualified Deferred Compensation

We also maintain a deferred compensation plan for non-employee directors. Participants may defer up to 100% of their cash compensation and/or the receipt of all (and not less than all) of the annual award of incentive shares.

Cash Deferrals

Cash deferrals are credited to a participant's deferred compensation account. Participants may elect from either or both of the following two alternative methods of determining benefits:

- interest accrues until paid out at the rate of interest determined prior to the beginning of the deferral year to represent Kroger's cost of ten-year debt; and/or
- amounts are credited in "phantom" stock accounts and the amounts in those accounts fluctuate with the price of Kroger common shares.

In both cases, deferred amounts are paid out only in cash, based on deferral options selected by the participant at the time the deferral elections are made. Participants can elect to have distributions made in a lump sum or in quarterly installments, and may make comparable elections for designated beneficiaries who receive benefits in the event that deferred compensation is not completely paid out upon the death of the participant.

Incentive Share Deferrals

Participants may also defer the receipt of all (and not less than all) of the annual award of incentive shares. Distributions will be made by delivery of Kroger common shares within 30 days after the date which is 6 months after the participant's separation of service.

Beneficial Ownership of Common Stock

The following table sets forth the common shares beneficially owned as of April 1, 2017 by Kroger's directors, the NEOs, and the directors and executive officers as a group. The percentage of ownership is based on 926,104,859 of Kroger common shares outstanding on April 1, 2017. Shares reported as beneficially owned include shares held indirectly through Kroger's defined contribution plans and other shares held indirectly, as well as shares subject to stock options exercisable on or before May 31, 2017. Except as otherwise noted, each beneficial owner listed in the table has sole voting and investment power with regard to the common shares beneficially owned by such owner.

Name	Amount and Nature of Beneficial Ownership[1] (a)	Options Exercisable on or before May 31, 2017 – included in column (a) (b)
Nora A. Aufreiter[2]	12,036	—
Robert D. Beyer[2]	305,391	72,400
Michael J. Donnelly	529,155	297,713
Anne Gates	6,799	—
Christopher T. Hjelm	436,739	199,563
Susan J. Kropf	147,073	72,400
W. Rodney McMullen	3,447,724	1,022,795
Jorge P. Montoya[3]	109,651	72,400
Clyde R. Moore	155,473	62,400
Frederick J. Morganthall II	205,864	7,991
Susan M. Phillips	186,505	72,400
James A. Runde	164,073	72,400
Ronald L. Sargent[2]	154,984	62,400
J. Michael Schlotman	674,397	347,578
Bobby S. Shackouls[2][4]	70,854	5,200
Mark S. Sutton	2,454	—
Directors and executive officers as a group (29 persons, including those named above)	8,017,552	3,084,258

(1) No director or officer owned as much as 1% of Kroger common shares. The directors and executive officers as a group beneficially owned less than 1% of Kroger common shares.

(2) This amount includes incentive share awards that were deferred under the deferred compensation plan for independent directors in the following amounts: Ms. Aufreiter, 8,880; Mr. Beyer, 6,929; Mr. Sargent, 15,809; Mr. Shackouls, 15,809.

(3) This amount includes 22,000 shares held in Mr. Montoya's trust. He disclaims beneficial ownership of these shares.

(4) This amount includes 37,454 shares held by Mr. Shackouls' wife. He disclaims beneficial ownership of these shares.

The following table sets forth information regarding the beneficial owners of more than five percent of Kroger common shares as of April 1, 2017 based on reports on Schedule 13G filed with the SEC.

Name	Address	Amount and Nature of Ownership	Percentage of Class
Capital Research Global Investors[1]	333 South Hope St. Los Angeles, CA 90071	103,310,022	11.16%
BlackRock, Inc.[2]	55 East 52nd St. New York, NY 10055	71,406,959	7.71%
Vanguard Group Inc.[3]	100 Vanguard Blvd. Malvern, PA 19355	59,294,634	6.40%

(1) Reflects beneficial ownership by Capital Research Global Investors as of December 30, 2016, as reported on Amendment No. 1 to Schedule 13G filed with the SEC on February 13, 2017, reporting sole voting power and sole dispositive power with respect to 103,310,022 common shares.

(2) Reflects beneficial ownership by BlackRock Inc., as of December 31, 2016, as reported on Amendment No. 7 to the Schedule 13G filed with the SEC on January 25, 2017, reporting sole voting power with respect to 62,880,213 common shares, shared voting power with respect to 27,945 common shares, sole dispositive power with respect to 71,379,014 common shares, and shared dispositive power with regard to 27,945 common shares.

(3) Reflects beneficial ownership by Vanguard Group Inc. as of December 31, 2016, as reported on Amendment No. 2 to Schedule 13G filed with the SEC on February 10, 2017, reporting sole voting power with respect to 1,463,529 common shares, shared voting power with respect to 171,100 common shares, sole dispositive power of 57,664,091 common shares, and shared dispositive power of 1,630,543 common shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers and directors, and certain persons who own more than 10% of our outstanding common shares, to file reports of ownership and changes in ownership with the SEC and to furnish us with copies of those reports.

Based solely on our review of the copies of Forms 3, 4 and 5 received by Kroger, and written representations from certain reporting persons that no Form 5 was required for that person, we believe that during 2016 all filing requirements applicable to our executive officers, directors and 10% beneficial owners were timely satisfied.

Related Person Transactions

The Board has adopted a written policy requiring that any Related Person Transaction may be consummated or continue only if the Audit Committee approves or ratifies the transaction in accordance with the policy. A “Related Person Transaction” is one (a) involving Kroger, (b) in which one of our directors, nominees for director, executive officers, or greater than five percent shareholders, or their immediate family members, have a direct or indirect material interest; and (c) the amount involved exceeds $120,000 in a fiscal year.

The Audit Committee will approve only those Related Person Transactions that are in, or not inconsistent with, the best interests of Kroger and its shareholders, as determined by the Audit Committee in good faith in accordance with its business judgment. No director may participate in any review, approval or ratification of any transaction if he or she, or an immediate family member, has a direct or indirect material interest in the transaction.

Where a Related Person Transaction will be ongoing, the Audit Committee may establish guidelines for management to follow in its ongoing dealings with the related person and the Audit Committee will review and assess the relationship on an annual basis to ensure it complies with such guidelines and that the Related Person Transaction remains appropriate.

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:

Name	Title
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 follows[1]:

- *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

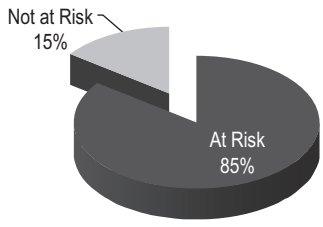
What we do:	What we do not do:
✓ Align pay and performance	× No employment contracts with executives
✓ Significant share ownership guidelines of 5x salary for our CEO and 3x salary for our Executive Vice Presidents	× No special severance or change of control programs applicable only to executive officers
✓ Multiple performance metrics under our short- and long-term performance-based plans discourage excessive risk taking	× No tax gross-up payments under Kroger executive plans
✓ Balance between short-term and long-term compensation to discourage short-term risk taking at the expense of long-term results	× No re-pricing or backdating of options
✓ Engagement of an independent compensation consultant	× No guaranteed salary increases or bonuses
✓ Robust clawback policy	× No payment of dividends or dividend equivalents until performance units are earned
✓ Ban on hedging, pledging and short sales of Kroger securities	× No single-trigger cash severance benefits upon a change in control
✓ Limited perquisites	

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.

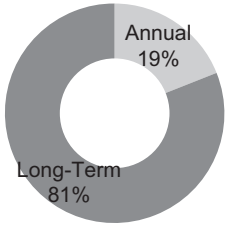
	Pay Element	Description	Purpose	
ANNUAL	**Base Salary**	• Fixed cash compensation • Reviewed annually • No automatic or guaranteed increases	• Provide a base level of cash compensation • Recognize individual performance, scope of responsibility and experience	FIXED
ANNUAL	**All Other Compensation**	• Insurance premiums paid by the Company • Dividends paid on unvested restricted stock • Matching and automatic contributions to defined contribution benefit plans	• Provide benefits competitive with peers	FIXED
ANNUAL	**Annual Cash Bonus**	• Variable cash compensation • Payout depends on actual performance against annually established goals	• 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	AT-RISK
LONG-TERM	**Long-Term Cash Bonus and Performance Units (the "Long-Term Incentive Plan")**	• Variable compensation payable as long-term cash bonus and performance units • 3-year performance period • Payout depends on actual performance against established goals	• 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
LONG-TERM	**Restricted Stock and Stock Options (time-based equity awards)**	• Stock options and restricted stock vest over 5 years • Exercise price of stock options is closing price on day of grant	• Retain executive talent • Align the interests of executives with long-term shareholder value • Provide direct alignment to stock price appreciation	AT-RISK

CEO



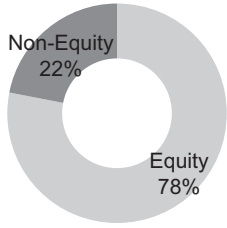
85% of CEO pay is At Risk

CEO



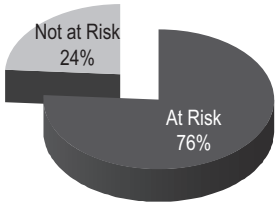
81% of CEO pay is Long-Term

CEO



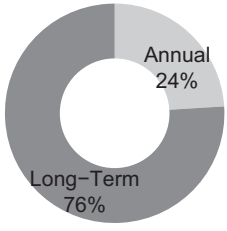
78% of CEO pay is Equity

Average of Other NEOs



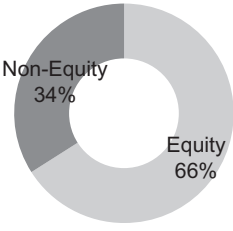
76% of Other NEO pay is At Risk

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
Frederick J. Morganthall II[2][3]		670,000	$ 721,000

(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.

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
ID Sales	30%	• 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.
Net Operating Profit, without Supermarket Fuel Operating Profit ("Net Operating Profit")(1)	30%	• 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.
Customer 1st Strategy	30%	• 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.
Total Operating Costs as a Percentage of Sales, without Fuel(2)	10%	• 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%**	
ClickList Bonus	5% "Kicker"	• 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:

	Goals					
Performance Metrics	**Minimum**	**Target (100%)**	**Actual Performance**	**Actual Performance Compared to Target (A)**	**Weight (B)**	**Amount Earned (A) x (B)**
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
Customer 1st Strategy	• 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.
Improvement in Associate Engagement	• 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.
Reduction in Operating Costs(1) as a Percentage of Sales, without Fuel	• 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.
ROIC(2)	• 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:

	2014 Plan	2015 Plan	2016 Plan
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 1st 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	2015	1,216,665	4,332,252	2,300,092	2,999,693	618,033	279,656	11,746,391
Executive Officer	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	2015	793,825	2,489,148	1,040,847	1,394,752	44,163	148,104	5,910,839
and Chief Financial Officer	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	2015	700,684	1,919,013	585,529	1,274,152	321,545	175,112	4,976,035
of Merchandising	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	2015	653,368	1,992,003	780,633	1,302,852	168	98,992	4,828,016
and Chief Information Officer								
Frederick J. Morganthall II	2016	691,487	1,480,011	780,323	381,643	852,235	91,912	4,277,609
Executive Vice President	2015	619,944	1,595,918	390,414	1,453,450	—	300,353	4,360,079
of Retail Operations								

(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.

	Option Awards				Stock Awards			
Name	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.

	Option Awards[1]		Stock Awards[2]	
Name	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:

	Vested Restricted Stock		Earned Performance Units	
Name	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. Morganthall 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 ⅓ of one percent for each of the first 24 months and by ½ 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. Morganthall 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. Morganthall 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.

We ask our shareholders to vote on the following resolution:

"RESOLVED, that the compensation paid to the Company's NEOs, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables, and the related narrative discussion, is hereby APPROVED."

The next advisory vote will occur at our 2018 annual meeting, subject to the outcome of the advisory vote on the frequency of future advisory votes on executive compensation pursuant to Item No. 3 below.

The Board of Directors Recommends a Vote For This Proposal.

Item No. 3 Advisory Vote on the Frequency of Future Advisory Votes on Executive Compensation

You are being asked to vote, on an advisory basis, on the frequency of future advisory votes on executive compensation. The Board of Directors recommends a vote of ONE YEAR for the frequency of future advisory votes on executive compensation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act and Section 14A of the Securities Exchange Act also require that shareholders be given the right to vote, again on a nonbinding, advisory basis, for their preference as to how frequently we should seek future advisory votes on the compensation of our named executive officers.

When the advisory vote was last held in 2011, shareholders indicated a preference to hold the advisory vote on executive compensation each year and the Board implemented this standard. The Board of Directors believes that an advisory vote on executive compensation that occurs every year is the most appropriate alternative for Kroger and it therefore recommends that you vote for the one year alternative.

The vote is advisory. This means that the vote is not binding on Kroger. Our Board of Directors will determine the actual voting frequency for approval of executive compensation. In so doing the Board will consider, along with all other relevant factors, the results of this vote. The Board may decide to hold an advisory vote on executive compensation more or less frequently than the frequency receiving the most votes cast by shareholders.

The proxy card provides shareholders the opportunity to choose among four options for the frequency of the advisory vote: every one, two, or three years, or abstain from casting a vote. Shareholders will not be voting to approve or to disapprove the recommendation of the Board of Directors. The option receiving the most affirmative votes will be the outcome of the advisory vote. Broker non-votes and abstentions will have no effect on the outcome of this vote.

The Board of Directors Recommends a Vote of One Year for this Proposal.

Item No. 4 Ratification of the Appointment of Kroger's Independent Auditor

You are being asked to ratify the appointment of Kroger's independent auditor, PricewaterhouseCoopers LLC. The Board of Directors recommends that you vote FOR the ratification of PricewaterhouseCoopers LLP as our independent registered public accounting firm.

The primary function of the Audit Committee is assist the Board of Directors in fulfilling its oversight responsibilities regarding the Company's financial reporting and accounting practices including the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; the independent public accountants' qualifications and independence; the performance of the Company's internal audit function and independent public accountants; and the preparation of the Audit Committee Report. The Audit Committee performs this work pursuant to a written charter approved by the Board of Directors. The Audit Committee charter most recently was revised during fiscal 2012 and is available on the Company's website at ir.kroger.com under Corporate Governance – Committee Composition. The Audit Committee has implemented procedures to assist it during the course of each fiscal year in devoting the attention that is necessary and appropriate to each of the matters assigned to it under the Audit Committee's charter. The Audit Committee held five meetings during fiscal year 2016.

Selection of Independent Auditor

The Audit Committee of the Board of Directors is directly responsible for the appointment, compensation, retention, and oversight of Kroger's independent auditor, as required by law and by applicable NYSE rules. On March 8, 2017, the Audit Committee appointed PricewaterhouseCoopers LLP as Kroger's independent auditor for the fiscal year ending February 3, 2018.

In determining whether to reappoint the independent auditor, our Audit Committee:

- Reviews PricewaterhouseCoopers LLP's independence and performance;
- Reviews, in advance, all non-audit services provided by PricewaterhouseCoopers LLP, specifically with regard to the effect on the firm's independence;
- Conducts an annual assessment of PricewaterhouseCoopers LLP's performance, including an internal survey of their service quality by members of management and the Audit Committee;
- Conducts regular executive sessions with PricewaterhouseCoopers LLP;
- Conducts regular executive sessions with the Vice President of Internal Audit;
- Considers PricewaterhouseCoopers LLP's familiarity with our operations, businesses, accounting policies and practices and internal control over financial reporting;
- Reviews candidates for the lead engagement partner in conjunction with the mandated rotation of the public accountants' lead engagement partner;
- Reviews recent Public Company Accounting Oversight Board reports on PricewaterhouseCoopers LLP and its peer firms; and
- Obtains and reviews a report from PricewaterhouseCoopers LLP describing all relationships between the independent auditor and Kroger at least annually to assess the independence of the internal auditor.

As a result, the members of the Audit Committee believe that the continued retention of PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm is in the best interests of our company and its shareholders.

While shareholder ratification of the selection of PricewaterhouseCoopers LLP as our independent auditor is not required by Kroger's Regulations or otherwise, the Board of Directors is submitting the selection of PricewaterhouseCoopers LLP to shareholders for ratification, as it has in past years, as a good corporate governance practice. If the shareholders fail to ratify the selection, the Audit Committee may, but is not required to, reconsider whether to retain that firm. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of a different auditor at any time during the year if it determines that such a change would be in the best interests of our company and our shareholders.

A representative of PricewaterhouseCoopers LLP is expected to be present at the meeting to respond to appropriate questions and to make a statement if he or she desires to do so.

Audit and Non-Audit Fees

The following table presents the aggregate fees billed for professional services performed by PricewaterhouseCoopers LLP for the annual audit and quarterly reviews of our consolidated financial statements for fiscal 2016 and 2015, and for audit-related, tax and all other services performed in 2016 and 2015.

	Fiscal Year Ended	
	January 28, 2017	January 30, 2016
Audit Fees[1]	$5,894,384	$5,659,193
Audit-Related Fees	—	—
Tax Fees[2]	30,736	—
All Other Fees	—	—
Total	$5,925,150	$5,659,193

(1) Includes annual audit and quarterly reviews of Kroger's consolidated financial statements, the issuance of comfort letters to underwriters, consents, and assistance with review of documents filed with the SEC.

(2) Fees for state sales tax consulting.

The Audit Committee requires that it approve in advance all audit and non-audit work performed by PricewaterhouseCoopers LLP. In 2007, the Audit Committee adopted an audit and non-audit service pre-approval policy. Pursuant to the terms of that policy, the Committee will annually pre-approve certain defined services that are expected to be provided by the independent auditors. If it becomes appropriate during the year to engage the

independent accountant for additional services, the Audit Committee must first approve the specific services before the independent accountant may perform the additional work.

PricewaterhouseCoopers LLP has advised the Audit Committee that neither the firm, nor any member of the firm, has any financial interest, direct or indirect, in any capacity in Kroger or its subsidiaries.

The Board of Directors Recommends a Vote For This Proposal.

Audit Committee Report

Management of the Company is responsible for the preparation and presentation of the Company's financial statements, the Company's accounting and financial reporting principles and internal controls, and procedures that are designed to provide reasonable assurance regarding compliance with accounting standards and applicable laws and regulations. The independent public accountants are responsible for auditing the Company's financial statements and expressing opinions as to the financial statements' conformity with generally accepted accounting principles and the effectiveness of the Company's internal control over financial reporting.

In performing its functions, the Audit Committee:

- Met separately with the Company's internal auditor and PricewaterhouseCoopers LLP with and without management present to discuss the results of the audits, their evaluation and management's assessment of the effectiveness of Kroger's internal controls over financial reporting and the overall quality of the Company's financial reporting;
- Met separately with the Company's Chief Financial Officer or the Company's General Counsel when needed;
- Met regularly in executive sessions;
- Reviewed and discussed with management the audited financial statements included in our Annual Report;
- Discussed with PricewaterhouseCoopers LLP the matters required to be discussed under the applicable requirements of the Public Company Accounting Oversight Board; and
- Received the written disclosures and the letter from PricewaterhouseCoopers LLP required by the applicable requirements of the Public Accounting Oversight Board regarding the independent public accountant's communication with the Audit Committee concerning independence and discussed with them matters related to their independence.

Based upon the review and discussions described in this report, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended January 28, 2017, as filed with the SEC.

This report is submitted by the Audit Committee.

Ronald L. Sargent, Chair
Anne Gates
Susan M. Phillips
Bobby S. Shackouls
Mark S. Sutton

Item No. 5 Shareholder Proposal – Recyclability of Packaging

We have been notified by one shareholder, the name and shareholdings of which will be furnished promptly to any shareholder upon written or oral request to Kroger's Secretary at our executive offices, that it intends to propose the following resolution at the annual meeting:

"WHEREAS: A portion of Kroger house brand product packaging is unrecyclable, including plastics, which are a growing component of marine litter. Authorities say that marine litter kills and injures marine life, spreads toxics, and poses a potential threat to human health. The environmental cost of consumer plastic products and packaging exceeds $139 billion annually, according to the American Chemistry Council.

Plastic is the fastest growing form of packaging; U.S. flexible plastic sales are estimated at $26 billion. Dried fruit, frozen meat, cheese, and dog food are some of the Kroger house brand items packaged in unrecyclable plastic pouches. Private label items account for a quarter of all sales – nearly $20 billion annually. Using unrecyclable packaging when recyclable alternatives are available wastes valuable resources. William McDonough, a leading green design advisor, calls pouch packaging a "monstrous hybrid" designed to end up either in a landfill or incinerator.

Recyclability of household packaging is a growing area of focus as consumers become more environmentally conscious, yet recycling rates stagnate. Only 14% of plastic packaging is recycled, according to the U.S. Environmental Protection Agency (EPA). Billions of pouches and similar plastic laminates, lie buried in landfills. Unrecyclable packaging is more likely to be littered and swept into waterways. An assessment of marine debris by the Global Environment Facility concluded that one cause of debris entering oceans is "design and marketing of products internationally without appropriate regard to their environmental fate or ability to be recycled..."

In the marine environment, plastics break down into indigestible particles that marine life mistake for food. Studies by the EPA suggest a synergistic effect between plastic debris and persistent, bio-accumulative, toxic chemicals. Plastics absorb toxics such as polychlorinated biphenyls and dioxins from water or sediment and transfer them to the marine food web and potentially to human diets. If no actions are taken, oceans are expected to contain more plastic than fish by 2050!

Making all packaging recyclable, if possible, is the first step needed to reduce the threat posed by plastic pollution. Better management of plastic could save consumer goods companies $4 billion a year. Companies who aspire to corporate sustainability yet use these risky materials need to explain why they use unrecyclable packaging. Other companies who manufacture and sell food and household goods are moving towards recyclability. Walmart recently unveiled a sustainable packaging playbook incentivizing it suppliers to increase the amount of packaging they use that can be recycled. Procter & Gamble and Colgate-Palmolive have both agreed to make most of their packaging recyclable by 2020.

RESOLVED: Shareowners of Kroger request that the board of directors issue a report, at reasonable cost, omitting confidential information, assessing the environmental impacts of continuing to use unrecyclable brand packaging.

Supporting Statement: Proponents believe that the report should include an assessment of the reputational, financial and operational risks associated with continuing to use unrecyclable brand packaging and, if possible, goals and a timeline to phase out unrecyclable packaging."

The Board of Directors Recommends a Vote <u>Against</u> This Proposal for the Following Reasons:

Kroger recognizes the important role the Company plays as a good steward of the environment, including thorough efforts to increase plastic recyclability.

Early last year, Kroger announced a set of 2020 Sustainability Goals. One of those goals is dedicated to corporate brand packaging, and addressing recyclability issues. As stated on our sustainability website (sustainability.kroger.com):

100% Corporate Brands Packaging Optimization

> *By 2020, Kroger will optimize packaging in corporate brands by following a balanced, multi-pronged approach that considers design attributes including but not limited to food safety, shelf life, availability, quality, material type and source, function, recyclability and cost.*

The focus on Corporate Brand packaging affects both the usage of recyclable goods and the reduction of waste from packaging in the first place. An example is the recent redesign of our banner brand gallon milk jug. The

milk jug still is made of the same 100% recyclable high density polyethylene as the old jugs, but the unique design allows us to use approximately 10% less plastic while retaining the same performance. When this new jug rolls out across the country, it is expected to save more than five million pounds of plastic each year. The 10% reduction is equivalent to reducing 40.5 million recyclable jugs – enough when laid on their sides to make a line from New York to Los Angeles…and back. Another example is to reduce the weight of Kroger corporate brand plastic water bottles. In 2008, the bottle weighed 12 grams and, today, it weighs 7 grams. These initiatives are helping the company meet our stated packaging reduction goals.

In addition, we are increasingly labeling recyclable Corporate Brand products per the Federal Trade Commission's Green Guides, prompting our customers to "PLEASE RECYCLE." As packaging labels are updated, we note all recyclable plastic and paper packaging as such. One example is through our redesign of Kroger brand milks, creams and orange juices that come in quart, pint and half-pint packages. The packaging for these products is comprised of a bottle made from #1 polyethylene terephthalate (PETE), one of the most widely recycled plastics available, and a shrink sleeve. While the shrink sleeve is also made from #1 PETE, these shrink sleeves may interfere with the ability of the bottles to be segregated and recycled when a recycling facility uses optical scanning technology. As a result, in order to increase the number of Corporate Brand #1 PETE bottles that can be properly recycled, we have added a tear perforation and the consumer message, "REMOVE LABEL TO RECYCLE BOTTLE," to the shrink labels.

Kroger also has a goal to be a "Zero Waste Company" by 2020. Part of that is to create diversion opportunities for our associates and our customers. This goal extends to our 38 manufacturing plants, of which 32 are designated as "Zero Waste" and our 36 distribution centers, of which 28 are designated as "Zero Waste". In 2016, through our more than 2,700 retail locations, we have donated over 60 million pounds of food that could not be sold but that are still safe and nutritious to Feeding America food banks. Over 1400 retail locations have organic recycling programs for food and flowers that could not be sold or donated.

We provide in-store opportunities for our customers to recycle as well. Most of our Kroger Family of Stores have recycling drop-off locations. These recycling bins are part of our plastic bag recycling program and are typically located in the front vestibule of our stores. Customers can recycle many of their corporate brand plastic packaging including: clean and dry plastic bags, bread bags, bottled water case wraps, bathroom tissue and diaper plastic overwraps, dry cleaning bags, and newspaper bags. Associates also use this program to recycle pallet shrink wrap. In 2016, we recycled nearly 35 million lbs. of plastic from these receptacles alone.

Guided by our 2020 Sustainability Goals, our efforts and goals will continue to support plastic waste reduction, find optimized solutions for packaging and create increasing opportunities for customers to recycle plastics in our stores. We will continue to optimize our corporate brand packaging in ways that support our financial, environmental and social responsibilities to our customers, shareholders and other stakeholders.

We urge you to support these efforts and vote **AGAINST** this proposal.

Item No. 6 Shareholder Proposal – Renewable Energy

We have been notified by one shareholder, the name and shareholdings of which will be furnished promptly to any shareholder upon written or oral request to Kroger's Secretary at our executive offices, that it intends to propose the following resolution at the annual meeting:

"WHEREAS: To mitigate the worst impacts of climate change, global warming must not increase more than 2 degrees Celsius beyond pre-industrial levels. (IPCC 2013). At the 2015 Conference of Parties in Paris, 195 countries agreed on a pathway to achieve a 2 degree limit.

Kroger is the 3rd largest global retailer, exceeding $109 billion in revenue. It is listed 17th on Fortune's Fortune 500 list and 42nd on Fortune's Global 500 list. Despite its size and significant carbon impact, Kroger lags its peers in establishing greenhouse gas emission reduction targets. Where most companies are reducing carbon, Kroger's combined Scope 1 & 2 emissions have increased every year since 2013. (Kroger CDP Reports 2012-2016). Investors are concerned that Kroger's globally significant carbon emissions are not being adequately addressed.

One meaningful way Kroger could reduce its carbon footprint is to expand its use of renewable energy. While making some inroads on energy and supply chain efficiency, Kroger has not instituted programs to reduce the carbon impact of its powering sourcing. Kroger's failure to meaningfully invest in renewable energy is in strong contrast to its peers, which are rapidly and profitably scaling renewable energy. Competitor Walmart installed 145 ME of solar at 364 different sites; Target developed 147 MW of solar at 300 sits, and Costco 51 MW. (*Solar Means Business 2016,* SEIA). Walmart has further committed to 100% renewable electricity, joining other major

companies such as Whole Foods Market, IKEA, GM and Starbucks (RE100). Target has announced an ambitious goal to install distributed solar power on 500 more stores and distribution centers by 2020. (Target 2015 Corporate Social Responsibility Report).

According to Eric Schmidt, Executive Chairman of Alphabet Inc., "Much of corporate America is buying renewable energy […] not just to be sustainable, because it makes business sense, helping companies diversify their power supply, hedge against fuel risks, and support innovation in an increasingly cost competitive way." (Google Green Blog 2014).

Accelerating renewable energy adoption will help Kroger stay competitive, and protect Kroger's shareholder value into the future as intensifying climate change imposes growing costs on Kroger's supply chain, physical assets, and shareholders.

BE IT RESOLVED: Shareholders request Kroger produce a report assessing the climate change risk reduction benefits of adopting quantitative, enterprise-wide targets for increasing its renewable energy sourcing. The report should be produced at reasonable cost and exclude proprietary information.

Supporting Statement: Shareholders request the report also include discussion of the business risk Kroger faces from climate change; the potential for renewable energy procurement to reduce such risk; and options for increasing renewable energy adoption."

The Board of Directors Recommends a Vote Against This Proposal for the Following Reasons:

Kroger is committed to environmental sustainability and we strive to reduce our impact on the environment by addressing many aspects of our business that reduce carbon emissions. We assert that the concerns of the proponent are addressed by a number of initiatives included in our 2020 Sustainability Goals.

Kroger has a history of reducing carbon emissions across our footprint. Nearly 10 years ago, we set a goal, which we achieved, to aggressively reduce energy consumption and refrigerant leaks, improve transportation efficiency and create renewable energy from food waste. These targeted efforts, among others, have resulted in a nearly 10% intensity reduction (co2e/1000ft) since 2006, even as our company has grown in sales (74.4%) and square footage (25.6%).

We are actively working to do more in both the short- and long-term. For example, our Turkey Hill Dairy has two wind energy turbines with 3.2 megawatt capacity. Since 2011, these turbines have supplied up to 25% of the dairy's annual electricity needs, which is enough power to produce six million gallons of ice cream and 15 million gallons of iced tea. In addition, ten Kroger stores have approximately 3,092kW of solar energy capacity that annually produces approximately 4 million kWh.

The Kroger Recovery System, located in Compton, CA at the Ralphs/Food 4 Less distribution center has been in operation since late 2012. It utilizes anaerobic digestion, a naturally occurring process, to transform food waste into renewable biogas. This system annually processes approximately 45,000 tons of food waste annually. This biogas is then turned into power for onsite operations. The system provides approximately 3.5 million kWh of renewable energy for the 650,000 square foot Ralphs/Food 4 Less distribution center. The system reduces area truck trips by more than 500,000 miles each year and reduces waste costs. These efforts are estimated to reduce carbon emissions by 90,000 tons per year.

Early last year, Kroger announced a set of 2020 Sustainability Goals. Kroger has several specific goals to address carbon emission reduction across the enterprise, including:

Kroger will reduce cumulative energy consumption by 40% by 2020, using 2000 as a baseline year.

Kroger will build on our long-term success of energy consumption reduction through the maintenance of existing processes and technologies as well as testing and learning from new technologies.

Kroger will improve transportation efficiency by 20% by 2020, using 2010 as a baseline year.

We will track our Ton Miles Per Gallon (TMPG), effectively looking at how many miles we haul one ton of groceries on one gallon of fuel.

Kroger will reduce refrigerant leaks in our supermarket refrigeration systems.

Kroger will reduce refrigerant leaks by 9% to the EPA's GreenChill 2017 Program year.

Kroger will be a Zero Waste Company by 2020, as defined by EPA. (90% or more of waste diverted away from landfills).

As a food manufacturer and retailer, the reduction of food waste is a key component to meet this goal. It's also a key component of our scope 3 emissions. We have many programs in place to divert as much food as possible away from landfills to higher, better uses.

For each of the past several years, we have published online our annual Sustainability Report that highlights many of our sustainability initiatives. Kroger's 2020 Sustainability Goals can also be found at *sustainability.kroger.com*

Finally, as part of our ongoing commitment to environmental sustainability, we are in the midst of conducting an analysis to develop a comprehensive carbon reduction plan that includes renewables. We created a cross functional team to help determine how we can best achieve meaningful reductions in a way that supports our financial, environmental and social responsibilities to our customers, shareholders and other stakeholders.

We urge you to support the furthering of our current programs and vote **AGAINST** this proposal.

Item No. 7 Shareholder Proposal – Deforestation

We have been notified by one shareholder, the name and shareholdings of which will be furnished promptly to any shareholder upon written or oral request to Kroger's Secretary at our executive offices, that it intends to propose the following resolution at the annual meeting:

"Whereas: The Kroger Co. (Kroger) utilizes beef, soy, palm oil, and pulp/paper in its business. These commodities are among the leading drivers of deforestation globally. Kroger's limited action on deforestation exposes the company to significant business risks including supply chain reliability, damage to its brand value, and failure to meet shifting consumer and market expectations.

Deforestation accounts for over 10% of global greenhouse gas emissions and contributes to biodiversity loss, soil erosion, disrupted rainfall patterns, community land conflicts and forced labor. Commercial agriculture accounted for over 70% of tropical deforestation between 2000 and 2012, half of which was illegal. Supply chain sources that are illegally engaged in deforestation are vulnerable to interruption as enforcement increases. Conserving forests by increasing agricultural productivity and the use of already cleared land will stabilize soils and climate while regulating regional water flows.

Companies that have failed to mitigate the impacts of their supply chain have faced reputational damage and consumer rejection of their products. "Consumers are increasingly demanding that businesses become more responsible and transparent," a whitepaper by Technomic, a leading food industry consultancy, stated. "In many cases, they are rewarding those they perceive to be good environmental stewards and corporate citizens."

Kroger scored 2 out of 5 in the Forest 500 2016 company scorecard and a 0 out of 100 on UCS's 2016 cattle scorecard. In contrast, companies such as McDonald's, Unilever and Nestlé have committed to eliminate deforestation in their global supply chains. Further, Kroger has yet to join its peers in signing the New York Declaration on Forests to help meet the private-sector goal of eliminating deforestation from the production of agricultural commodities by 2030.

Kroger asserts that it has begun addressing deforestation in its palm oil supply chains, as well as in other high risk commodities supply chains. The company's sustainability report notes a policy to address "high impact commodities" that "have potentially sensitive social, environmental and/ or economic impacts because of where they are harvested, produced, or processed." However, Kroger has no commitment to providing investors with detailed metrics on key issues such as deforestation that can aid in assessing the effectiveness of the policies on achieving sustainability and long term value.

RESOLVED: Shareholders request that Kroger issue reports to investors, at reasonable expense and excluding proprietary information, providing quantitative metrics on supply chain impacts on deforestation, including progress on time bound goals for reducing such impacts.

Supporting Statement: Proponents believe meaningful indicators in such reports could include:

- For key commodities that Kroger sources such as soy, beef, and pulp/paper, the percentage that can be traced back to its source and the percentage verified via credible third parties as not contributing to physical expansion into peatlands, HCV or HCS forests.

- Tracking these figures against an anticipated timeframe for 100% sourcing consistent with those criteria; and
- An assessment of reputational and operational risks facing Kroger in relation to supply chain and operational impacts on deforestation."

The Board of Directors Recommends a Vote Against This Proposal for the Following Reasons:

Kroger shares the proponent's concerns regarding deforestation associated with palm oil, beef, soy, and paper/pulp used to produce corporate brands.

Kroger engages in many industry groups and credible third parties such as the World Wildlife Fund, The Consumer Goods Forum, Rainforest Alliance and The Sustainability Consortium to address the responsible sourcing of commodities that have the potential for greater social, environmental, or economic impacts due to where and how they are produced or processed.

Kroger is constantly evaluating the areas where we can effect changes in our supply chain and create a positive impact on the drivers of deforestation. Here are a few examples of the goals and metrics that we utilize in managing our supply chain:

- **Palm Oil**: In 2013, Kroger announced a goal for our corporate brands to source only Certified Sustainable Palm Oil ("CSPO"), per the principles, criteria and standards set by the Roundtable on Sustainable Palm Oil.
    - In 2015, Kroger met this goal by sourcing only CSPO from a mass balance supply chain, one of the top third-party certified methodologies supported by the Roundtable for Sustainable Palm Oil. Such rigorous verification systems help ensure that consumers use certifiably sustainable palm oil. We continue to monitor and maintain the integrity of this important commitment.
- **Paper and Pulp:** In 2016, Kroger was the first recipient of the Rainforest Alliance's Supply Chain Partnership Award. This was in recognition of our HomeSense tissue products line, which is the largest U.S. corporate brand tissue product that is Forest Stewardship Council certified, by the Rainforest Alliance.
- **Beef**: Kroger corporate brand beef products are sourced primarily from the USA. We also carry several products from Uruguay, where ranchers are subject to land management requirements and government audits to ensure sustainable agricultural practices. Kroger, with the help of our suppliers, can trace each step from live animal source to finished product.
- **Soy:** Kroger corporate brands containing soy are sourced exclusively from the USA.

Kroger is a board member of the Consumer Goods Forum ("CGF"), a leading global body of retailers and consumer packaged goods manufacturers. The CGF is a signatory to the New York Declaration on Forests and has pledged to eliminate deforestation from consumer goods supply chains by 2020 and called for a legally binding climate agreement. Our position on these commodities is consistent with the position advocated by the CGF's "Zero Net Deforestation by 2020" resolution.

Furthermore, in 2016, Kroger partnered with The Sustainability Consortium (TSC) to identify, assess and further understand social and environmental risks in our supply chain. The TSC has a robust set of key performance indicators such as deforestation, child labor, forced labor, and water scarcity. As we have done throughout the years, we will use this information to find additional ways to minimize our impact on deforestation.

These efforts and goals will continue to minimize the risks associated with commodity-related deforestation in our supply chain.

We urge you to support these efforts and vote **AGAINST** this proposal.

Item No. 8 Shareholder Proposal – Independent Chairman

We have been notified by one shareholder, the name and shareholdings of which will be furnished promptly to any shareholder upon written or oral request to Kroger's Secretary at our executive offices, that it intends to propose the following resolution at the annual meeting:

"RESOLVED: Shareowners of The Kroger Co. ("Kroger") request the Board of Directors to adopt a policy, and amend the bylaws as necessary, to require the Chair of the Board to be an independent member of the Board. This independence policy shall apply prospectively so as not to violate any contractual obligation. The policy should

provide that (i) if the Board determines that a Chair who was independent when selected is no longer independent, the Board shall select a new Chair who satisfies the policy within 60 days of that determination; and (ii) compliance with this policy is waived if no independent director is available and willing to serve as Chair.

Supporting Statement: Except for brief "apprenticeship" periods at the outset of their CEO service, Kroger CEOs have also held the role of board Chair for many decades. We believe the combination of these two roles in a single person weakens a corporation's governance, which can harm shareholder value. As Intel's former chair Andrew Grove stated, "The separation of the two jobs goes to the heart of the conception of a corporation. Is a company a sandbox for the CEO, or is the CEO an employee? If he's an employee, he needs a boss, and that boss is the board. The chairman runs the board. How can the CEO be his own boss?

In our view, shareholder value is enhanced by an independent board chair who can provide a balance of power between the CEO and the board and support strong board leadership.

An independent board chair has been found in academic studies to improve the performance of public companies. A 2013 report by governance firm GMI found that "the CEO/Chair combination is statistically associated with an elevated risk of enforcement action for accounting fraud" (GMI Analyst: ESG and Accounting Metrics for Investment Use, March 2013).

While separating the roles of Chair and CEO is the norm in Europe, 46% of Russell 3000 companies have also implemented this best practice (EY Center for Board Matters, December 2015, available at http://www.ey.com/gl/en/issues/governance-and-reporting/ey-corporate-governance-by-the-numbers#boardleadership).

We urge shareholders to vote for this proposal."

The Board of Directors Recommends a Vote Against This Proposal for the Following Reasons:

Kroger's Board is structured to provide the most effective leadership for our shareholders. Our shareholders' interests are best served when the company retains the flexibility to select the appropriate person to serve in the Chairman's role given the changing circumstances of the retail food marketplace. The Board believes that the proponent's rigid "one size fits all" proposal, which fails to identify any concerns specific to Kroger, is not in the best interest of shareholders and should be rejected. Kroger has a balanced governance structure in which independent directors, including an independent Lead Director, exercise meaningful and vigorous oversight. Kroger's Board is led by a strong independent Lead Director who serves the same functions as a Chairman and provides the safeguards that the proposal seeks.

The Lead Director's robust duties and responsibilities are addressed in detail in the Guidelines which are available at ir.kroger.com. The Lead Director serves a variety of roles, including:

- Reviewing and approving all Board meeting agendas, meeting materials, and schedule;
- Serving as a liaison between the Chairman and the independent directors;
- Presiding at the regularly conducted executive sessions of independent directors and meetings of the Board when the Chairman is not present;
- Calling an executive session of the independent directors at any time; and
- Serving as the Board's representative for any consultation and direct communication if requested by major shareholders.

While our current Chairman is also the CEO, this structure is a reflection of the Board's current view that both Kroger and our shareholders would not be best served by separation the roles at this time given the important skills and industry expertise that our CEO brings to the Board. However, the Board routinely reviews Kroger's leadership structure which includes a discussion of Kroger's performance, the impact that the leadership has on that performance, and the structure that best serves the interests of shareholders. The Board has instituted structures and practices, in addition to the independent Lead Director, that create a balanced governance system of independent oversight, including:

- all of Kroger's Board members are independent, except for one;
- all members, including chairpersons, of each of the Board committees are independent;
- the full board of independent directors annually evaluate the CEO's performance; and

- the Board and each of its committees have unfettered access to management and the authority to retain independent advisors, as they deem appropriate.

Contrary to the assertions in the proponent's supporting statement, there is no established consensus that separating the roles of the chairman and the CEO is a best practice or that such a separation enhances returns for shareholders. The authors of a 2004 Wharton School of Business article entitled "Splitting Up the Roles of CEO and Chairman: Reform or Red Herring?" (http://knowledge.wharton.upenn.edu/article.cfm?articleid=987) concluded that there is no evidence that separating the positions of chairman and CEO improves corporate performance. In "Corporate Governance Update: Analyzing Aspects of Board Composition," David A Katz and Laura A. McIntosh, New York Law Journal, January 26, 2012, the authors concluded that from a board effectiveness perspective, there is no need to separate the roles of chairman and CEO so long as there is an effective lead director in place. In addition, the majority of U.S. companies have not implemented the structure recommended by the proposal.

The Board will continue to review Kroger's leadership structure to ensure that the structure best addresses Kroger's evolving and dynamic business in consultation with the current board and our shareholders. The Board believes that eliminating the flexibility to determine which type of leadership structure is not in our shareholders' best interests.

For the foregoing reasons, we urge you to vote **AGAINST** this proposal.

Shareholder Proposals and Director Nominations – 2018 Annual Meeting

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, shareholder proposals intended for inclusion in the proxy material relating to Kroger's annual meeting of shareholders in June 2018 should be addressed to Kroger's Secretary and must be received at our executive offices not later than January 10, 2018. These proposals must comply with Rule 14a-8 and the SEC's proxy rules.

In addition, Kroger's Regulations contain an advance notice of shareholder business and director nominations requirement, which generally prescribes the procedures that a shareholder of Kroger must follow if the shareholder intends, at an annual meeting, to nominate a person for election to Kroger's Board of Directors or to propose other business to be considered by shareholders. These procedures include, among other things, that the shareholder give timely notice to Kroger's Secretary of the nomination or other proposed business, that the notice contain specified information, and that the shareholder comply with certain other requirements. In order to be timely, this notice must be delivered in writing to Kroger's Secretary, at our principal executive offices, not later 45 calendar days prior to the date on which our proxy statement for the prior year's annual meeting of shareholders was mailed to shareholders. If a shareholder's nomination or proposal is not in compliance with the procedures set forth in the Regulations, we may disregard such nomination or proposal. Accordingly, if a shareholder intends, at the 2018 annual meeting, to nominate a person for election to the Board of Directors or to propose other business, the shareholder must deliver a notice of such nomination or proposal to Kroger's Secretary not later than March 26, 2018, comply with the requirements of the Regulations. If a shareholder submits a proposal outside of Rule 14a-8 for the 2018 annual meeting and such proposal is not delivered within the time frame specified in the Regulations, Kroger's proxy may confer discretionary authority on persons being appointed as proxies on behalf of Kroger to vote on such proposal. Shareholder proposals, director nominations and advance notices should be addressed in writing to: Secretary, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202-1100.

2016 Annual Report

Attached to this Proxy Statement is our 2016 Annual Report which includes a brief description of our business, including the general scope and nature thereof during fiscal year 2016, together with the audited financial information contained in our 2016 Annual Report on Form 10-K filed with the SEC. A copy of that report is available to shareholders on request without charge by writing to: Carin Fike, Treasurer, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202 or by calling 513-762-1220. Our SEC filings are available to the public on the SEC's website at www.sec.gov.

Householding of Proxy Materials

We have adopted a procedure approved by the SEC called "householding." Under this procedure, shareholders of record who have the same address and last name will receive only one copy of the Notice of Availability of Proxy Materials (or proxy materials in the case of shareholders who receive paper copies of such materials) unless one or more of these shareholders notifies us that they wish to continue receiving individual copies. This procedure will reduce our printing costs and postage fees. Householding will not in any way affect dividend check mailings.

If you are eligible for householding, but you and other shareholders of record with whom you share an address currently receive multiple copies of our Notice of Availability of Proxy Materials (or proxy materials in the case of shareholders who receive paper copies of such materials), or if you hold in more than one account, and in either case you wish to receive only a single copy for your household or if you prefer to receive separate copies of our documents in the future, please contact your bank or broker, or contact Kroger's Secretary at 1014 Vine Street, Cincinnati, Ohio 45202 or via telephone at 513-762-4000.

Beneficial shareholders can request information about householding from their banks, brokers or other holders of record.

The management knows of no other matters that are to be presented at the meeting, but, if any should be presented, the Proxy Committee expects to vote thereon according to its best judgment.

By order of the Board of Directors,
Christine S. Wheatley, Secretary

2016 ANNUAL REPORT

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The management of The Kroger Co. has the responsibility for preparing the accompanying financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles applied on a consistent basis and are not misstated due to material error or fraud. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the report and is responsible for its accuracy and consistency with the financial statements.

Kroger's financial statements have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, whose selection has been ratified by the shareholders. Management has made available to PricewaterhouseCoopers LLP all of Kroger's financial records and related data, as well as the minutes of the shareholders' and directors' meetings. Furthermore, management believes that all representations made to PricewaterhouseCoopers LLP during its audit were valid and appropriate.

Management also recognizes its responsibility for fostering a strong ethical climate so that Kroger's affairs are conducted according to the highest standards of personal and corporate conduct. This responsibility is characterized and reflected in *The Kroger Co. Policy on Business Ethics*, which is publicized throughout Kroger and available on Kroger's website at ir.kroger.com. *The Kroger Co. Policy on Business Ethics* addresses, among other things, the necessity of ensuring open communication within Kroger; potential conflicts of interests; compliance with all domestic and foreign laws, including those related to financial disclosure; and the confidentiality of proprietary information. Kroger maintains a systematic program to assess compliance with these policies.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control — Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management excluded Modern HC Holdings, Inc. ("ModernHEALTH") from its assessment of internal control over financial reporting, as of January 28, 2017, because it was acquired in a purchase business combination on September 2, 2016. ModernHEALTH is a wholly-owned subsidiary whose total assets and total revenues represent 1% and less than 1%, respectively, of the related Consolidated Financial Statements amounts as of and for the year ended January 28, 2017. Based on the evaluation, management has concluded that the Company's internal control over financial reporting was effective as of January 28, 2017.

W. Rodney McMullen
Chairman of the Board and Chief Executive Officer

J. Michael Schlotman
Executive Vice President and Chief Financial Officer

SELECTED FINANCIAL DATA

	Fiscal Years Ended				
	January 28, 2017 (52 weeks)	January 30, 2016 (52 weeks)	January 31, 2015 (52 weeks)	February 1, 2014 (52 weeks)	February 2, 2013 (53 weeks)
	(In millions, except per share amounts)				
Sales	$ 115,337	$ 109,830	$ 108,465	$ 98,375	$ 96,619
Net earnings including noncontrolling interests	1,957	2,049	1,747	1,531	1,508
Net earnings attributable to The Kroger Co.	1,975	2,039	1,728	1,519	1,497
Net earnings attributable to The Kroger Co. per diluted common share	2.05	2.06	1.72	1.45	1.39
Total assets	36,505	33,897	30,497	29,281	24,634
Long-term liabilities, including obligations under capital leases and financing obligations	16,935	14,128	13,663	13,181	9,359
Total shareholders' equity — The Kroger Co.	6,698	6,820	5,412	5,384	4,207
Cash dividends per common share	0.450	0.395	0.340	0.308	0.248

COMMON SHARE PRICE RANGE

	2016		2015	
Quarter	High	Low	High	Low
1st	$ 40.91	$ 33.62	$ 38.87	$ 34.05
2nd	$ 37.97	$ 32.02	$ 38.65	$ 37.09
3rd	$ 33.24	$ 28.71	$ 38.73	$ 27.32
4th	$ 36.44	$ 30.44	$ 42.75	$ 36.00

Main trading market: New York Stock Exchange (Symbol KR)

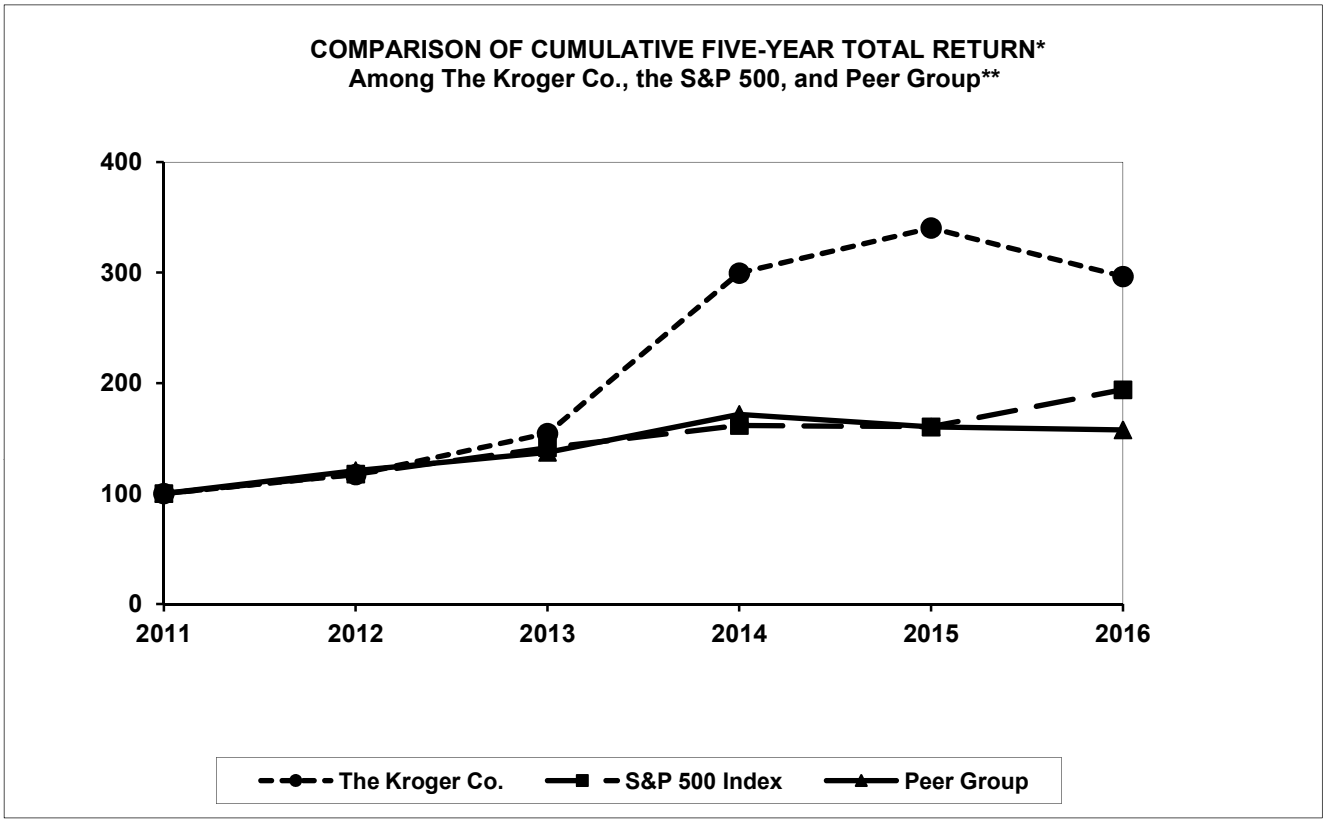
Number of shareholders of record at fiscal year-end 2016: 28,351

Number of shareholders of record at March 22, 2017: 28,252

During 2016, we paid two quarterly cash dividends of $0.105 per share and two quarterly cash dividends of $0.12 per share. During 2015, we paid two quarterly cash dividends of $0.0925 per share and two quarterly cash dividends of $0.105 per share. On March 1, 2017, we paid a quarterly cash dividend of $0.12 per share. On March 9, 2017, we announced that our Board of Directors declared a quarterly cash dividend of $0.12 per share, payable on June 1, 2017, to shareholders of record at the close of business on May 15, 2017. We currently expect to continue to pay comparable cash dividends on a quarterly basis depending on our earnings and other factors, including approval by our Board.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the five-year cumulative total shareholder return on our common shares, based on the market price of the common shares and assuming reinvestment of dividends, with the cumulative total return of companies in the Standard & Poor's 500 Stock Index and a peer group composed of food and drug companies.



Company Name/Index	Base Period 2011	INDEXED RETURNS Years Ending 2012	2013	2014	2015	2016
The Kroger Co.	100	117.21	154.38	299.59	340.41	296.50
S&P 500 Index	100	117.60	141.48	161.61	160.53	194.03
Peer Group	100	120.77	137.32	171.73	160.23	157.59

Kroger's fiscal year ends on the Saturday closest to January 31.

Data supplied by Standard & Poor's.

The foregoing Performance Graph will not be deemed incorporated by reference into any other filing, absent an express reference thereto.

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* Total assumes $100 invested on January 29, 2012, in The Kroger Co., S&P 500 Index, and the Peer Group, with reinvestment of dividends.

** The Peer Group consists of Costco Wholesale Corp., CVS Caremark Corp, Etablissements Delhaize Freres Et Cie Le Lion ("Groupe Delhaize", which is included through July 22, 2016 when it merged with Koninklijke Ahold), Great Atlantic & Pacific Tea Company, Inc. (included through March 13, 2012 when it became private after emerging from bankruptcy), Koninklijke Ahold Delhaize NV (changed name from Koninklijke Ahold after merger with Groupe Delhaize), Safeway, Inc. (included through January 29, 2015 when it was acquired by AB Acquisition LLC), Supervalu Inc., Target Corp., Tesco Plc (included through November 27, 2013 when it sold its U.S. business), Wal-Mart Stores Inc., Walgreens Boots Alliance Inc. (formerly, Walgreen Co.), Whole Foods Market Inc. and Winn-Dixie Stores, Inc. (included through March 9, 2012 when it became a wholly-owned subsidiary of Bi-Lo Holdings).

ISSUER PURCHASES OF EQUITY SECURITIES

Period (1)	Total Number of Shares Purchased (2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (4) (in millions)
First period - four weeks				
November 6, 2016 to December 3, 2016	2,927,535	$ 32.98	2,927,300	$ 587
Second period - four weeks				
December 4, 2016 to December 31, 2016	3,977,379	$ 34.48	3,906,084	$ 461
Third period — four weeks				
January 1, 2017 to January 28, 2017	3,931,162	$ 33.86	3,930,799	$ 339
Total	10,836,076	$ 33.85	10,764,183	$ 339

(1) The reported periods conform to our fiscal calendar composed of thirteen 28-day periods. The fourth quarter of 2016 contained three 28-day periods.

(2) Includes (i) shares repurchased under our 2016 Share Repurchase Programs described below in footnote 4, (ii) shares repurchased under a program announced on December 6, 1999 to repurchase common shares to reduce dilution resulting from our employee stock option and long-term incentive plans, under which repurchases are limited to proceeds received from exercises of stock options and the tax benefits associated therewith (the “1999 Repurchase Program”), and (iii) 71,893 shares that were surrendered to the Company by participants under our long-term incentive plans to pay for taxes on restricted stock awards.

(3) Represents shares repurchased under the 2016 Share Repurchase Programs and the 1999 Repurchase Program.

(4) On June 22, 2016, our Board of Directors approved a new $500 million share repurchase program (the “June 2016 Share Repurchase Program”). On September 15, 2016, our Board of Directors approved an additional $500 million share repurchase authority to supplement the June 2016 program (the “September 2016 Share Repurchase Program”, and together, the “2016 Share Repurchase Programs”). The amounts shown in this column reflect the amount remaining under the 2016 Share Repurchase Programs as of the specified period end dates. Amounts available under the 1999 Repurchase Program are dependent upon option exercise activity. The June 2016 Share Repurchase Program was exhausted during the fourth quarter of 2016. The September 2016 Share Repurchase Program and the 1999 Repurchase Program do not have an expiration date but may be terminated by our Board of Directors at any time. On March 9, 2017, our Board of Directors approved an additional $500 million share repurchase authority to supplement the September 2016 Share Repurchase Program.

BUSINESS

The Kroger Co. (the "Company" or "Kroger") was founded in 1883 and incorporated in 1902. As of January 28, 2017, we are one of the largest retailers in the world based on annual sales. We also manufacture and process some of the food for sale in our supermarkets. We maintain a web site (www.thekrogerco.com) that includes additional information about the Company. We make available through our web site, free of charge, our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and our interactive data files, including amendments. These forms are available as soon as reasonably practicable after we have filed them with, or furnished them electronically to, the SEC.

Our revenues are predominately earned and cash is generated as consumer products are sold to customers in our stores, fuel centers and via our online platforms. We earn income predominantly by selling products at price levels that produce revenues in excess of the costs to make these products available to our customers. Such costs include procurement and distribution costs, facility occupancy and operational costs and overhead expenses. Our fiscal year ends on the Saturday closest to January 31. All references to 2016, 2015 and 2014 are to the fiscal years ended January 28, 2017, January 30, 2016 and January 31, 2015, respectively, unless specifically indicated otherwise.

EMPLOYEES

As of January 28, 2017, Kroger employed approximately 443,000 full- and part-time employees. A majority of our employees are covered by collective bargaining agreements negotiated with local unions affiliated with one of several different international unions. There are approximately 366 such agreements, usually with terms of three to five years.

STORES

As of January 28, 2017, Kroger operated, either directly or through its subsidiaries, 2,796 supermarkets under a variety of local banner names, of which 2,255 had pharmacies and 1,445 had fuel centers. We also offer ClickList™ and Harris Teeter ExpressLane— personalized, order online, pick up at the store services — at 637 of our supermarkets. Approximately 48% of these supermarkets were operated in Company-owned facilities, including some Company-owned buildings on leased land. Our current strategy emphasizes self-development and ownership of store real estate. Our stores operate under a variety of banners that have strong local ties and brand recognition. Supermarkets are generally operated under one of the following formats: combination food and drug stores ("combo stores"); multi-department stores; marketplace stores; or price impact warehouses.

The combo store is the primary food store format. They typically draw customers from a 2 — 2.5 mile radius. We believe this format is successful because the stores are large enough to offer the specialty departments that customers desire for one-stop shopping, including natural food and organic sections, pharmacies, general merchandise, pet centers and high-quality perishables such as fresh seafood and organic produce.

Multi-department stores are significantly larger in size than combo stores. In addition to the departments offered at a typical combo store, multi-department stores sell a wide selection of general merchandise items such as apparel, home fashion and furnishings, outdoor living, electronics, automotive products, toys and fine jewelry.

Marketplace stores are smaller in size than multi-department stores. They offer full-service grocery, pharmacy and health and beauty care departments as well as an expanded perishable offering and general merchandise area that includes apparel, home goods and toys.

Price impact warehouse stores offer a "no-frills, low cost" warehouse format and feature everyday low prices plus promotions for a wide selection of grocery and health and beauty care items. Quality meat, dairy, baked goods and fresh produce items provide a competitive advantage. The average size of a price impact warehouse store is similar to that of a combo store.

In addition to the supermarkets, as of January 28, 2017, we operated, through subsidiaries, 784 convenience stores, 319 fine jewelry stores and an online retailer. All 114 of our fine jewelry stores located in malls are operated in leased locations. In addition, 69 convenience stores were operated by franchisees through franchise agreements. Approximately 56% of the convenience stores operated by subsidiaries were operated in Company-owned facilities. The convenience stores offer a limited assortment of staple food items and general merchandise and, in most cases, sell fuel.

SEGMENTS

We operate supermarkets, multi-department stores, jewelry stores, and convenience stores throughout the United States. Our retail operations, which represent over 98% of our consolidated sales and earnings before interest, taxes and depreciation and amortization ("EBITDA"), is our only reportable segment. We aggregate our operating divisions into one reportable segment due to the operating divisions having similar economic characteristics with similar long-term financial performance. In addition, our operating divisions offer customers similar products, have similar distribution methods, operate in similar regulatory environments, purchase the majority of the merchandise for retail sale from similar (and in many cases identical) vendors on a coordinated basis from a centralized location, serve similar types of customers, and are allocated capital from a centralized location. Our operating divisions are organized primarily on a geographical basis so that the operating division management team can be responsive to local needs of the operating division and can execute company strategic plans and initiatives throughout the locations in their operating division. This geographical separation is the primary differentiation between these retail operating divisions. The geographical basis of organization reflects how the business is managed and how our Chief Executive Officer, who acts as our chief operating decision maker, assesses performance internally. All of our operations are domestic. Revenues, profits and losses and total assets are shown in our Consolidated Financial Statements set forth in Item 8 below.

MERCHANDISING AND MANUFACTURING

Corporate brand products play an important role in our merchandising strategy. Our supermarkets, on average, stock over 14,000 private label items. Our corporate brand products are primarily produced and sold in three "tiers." Private Selection® is the premium quality brand designed to be a unique item in a category or to meet or beat the "gourmet" or "upscale" brands. The "banner brand" (Kroger®, Ralphs®, Fred Meyer®, King Soopers®, etc.), which represents the majority of our private label items, is designed to satisfy customers with quality products. Before we will carry a "banner brand" product we must be satisfied that the product quality meets our customers' expectations in taste and efficacy, and we guarantee it. P$$T…®, Check This Out… and Heritage Farm™ are the three value brands, designed to deliver good quality at a very affordable price. In addition, we continue to grow our other brands, including Simple Truth® and Simple Truth Organic®. Both Simple Truth and Simple Truth Organic are Free From 101+ artificial preservatives and ingredients that customers have told us they do not want in their food, and the Simple Truth Organic products are USDA certified organic.

Approximately 35% of the corporate brand units sold in our supermarkets are produced in our food production plants; the remaining corporate brand items are produced to our strict specifications by outside manufacturers. This percentage has declined recently due to an expanded portfolio of non-grocery corporate brand units produced by outside manufacturers. Our food production plants produced 45% of our grocery category corporate brand units sold in our supermarkets, which is consistent with our historical trend. We perform a "make or buy" analysis on corporate brand products and decisions are based upon a comparison of market-based transfer prices versus open market purchases. As of January 28, 2017, we operated 38 food production plants. These plants consisted of 17 dairies, ten deli or bakery plants, five grocery product plants, two beverage plants, two meat plants and two cheese plants.

SEASONALITY

The majority of our revenues are generally not seasonal in nature. However, revenues tend to be higher during the major holidays throughout the year. Additionally, significant inclement weather systems, particularly winter storms, tend to affect our sales trends.

EXECUTIVE OFFICERS OF THE REGISTRANT

The disclosure regarding executive officers is set forth in Item 10 of Part III of this Form 10-K under the heading "Executive Officers of the Company," and is incorporated herein by reference.

COMPETITIVE ENVIRONMENT

For the disclosure related to our competitive environment, see Item 1A under the heading "Competitive Environment."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OUR BUSINESS

The Kroger Co. was founded in 1883 and incorporated in 1902. Kroger is one of the world's largest retailers, as measured by revenue, operating 2,796 supermarkets under a variety of local banner names in 35 states and the District of Columbia. Of these stores, 2,255 have pharmacies and 1,445 have fuel centers. We also offer ClickList™ and Harris Teeter ExpressLane — personalized, order online, pick up at the store services — at 637 of our supermarkets, and operate 784 convenience stores, either directly or through franchisees, 319 fine jewelry stores and an online retailer.

We operate 38 food production plants, primarily bakeries and dairies, which supply approximately 35% of the corporate brand units sold in our supermarkets; the remaining corporate brand items are produced to our strict specifications by outside manufacturers. This percentage has declined recently due to an expanded portfolio of non-grocery corporate brand units produced by outside manufacturers. Our food production plants produced 45% of our grocery category corporate brand units sold in our supermarkets, which is consistent with our historical trend.

Our revenues are earned and cash is generated as consumer products are sold to customers in our stores, fuel centers and via our online platforms. We earn income predominately by selling products at price levels that produce revenues in excess of the costs we incur to make these products available to our customers. Such costs include procurement and distribution costs, facility occupancy and operational costs, and overhead expenses. Our retail operations, which represent over 98% of our consolidated sales and EBITDA, is our only reportable segment.

On September 2, 2016, we closed our merger with Modern HC Holdings, Inc. ("ModernHEALTH") by purchasing 100% of the outstanding shares of ModernHEALTH for $407 million. ModernHEALTH is included in our ending Consolidated Balance Sheet for 2016 and in our Consolidated Statements of Operations from September 2, 2016 through January 28, 2017.

On December 18, 2015, we closed our merger with Roundy's, Inc. ("Roundy's") by purchasing 100% of Roundy's® outstanding common stock for $3.60 per share and assuming Roundy's outstanding debt, for a purchase price of $866 million. Roundy's is included in our ending Consolidated Balance Sheets for 2015 and 2016 and in our Consolidated Statements of Operations for the last six weeks of 2015 and all periods in 2016.

On August 18, 2014, we closed our merger with Vitacost.com® by purchasing 100% of the Vitacost.com outstanding common stock for $8.00 per share or $287 million. Vitacost.com is included in our ending Consolidated Balance Sheets for 2015 and 2016 and in our Consolidated Statements of Operations for all periods succeeding the merger.

See Note 2 to the Consolidated Financial Statements for more information related to our mergers with ModernHEALTH, Roundy's and Vitacost.com.

USE OF NON-GAAP FINANCIAL MEASURES

The accompanying Consolidated Financial Statements, including the related notes, set forth in Part II, Item 8 of this Form 10-K are presented in accordance with generally accepted accounting principles ("GAAP"). We provide non-GAAP measures, including First-In, First-Out ("FIFO") gross margin, FIFO operating profit, adjusted net earnings and adjusted net earnings per diluted share because management believes these metrics are useful to investors and analysts. These non-GAAP financial measures should not be considered as an alternative to gross margin, operating profit, net earnings and net earnings per diluted share or any other GAAP measure of performance. These measures should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP. Our calculation and reasons these are useful metrics to investors and analysts are explained below.

We calculate FIFO gross margin as sales less merchandise costs, including advertising, warehousing, and transportation expenses, but excluding the Last-In, First-Out ("LIFO") charge. Merchandise costs exclude depreciation and rent expenses. FIFO gross margin is an important measure used by management to evaluate merchandising and operational effectiveness. Management believes FIFO gross margin is a useful metric to investors and analysts because it measures our day-to-day merchandising and operational effectiveness.

We calculate FIFO operating profit as operating profit excluding the LIFO charge. FIFO operating profit is an important measure used by management to evaluate operational effectiveness. Management believes FIFO operating profit is a useful metric to investors and analysts because it measures our day-to-day operational effectiveness.

We believe the adjusted net earnings per diluted share metric presents more accurate year-over-year comparisons for our net earnings per diluted share because adjusted items are not the result of our normal operations.

OVERVIEW

Notable items for 2016 are:

- Net earnings per diluted share of $2.05.
- Net earnings for 2016 includes $111 million ($71 million after-tax) of charges to operating, general and administrative expenses related to the restructuring of certain pension obligations to help stabilize associates' future benefits ("2016 Adjusted Items").
- Adjusted net earnings per diluted share of $2.12.
- Identical supermarket sales, excluding fuel, increased 1.0%.
- Increased market share, total unit growth, added 420 Clicklist™ locations and achieved record high unit share for Corporate Brands.
- Results include unfavorable pricing and cost effects and the loss of sales leverage due to a challenging, deflationary operating environment.
- During 2016, we returned $2.2 billion to shareholders from share repurchases and dividend payments and invested $407 million in the ModernHEALTH merger.

The following table provides a reconciliation of net earnings attributable to The Kroger Co. to adjusted net earnings attributable to The Kroger Co. and a reconciliation of net earnings attributable to The Kroger Co. per diluted common share to adjusted net earnings attributable to The Kroger Co. per diluted common share, excluding the 2016 and 2014 Adjusted Items. In 2015, we did not have any adjustment items that affect net earnings or net earnings per diluted share.

Net Earnings per Diluted Share excluding the Adjusted Items
($ in millions, except per share amounts)

	2016	2015	2014
Net earnings attributable to The Kroger Co.	$ 1,975	$ 2,039	$ 1,728
2016 Adjusted Items [(1)(2)]	71	—	—
2014 Adjusted Items [(1)(2)]	—	—	39
Net earnings attributable to The Kroger Co. excluding the adjusted items above	$ 2,046	$ 2,039	$ 1,767
Net earnings attributable to The Kroger Co. per diluted common share	$ 2.05	$ 2.06	$ 1.72
2016 Adjusted Items[(3)]	0.07	—	—
2014 Adjusted Items[(3)]	—	—	0.04
Net earnings attributable to The Kroger Co. per diluted common share excluding the adjusted items above	$ 2.12	$ 2.06	$ 1.76
Average numbers of common shares used in diluted calculation	958	980	993

(1) The amounts presented represent the after-tax effect of the 2016 and 2014 Adjusted Items. The "2014 Adjusted Items" are an $87 million ($56 million after-tax) charge to OG&A due to the commitments and withdrawal liabilities arising from restructuring of certain multi-employer obligations ("2014 Multi-Employer Pension Plan Obligation") to help stabilize associates' future pension benefits, offset partially by the benefits from certain tax items of $17 million.
(2) The pre-tax adjustments for the 2016 and 2014 Adjusted Items were $111 million and $87 million, respectively.
(3) The amounts presented represent the net earnings per diluted common share effect of the 2016 and 2014 Adjusted Items.

RESULTS OF OPERATIONS

Sales

Total Sales
($ in millions)

	2016	Percentage Increase(2)	2015	Percentage Increase(3)	2014
Total supermarket sales without fuel	$ 96,900	6.1 %	$ 91,310	5.8 %	$ 86,281
Fuel sales	13,979	(5.6)%	14,804	(21.5)%	18,850
Other sales(1)	4,458	20.0 %	3,716	11.5 %	3,334
Total sales	$ 115,337	5.0 %	$ 109,830	1.3 %	$ 108,465

(1) Other sales primarily relate to sales at convenience stores, excluding fuel; jewelry stores; food production plants to outside customers; data analytic services; variable interest entities; specialty pharmacy; in-store health clinics; digital coupon services; and online sales by Vitacost.com.
(2) This column represents the sales percentage increases in 2016, compared to 2015.
(3) This column represents the sales percentage increases in 2015, compared to 2014.

Total sales increased in 2016, compared to 2015, by 5.0%. This increase was primarily due to our increase in total supermarket sales, without fuel, and our merger with ModernHEALTH, partially offset by a decrease in fuel sales due to a 9.4% decrease in the average retail fuel price. The increase in total supermarket sales without fuel for 2016, compared to 2015, was primarily due to our merger with Roundy's, an increase in supermarket square footage and our identical supermarket sales increase, excluding fuel, of 1.0%. Identical supermarket sales, excluding fuel, for 2016, compared to 2015, increased primarily due to an increase in the number of households shopping with us, partially offset by product cost deflation of 0.8%. Excluding mergers, acquisitions and operational closings, total supermarket square footage at the end of 2016 increased 3.4% over 2015. Total fuel sales decreased 5.6% in 2016, compared to 2015, primarily due to a decrease in the average retail fuel price of 9.4%, partially offset by an increase in fuel gallons sold of 4.2%. The decrease in the average retail fuel price was caused by a decrease in the product cost of fuel.

Total sales increased in 2015, compared to 2014, by 1.3%. This increase in 2015 total sales, compared to 2014, was primarily due to an increase in identical supermarket sales, excluding fuel, of 5.0%. Total sales also increased due to the inclusion of Roundy's sales, due to our merger, for the period of December 18, 2015 to January 30, 2016. Identical supermarket sales, excluding fuel, for 2015, compared to 2014, increased primarily due to an increase in the number of households shopping with us, an increase in visits per household, changes in product mix and product cost inflation. Total fuel sales decreased in 2015, compared to 2014, primarily due to a 26.7% decrease in the average retail fuel price, partially offset by an increase in fuel gallons sold of 7.1%.

We define a supermarket as identical when it has been in operation without expansion or relocation for five full quarters. Although identical supermarket sales is a relatively standard term, numerous methods exist for calculating identical supermarket sales growth. As a result, the method used by our management to calculate identical supermarket sales may differ from methods other companies use to calculate identical supermarket sales. We urge you to understand the methods used by other companies to calculate identical supermarket sales before comparing our identical supermarket sales to those of other such companies. Fuel discounts received at our fuel centers and earned based on in-store purchases are included in all of the identical supermarket sales results calculations as illustrated in the following table and reduce our identical supermarket sales results. Differences between total supermarket sales and identical supermarket sales primarily relate to changes in supermarket square footage. Identical supermarket sales include sales from all departments at identical multi-department stores and Roundy's stores that are identical as if they were part of the Company in the prior year. Our identical supermarket sales results are summarized in the following table. We used the identical supermarket dollar figures presented below to calculate percentage changes for 2016 and 2015.

Identical Supermarket Sales
(dollars in millions)

	2016	2015
Including supermarket fuel centers	$ 103,180	$ 103,106
Excluding supermarket fuel centers	$ 92,451	$ 91,568
Including supermarket fuel centers	0.1 %	1.1 %
Excluding supermarket fuel centers	1.0 %	5.0 %

Gross Margin, LIFO and FIFO Gross Margin

Our gross margin rates, as a percentage of sales, were 22.40% in 2016, 22.16% in 2015 and 21.16% in 2014. The increase in 2016, compared to 2015, resulted primarily from lower fuel sales, a lower LIFO charge and our merger with Roundy's due to its historically higher gross margin rate, partially offset by continued investments in lower prices for our customers, unfavorable pricing and cost effects due to transitioning to a deflationary operating environment, our merger with ModernHEALTH due to its historically lower gross margin rate and increased warehousing and shrink costs, as a percentage of sales. The increase in 2015, compared to 2014, resulted primarily from lower fuel sales, reductions in transportation costs and a lower LIFO charge, partially offset by continued investments in lower prices for our customers and increased shrink costs, as a percentage of sales. Lower fuel sales increase our gross margin rate, as a percentage of sales, due to the very low gross margin rate, as a percentage of sales, on fuel sales compared to non-fuel sales.

Our LIFO charge was $19 million in 2016, $28 million in 2015 and $147 million in 2014. In 2016, our LIFO charge primarily resulted from annualized product cost inflation related to pharmacy, and was partially offset by annualized product cost deflation in other departments. In 2015, we experienced lower product cost inflation, compared to 2014, which resulted in a lower LIFO charge. In 2015, our LIFO charge primarily resulted from annualized product cost inflation related to pharmacy, and was partially offset by annualized product cost deflation related to meat and dairy. In 2014, our LIFO charge primarily resulted from annualized product cost inflation related to pharmacy, grocery, deli, meat and seafood.

Our FIFO gross margin rates, as a percentage of sales, were 22.42% in 2016, 22.18% in 2015 and 21.30% in 2014. Excluding the effect of fuel and our mergers with Roundy's and ModernHEALTH ("recent mergers"), our FIFO gross margin rate decreased seven basis points in 2016, compared to 2015. This decrease resulted primarily from continued investments in lower prices for our customers, unfavorable pricing and cost effects due to transitioning to a deflationary operating environment and increased warehousing and shrink costs, as a percentage of sales. Excluding the effect of fuel, our FIFO gross margin rate decreased four basis points in 2015, compared to 2014. This decrease resulted primarily from continued investments in lower prices for our customers and increased shrink costs, partially offset by a reduction in transportation costs, as a percentage of sales.

Operating, General and Administrative Expenses

OG&A expenses consist primarily of employee-related costs such as wages, health care benefits and retirement plan costs, utility and credit card fees. Rent expense, depreciation and amortization expense and interest expense are not included in OG&A.

OG&A expenses, as a percentage of sales, were 16.63% in 2016, 16.34% in 2015 and 15.82% in 2014. OG&A expenses, as a percentage of sales, increased 29 basis points to 16.63% in 2016 from 16.34% in 2015. This increase resulted primarily from a decrease in fuel sales, the loss of sales leverage due to transitioning to a deflationary operating environment, the 2016 Adjusted Items, our recent mergers due to their historically higher OG&A rate, compared to our other divisions, and increases in healthcare benefit and credit card costs, partially offset by increased supermarket sales, productivity improvements, effective cost controls, $110 million United Food and Commercial Workers International Union ("UFCW") contributions made during 2015 ("2015 UFCW Contributions") and decreases in incentive plans, company-sponsored pension plans and utility costs, as a percentage of sales. Our fuel sales lower our OG&A rate, as a percentage of sales, due to the very low OG&A rate, as a percentage of sales, of fuel sales compared to non-fuel sales. Excluding the effect of fuel, the 2016 Adjusted Items, recent mergers and the 2015 UFCW Contributions, our OG&A rate decreased five basis points in 2016, compared to 2015. This decrease resulted primarily from increased supermarket sales, productivity improvements, effective cost controls and decreases in incentive plans, company-sponsored pension plans and utility costs, partially offset by the loss of sales leverage due to transitioning to a deflationary operating environment and increases in healthcare benefit and credit card costs, as a percentage of sales.

OG&A expenses, as a percentage of sales, increased 52 basis points to 16.34% in 2015 from 15.82% in 2014. This increase resulted primarily from a decrease in fuel sales, increases in EMV chargebacks, company-sponsored pension, healthcare and incentive plan costs, partially offset by increased supermarket sales, the 2014 Multi-Employer Pension Plan Obligation, lower charges for total contributions to The Kroger Foundation and UFCW Consolidated Pension Plan ("2014 Contributions"), compared to the 2015 UFCW Contributions, productivity improvements and effective cost controls at the store level. Excluding fuel, the 2015 UFCW Contributions, the 2014 Contributions and the 2014 Multi-Employer Pension Plan Obligation, our OG&A rate decreased nine basis points, compared to 2014. The decrease resulted primarily from increased supermarket sales, productivity improvements and effective cost controls at the store level, partially offset by increases in EMV chargebacks , company-sponsored pension, healthcare and incentive plan costs, as a percentage of sales.

Rent Expense

Rent expense increased on a total dollars and percentage of sales basis in 2016, compared to 2015, due to:

- Our merger with Roundy's, due to its higher volume of leased versus owned supermarkets, and
- Lower fuel sales, which increases our rent expense rate, as a percentage of sales.

Rent expense increased in 2015, compared to 2014, due to our merger with Roundy's, partially offset by our continued emphasis to own rather than lease, whenever possible. Rent expense, as a percentage of sales, in 2015 was consistent with 2014, due to the effect of our merger with Roundy's being offset by our continued emphasis to own rather than lease, whenever possible, and the benefit of increased sales.

Depreciation and Amortization Expense

Depreciation and amortization expense increased on a total dollars and percentage of sales basis in 2016, compared to 2015, due to:

- Additional depreciation on capital investments, excluding mergers and lease buyouts, of $3.6 billion, during 2016,
- Unfavorable sales leveraging from transitioning to a deflationary operating environment, and
- Our merger with Roundy's.

Depreciation and amortization expense increased on a total dollars and percentage of sales basis in 2015, compared to 2014, due to:

- Additional depreciation on capital investments, excluding mergers and lease buyouts of $3.3 billion, during 2015, and
- Our merger with Roundy's.

Operating Profit and FIFO Operating Profit

Operating profit was $3.4 billion in 2016, $3.6 billion in 2015 and $3.1 billion in 2014. Operating profit, as a percentage of sales, decreased 28 basis points in 2016, compared to 2015, due to increased OG&A, depreciation and amortization and rent expenses, partially offset by higher gross margin and a lower LIFO charge, as a percentage of sales. Operating profit, as a percentage of sales, increased 37 basis points in 2015, compared to 2014, due to higher gross margin and a lower LIFO charge, partially offset by increased OG&A, depreciation and amortization and rent expenses, as a percentage of sales. Specific factors of these operating trends are discussed earlier in this section.

FIFO operating profit was $3.5 billion in 2016, $3.6 billion in 2015 and $3.3 billion in 2014. FIFO operating profit, as a percentage of sales, was 3.00% in 2016, 3.28% in 2015 and 3.03% in 2014. Fuel sales lower our operating profit rate due to the very low operating profit rate, as a percentage of sales, of fuel sales compared to non-fuel sales. FIFO operating profit, as a percentage of sales excluding fuel, the 2016 Adjusted Items, the effects of our recent mergers and the 2015 UFCW Contributions, decreased 14 basis points in 2016, compared to 2015. This decrease was due to lower gross margin, higher depreciation and amortization, partially offset by decreased OG&A and rent expenses, as a percentage of sales. FIFO operating profit, as a percentage of sales excluding fuel, the effects of our Roundy's merger, the 2015 UFCW Contributions, the 2014 Contributions and the 2014 Multi-Employer Pension Plan Obligation, increased 8 basis points in 2015, compared to 2014. This increase was primarily due to decreased OG&A and rent, partially offset by lower gross margin and increased depreciation and amortization, as a percentage of sales. Specific factors of these operating trends are discussed earlier in this section.

Interest Expense

Interest expense totaled $522 million in 2016, $482 million in 2015 and $488 million in 2014. The increase in interest expense in 2016, compared to 2015, resulted primarily from additional borrowings used for share repurchases, mergers and a higher weighted average interest rate. The decrease in interest expense in 2015, compared to 2014, resulted primarily from the timing of debt principal payments and debt issuances, partially offset by an increase in interest expense associated with our commercial paper program.

Income Taxes

Our effective income tax rate was 32.8% in 2016, 33.8% in 2015 and 34.1% in 2014. The 2016 tax rate differed from the federal statutory rate primarily as a result of the recognition of excess tax benefits related to share-based payments after the adoption of ASU 2016-09, the utilization of tax credits, the Domestic Manufacturing Deduction and other changes, partially offset by the effect of state income taxes. The 2015 and 2014 tax rate differed from the federal statutory rate primarily as a result of the utilization of tax credits, the Domestic Manufacturing Deduction and other changes, partially offset by the effect of state income taxes.

Net Earnings and Net Earnings Per Diluted Share

Our net earnings are based on the factors discussed in the Results of Operations section.

Net earnings of $2.05 per diluted share in 2016 represented a decrease of 0.5% from net earnings of $2.06 per diluted share in 2015. Excluding the 2016 Adjusted Items, net earnings of $2.12 per diluted share in 2016 represented an increase of 2.9% from net earnings of $2.06 per diluted share in 2015. The net earnings of 2015 do not include any adjusted items. The 2.9% increase resulted primarily from a lower LIFO charge, lower income tax expense and lower weighted average common shares outstanding due to common share repurchases, partially offset by lower non-fuel FIFO operating profit and lower fuel earnings.

Net earnings of $2.06 per diluted share in 2015 represented a increase of 19.8% from net earnings of $1.72 per diluted share in 2014. Excluding the 2014 Adjusted Items, net earnings of $2.06 per diluted share in 2015 represented an increase of 17.0% from net earnings of $1.76 per diluted share in 2014. The net earnings of 2015 do not include any adjusted items. The 17.0% increase resulted primarily from higher non-fuel FIFO operating profit, a lower LIFO charge and lower weighted average common shares outstanding due to common share repurchases, partially offset by lower fuel earnings and higher income tax expense.

COMMON SHARE REPURCHASE PROGRAMS

We maintain share repurchase programs that comply with Rule 10b5-1 of the Securities Exchange Act of 1934 and allow for the orderly repurchase of our common shares, from time to time. We made open market purchases of our common shares totaling $1.7 billion in 2016, $500 million in 2015 and $1.1 billion in 2014 under these repurchase programs. In addition to these repurchase programs, we also repurchase common shares to reduce dilution resulting from our employee stock option plans. This program is solely funded by proceeds from stock option exercises, and the tax benefit from these exercises. We repurchased approximately $105 million in 2016, $203 million in 2015 and $155 million in 2014 of our common shares under the stock option program.

The following Board of Director authorizations created repurchase programs to reacquire shares via open market purchases:

- A $500 million share repurchase program authorized by our Board of Directors and announced on June 25, 2015. On March 10, 2016, our Board of Directors approved an additional $500 million share repurchase authority to supplement the June 2015 program. These programs were exhausted during the first quarter of 2016.
- On June 22, 2016, our Board of Directors approved a $500 million share repurchase program. On September 15, 2016, our Board of Directors approved an additional $500 million share repurchase authority to supplement the June 2016 program. The June 2016 program was exhausted during the fourth quarter of 2016.
- On March 9, 2017, our Board of Directors approved an additional $500 million share repurchase authority to supplement the September 2016 program.

During the first quarter through March 28, 2017, the Company used an additional $341 million of cash to repurchase 11 million common shares at an average price of $31.09 per share. As of March 28, 2017, we have exhausted the September 2016 program and have $498 million remaining under the March 2017 program.

CAPITAL INVESTMENTS

Capital investments, including changes in construction-in-progress payables and excluding mergers and the purchase of leased facilities, totaled $3.7 billion in 2016, $3.3 billion in 2015 and $2.7 billion in 2014. Capital investments for mergers totaled $401 million in 2016, $168 million in 2015 and $252 million in 2014. We merged with ModernHEALTH in 2016, Roundy's in 2015 and Vitacost.com in 2014. Refer to Note 2 to the Consolidated Financial Statements for more information on these mergers. Capital investments for the purchase of leased facilities totaled $5 million in 2016, $35 million in 2015 and $135 million in 2014. The table below shows our supermarket storing activity and our total supermarket square footage:

Supermarket Storing Activity

	2016	2015	2014
Beginning of year	2,778	2,625	2,640
Opened	50	31	33
Opened (relocation)	21	12	13
Acquired	—	159	—
Closed (operational)	(32)	(37)	(48)
Closed (relocation)	(21)	(12)	(13)
End of year	2,796	2,778	2,625
Total supermarket square footage (in millions)	178	173	162

RETURN ON INVESTED CAPITAL

We calculate return on invested capital ("ROIC") 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 back our LIFO charge, depreciation and amortization and rent to our U.S. GAAP operating profit of the prior four quarters. Average invested capital is 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. Averages are calculated for ROIC by adding the beginning balance of the first quarter and the ending balance of the fourth quarter, of the last four quarters, and dividing by two. We use a factor of eight for our total rent as we believe this is a common factor used by our investors, analysts and rating agencies. ROIC is a non-GAAP financial measure of performance. ROIC should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP. ROIC is an important measure used by management to evaluate our investment returns on capital. Management believes ROIC is a useful metric to investors and analysts because it measures how effectively we are deploying our assets.

Although ROIC is a relatively standard financial term, numerous methods exist for calculating a company's ROIC. As a result, the method used by our management to calculate ROIC may differ from methods other companies use to calculate their ROIC. We urge you to understand the methods used by other companies to calculate their ROIC before comparing our ROIC to that of such other companies.

The following table provides a calculation of ROIC for 2016 and 2015. The January 30, 2016 calculation of ROIC excludes the financial position and results for the Roundy's merger.

	Rolling Four Quarters Ended ($ in millions)	
	January 28, 2017	January 30, 2016
Return on Invested Capital		
Numerator		
Operating profit	$ 3,436	$ 3,576
LIFO (credit) charge	19	28
Depreciation and amortization	2,340	2,089
Rent	881	723
Adjustments for pension plan agreements	111	—
Other	—	(13)
Adjusted operating profit	$ 6,787	$ 6,403
Denominator		
Average total assets	$ 35,201	$ 32,197
Average taxes receivable (1)	(262)	(206)
Average LIFO reserve	1,283	1,259
Average accumulated depreciation and amortization	18,940	17,441
Average trade accounts payable	(5,773)	(5,390)
Average accrued salaries and wages	(1,330)	(1,359)
Average other current liabilities (2)	(3,265)	(3,054)
Adjustment for Roundy's merger	—	(714)
Rent x 8	7,048	5,784
Average invested capital	$ 51,842	$ 45,958
Return on Invested Capital	13.09 %	13.93 %

(1) Taxes receivable were $132 as of January 28, 2017, $392 as of January 30, 2016 and $20 as of January 31, 2015. The January 30, 2016 balance is higher than the other comparative balances due to changes to tangible property regulations in 2015. Refer to Note 5 of the Consolidated Financial Statements for further detail.

(2) Other current liabilities included accrued income taxes of $1 as of January 28, 2017 and $5 as of January 31, 2015. We did not have any accrued income taxes as of January 30, 2016. Accrued income taxes are removed from other current liabilities in the calculation of average invested capital.

CRITICAL ACCOUNTING POLICIES

We have chosen accounting policies that we believe are appropriate to report accurately and fairly our operating results and financial position, and we apply those accounting policies in a consistent manner. Our significant accounting policies are summarized in Note 1 to the Consolidated Financial Statements.

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and related disclosures of contingent assets and liabilities. We base our estimates on historical experience and other factors we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates.

We believe that the following accounting policies are the most critical in the preparation of our financial statements because they involve the most difficult, subjective or complex judgments about the effect of matters that are inherently uncertain.

Self-Insurance Costs

We primarily are self-insured for costs related to workers' compensation and general liability claims. The liabilities represent our best estimate, using generally accepted actuarial reserving methods, of the ultimate obligations for reported claims plus those incurred but not reported for all claims incurred through January 28, 2017. We establish case reserves for reported claims using case-basis evaluation of the underlying claim data and we update as information becomes known.

For both workers' compensation and general liability claims, we have purchased stop-loss coverage to limit our exposure to any significant exposure on a per claim basis. We are insured for covered costs in excess of these per claim limits. We account for the liabilities for workers' compensation claims on a present value basis utilizing a risk-adjusted discount rate. A 25 basis point decrease in our discount rate would increase our liability by approximately $2 million. General liability claims are not discounted.

The assumptions underlying the ultimate costs of existing claim losses are subject to a high degree of unpredictability, which can affect the liability recorded for such claims. For example, variability in inflation rates of health care costs inherent in these claims can affect the amounts realized. Similarly, changes in legal trends and interpretations, as well as a change in the nature and method of how claims are settled can affect ultimate costs. Our estimates of liabilities incurred do not anticipate significant changes in historical trends for these variables, and any changes could have a considerable effect on future claim costs and currently recorded liabilities.

Impairments of Long-Lived Assets

We monitor the carrying value of long-lived assets for potential impairment each quarter based on whether certain triggering events have occurred. These events include current period losses combined with a history of losses or a projection of continuing losses or a significant decrease in the market value of an asset. When a triggering event occurs, we perform an impairment calculation, comparing projected undiscounted cash flows, utilizing current cash flow information and expected growth rates related to specific stores, to the carrying value for those stores. If we identify impairment for long-lived assets to be held and used, we compare the assets' current carrying value to the assets' fair value. Fair value is determined based on market values or discounted future cash flows. We record impairment when the carrying value exceeds fair market value. With respect to owned property and equipment held for disposal, we adjust the value of the property and equipment to reflect recoverable values based on our previous efforts to dispose of similar assets and current economic conditions. We recognize impairment for the excess of the carrying value over the estimated fair market value, reduced by estimated direct costs of disposal. We recorded asset impairments in the normal course of business totaling $26 million in 2016, $46 million in 2015 and $37 million in 2014. We record costs to reduce the carrying value of long-lived assets in the Consolidated Statements of Operations as "Operating, general and administrative" expense.

The factors that most significantly affect the impairment calculation are our estimates of future cash flows. Our cash flow projections look several years into the future and include assumptions on variables such as inflation, the economy and market competition. Application of alternative assumptions and definitions, such as reviewing long-lived assets for impairment at a different level, could produce significantly different results.

Goodwill

Our goodwill totaled $3.0 billion as of January 28, 2017. We review goodwill for impairment in the fourth quarter of each year, and also upon the occurrence of triggering events. We perform reviews of each of our operating divisions and variable interest entities (collectively, "reporting units") that have goodwill balances. Fair value is determined using a multiple of earnings, or discounted projected future cash flows, and we compare fair value to the carrying value of a reporting unit for purposes of identifying potential impairment. We base projected future cash flows on management's knowledge of the current operating environment and expectations for the future. If we identify potential for impairment, we measure the fair value of a reporting unit against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of the reporting unit's goodwill. We recognize goodwill impairment for any excess of the carrying value of the reporting unit's goodwill over the implied fair value.

The annual evaluation of goodwill performed for our reporting units during the fourth quarter of 2016, 2015 and 2014 did not result in impairment. Based on current and future expected cash flows, we believe goodwill impairments are not reasonably likely. A 10% reduction in fair value of our reporting units would not indicate a potential for impairment of our goodwill balance.

For additional information relating to our results of the goodwill impairment reviews performed during 2016, 2015 and 2014 see Note 3 to the Consolidated Financial Statements.

The impairment review requires the extensive use of management judgment and financial estimates. Application of alternative estimates and assumptions, such as reviewing goodwill for impairment at a different level, could produce significantly different results. The cash flow projections embedded in our goodwill impairment reviews can be affected by several factors such as inflation, business valuations in the market, the economy, market competition and our ability to successfully integrate recently acquired businesses.

Store Closing Costs

We provide for closed store liabilities on the basis of the present value of the estimated remaining non-cancellable lease payments after the closing date, net of estimated subtenant income. We estimate the net lease liabilities using a discount rate to calculate the present value of the remaining net rent payments on closed stores. We usually pay closed store lease liabilities over the lease terms associated with the closed stores, which generally have remaining terms ranging from one to 20 years. Adjustments to closed store liabilities primarily relate to changes in subtenant income and actual exit costs differing from original estimates. We make adjustments for changes in estimates in the period in which the change becomes known. We review store closing liabilities quarterly to ensure that any accrued amount that is not a sufficient estimate of future costs is adjusted to earnings in the proper period.

We estimate subtenant income, future cash flows and asset recovery values based on our experience and knowledge of the market in which the closed store is located, our previous efforts to dispose of similar assets and current economic conditions. The ultimate cost of the disposition of the leases and the related assets is affected by current real estate markets, inflation rates and general economic conditions.

We reduce owned stores held for disposal to their estimated net realizable value. We account for costs to reduce the carrying values of property, equipment and leasehold improvements in accordance with our policy on impairment of long-lived assets. We classify inventory write-downs in connection with store closings, if any, in "Merchandise costs." We expense costs to transfer inventory and equipment from closed stores as they are incurred.

Post-Retirement Benefit Plans

We account for our defined benefit pension plans using the recognition and disclosure provisions of GAAP, which require the recognition of the funded status of retirement plans on the Consolidated Balance Sheet. We record, as a component of Accumulated Other Comprehensive Income ("AOCI"), actuarial gains or losses, prior service costs or credits and transition obligations that have not yet been recognized.

The determination of our obligation and expense for Company-sponsored pension plans and other post-retirement benefits is dependent upon our selection of assumptions used by actuaries in calculating those amounts. Those assumptions are described in Note 15 to the Consolidated Financial Statements and include, among others, the discount rate, the expected long-term rate of return on plan assets, mortality and the rate of increases in compensation and health care costs. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in future periods. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions, including the discount rate used and the expected return on plan assets, may materially affect our pension and other post-retirement obligations and our future expense. Note 15 to the Consolidated Financial Statements also discusses the effect of a 1% change in the assumed health care cost trend rate on other post-retirement benefit costs and the related liability.

The objective of our discount rate assumptions was intended to reflect the rates at which the pension benefits could be effectively settled. In making this determination, we take into account the timing and amount of benefits that would be available under the plans. Our methodology for selecting the discount rates was to match the plan's cash flows to that of a hypothetical bond portfolio whose cash flow from coupons and maturities match the plan's projected benefit cash flows. The discount rates are the single rates that produce the same present value of cash flows. The selection of the 4.25% and 4.18% discount rates as of year-end 2016 for pension and other benefits, respectively, represents the hypothetical bond portfolio using bonds with an AA or better rating constructed with the assistance of an outside consultant. We utilized a discount rate of 4.62% and 4.44% as of year-end 2015 for pension and other benefits, respectively. A 100 basis point increase in the discount rate would decrease the projected pension benefit obligation as of January 28, 2017, by approximately $510 million.

To determine the expected rate of return on pension plan assets held by Kroger for 2016, we considered current and forecasted plan asset allocations as well as historical and forecasted rates of return on various asset categories. In 2016, our assumed pension plan investment return rate was 7.40% compared to 7.44% in 2015 and 2014. During 2016, Kroger began managing the assets for the Harris Teeter and Roundy's pension plans, and our expected rate of return reflects implementing a similar investment management strategy for the Harris Teeter and Roundy's plans' assets. Historically, the Kroger pension plans' average rate of return was 5.81% for the 10 calendar years ended December 31, 2016, net of all investment management fees and expenses. The value of all investments in our Company-sponsored defined benefit pension plans during the calendar year ending December 31, 2016, net of investment management fees and expenses, increased 6.90%. For the past 20 years, the Kroger pension plans' average annual rate of return has been 7.77%. Based on the above information and forward looking assumptions for investments made in a manner consistent with our target allocations, we believe a 7.40% rate of return assumption is reasonable for 2016. See Note 15 to the Consolidated Financial Statements for more information on the asset allocations of pension plan assets.

On January 31, 2015, we adopted new industry specific mortality tables based on mortality experience and assumptions for generational mortality improvement in determining our benefit obligations. On January 28, 2017, we adopted an updated assumption for generational mortality improvement, based on additional years of published mortality experience.

Sensitivity to changes in the major assumptions used in the calculation of Kroger's pension plan liabilities is illustrated below (in millions).

	Percentage Point Change	Projected Benefit Obligation Decrease/(Increase)	Expense Decrease/(Increase)
Discount Rate	+/- 1.0%	$ 510/(620)	$ 36/(46)
Expected Return on Assets	+/- 1.0%	—	$ 32/(32)

In 2016, we contributed $3 million to our Company-sponsored defined benefit plans and are not required to make any contributions to these plans in 2017. We contributed $5 million to our Company-sponsored defined benefit plans in 2015 and did not make contributions in 2014. Among other things, investment performance of plan assets, the interest rates required to be used to calculate the pension obligations, and future changes in legislation, will determine the amounts of contributions.

We contributed and expensed $215 million in 2016, $196 million in 2015 and $177 million in 2014 to employee 401(k) retirement savings accounts. The increase in 2016, compared to 2015, is primarily due to our recent mergers. The increase in 2015, compared to 2014, is due to a higher employee savings rate. The 401(k) retirement savings account plans provide to eligible employees both matching contributions and automatic contributions from the Company based on participant contributions, plan compensation and length of service.

Multi-Employer Pension Plans

We contribute to various multi-employer pension plans based on obligations arising from collective bargaining agreements. These multi-employer pension plans provide retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed in equal number by employers and unions. The trustees typically are responsible for determining the level of benefits to be provided to participants as well as for such matters as the investment of the assets and the administration of the plans.

We recognize expense in connection with these plans as contributions are funded or when commitments are probable and reasonably estimable, in accordance with GAAP. We made cash contributions to these plans of $289 million in 2016, $426 million in 2015 and $297 million in 2014.

We continue to evaluate and address our potential exposure to under-funded multi-employer pension plans as it relates to our associates who are beneficiaries of these plans. These under-fundings are not our liability. When an opportunity arises that is economically feasible and beneficial to us and our associates, we may negotiate the restructuring of under-funded multi-employer pension plan obligations to help stabilize associates' future benefits and become the fiduciary of the restructured multi-employer pension plan. The commitments from these restructurings do not change our debt profile as it relates to our credit rating. We are currently designated as the named fiduciary of the UFCW Consolidated Pension Plan and have sole investment authority over these assets. Significant effects of these restructuring agreements recorded in our Consolidated Financial Statements are:

- In 2016, we incurred a charge of $111 million, $71 million, after tax, due to commitments and withdrawal liabilities arising from the restructuring of certain multi-employer pension plan obligations, of which $28 million was contributed to the UFCW Consolidated Pension Plan in 2016.

- In 2015, we contributed $190 million to the UFCW Consolidated Pension Plan. We had previously accrued $60 million of the total contributions at January 31, 2015 and recorded expense for the remaining $130 million at the time of payment in 2015.

- In 2014, we incurred a charge of $56 million. after-tax, related to commitments and withdrawal liabilities associated with the restructuring of pension plan agreements, of which $15 million was contributed to the UFCW Consolidated Pension Plan in 2014.

As we continue to work to find solutions to under-funded multi-employer pension plans, it is possible we could incur withdrawal liabilities for certain funds. Two locations have initiated a withdrawal process, in the first quarter of 2017, resulting in an estimated withdrawal liability of less than $100 million, after-tax.

Based on the most recent information available to us, we believe that the present value of actuarially accrued liabilities in most of the multi-employer plans to which we contribute substantially exceeds the value of the assets held in trust to pay benefits. We have attempted to estimate the amount by which these liabilities exceed the assets, (i.e., the amount of underfunding), as of December 31, 2016. Because we are only one of a number of employers contributing to these plans, we also have attempted to estimate the ratio of our contributions to the total of all contributions to these plans in a year as a way of assessing our "share" of the underfunding. Nonetheless, the underfunding is not a direct obligation or liability of ours or of any employer. As of December 31, 2016, we estimate that our share of the underfunding of multi-employer pension plans to which we contribute, or as it relates to certain funds, an estimated withdrawal liability, was approximately $3.0 billion, pre-tax, or $1.8 billion, after-tax. This represents an increase in the estimated amount of underfunding of approximately $100 million, pre-tax, or approximately $40 million, after-tax, as of December 31, 2016, compared to December 31, 2015. The increase in the amount of underfunding is attributable to lower than expected returns on the assets held in the multi-employer pension plans during 2016 and changes in mortality rate assumptions. Our estimate is based on the most current information available to us including actuarial evaluations and other data (that include the estimates of others), and such information may be outdated or otherwise unreliable.

We have made and disclosed this estimate not because, except as noted above, this underfunding is a direct liability of ours. Rather, we believe the underfunding is likely to have important consequences. In 2017, we expect to contribute approximately $360 million to multi-employer pension plans, which excludes any additional multi-employer pension plan restructurings that could occur. Of this amount, $35 million has been accrued for as of January 28, 2017. We expect increases in expense as a result of increases in multi-employer pension plan contributions over the next few years. Finally, underfunding means that, in the event we were to exit certain markets or otherwise cease making contributions to these plans, we could trigger a substantial withdrawal liability. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably estimated, in accordance with GAAP.

The amount of underfunding described above is an estimate and could change based on contract negotiations, returns on the assets held in the multi-employer pension plans, benefit payments or future restructuring agreements. The amount could decline, and our future expense would be favorably affected, if the values of the assets held in the trust significantly increase or if further changes occur through collective bargaining, trustee action or favorable legislation. On the other hand, our share of the underfunding could increase and our future expense could be adversely affected if the asset values decline, if employers currently contributing to these funds cease participation or if changes occur through collective bargaining, trustee action or adverse legislation. We continue to evaluate our potential exposure to under-funded multi-employer pension plans. Although these liabilities are not a direct obligation or liability of ours, any commitments to fund certain multi-employer pension plans will be expensed when our commitment is probable and an estimate can be made.

See Note 16 to the Consolidated Financial Statements for more information relating to our participation in these multi-employer pension plans.

Uncertain Tax Positions

We review the tax positions taken or expected to be taken on tax returns to determine whether and to what extent a benefit can be recognized in our Consolidated Financial Statements. Refer to Note 5 to the Consolidated Financial Statements for the amount of unrecognized tax benefits and other disclosures related to uncertain tax positions.

Various taxing authorities periodically audit our income tax returns. These audits include questions regarding our tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions. In evaluating the exposures connected with these various tax filing positions, including state and local taxes, we record allowances for probable exposures. A number of years may elapse before a particular matter, for which an allowance has been established, is audited and fully resolved. As of January 28, 2017, the Internal Revenue Service had concluded its examination of our 2012 and 2013 federal tax returns.

The assessment of our tax position relies on the judgment of management to estimate the exposures associated with our various filing positions.

Share-Based Compensation Expense

We account for stock options under the fair value recognition provisions of GAAP. Under this method, we recognize compensation expense for all share-based payments granted. We recognize share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. In addition, we record expense for restricted stock awards in an amount equal to the fair market value of the underlying stock on the grant date of the award, over the period the award restrictions lapse. As described in Note 17 to the Consolidated Financial Statements, we adopted a new share-based compensation standard during 2016, which requires recognition of excess tax benefits related to share-based payments in our provision for income taxes. Excess tax benefits were historically recorded in additional paid-in capital.

Inventories

Inventories are stated at the lower of cost (principally on a LIFO basis) or market. In total, approximately 89% and 95% of inventories were valued using the LIFO method in 2016 and 2015, respectively. Cost for the balance of the inventories, including substantially all fuel inventories, was determined using the FIFO method. Replacement cost was higher than the carrying amount by $1.3 billion at January 28, 2017 and January 31, 2016. We follow the Link-Chain, Dollar-Value LIFO method for purposes of calculating our LIFO charge or credit.

We follow the item-cost method of accounting to determine inventory cost before the LIFO adjustment for substantially all store inventories at our supermarket divisions. This method involves counting each item in inventory, assigning costs to each of these items based on the actual purchase costs (net of vendor allowances and cash discounts) of each item and recording the cost of items sold. The item-cost method of accounting allows for more accurate reporting of periodic inventory balances and enables management to more precisely manage inventory. In addition, substantially all of our inventory consists of finished goods and is recorded at actual purchase costs (net of vendor allowances and cash discounts).

We evaluate inventory shortages throughout the year based on actual physical counts in our facilities. We record allowances for inventory shortages based on the results of recent physical counts to provide for estimated shortages from the last physical count to the financial statement date.

Vendor Allowances

We recognize all vendor allowances as a reduction in merchandise costs when the related product is sold. In most cases, vendor allowances are applied to the related product cost by item, and therefore reduce the carrying value of inventory by item. When it is not practicable to allocate vendor allowances to the product by item, we recognize vendor allowances as a reduction in merchandise costs based on inventory turns and as the product is sold. We recognized approximately $7.8 billion in 2016, $7.3 billion in 2015 and $6.9 billion in 2014 of vendor allowances as a reduction in merchandise costs. We recognized approximately 92% of all vendor allowances in the item cost with the remainder being based on inventory turns.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In September 2015, the FASB issued Accounting Standards Update ("ASU") 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." This amendment eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination. This amendment became effective for us beginning January 31, 2016, and was adopted prospectively in accordance with the standard. The adoption of this amendment did not have an effect on our Consolidated Balance Sheets or Consolidated Statements of Operations.

During the second quarter of 2016, we adopted ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This amendment addresses several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. As a result of the adoption, we recognized $49 million of excess tax benefits related to share-based payments in our provision for income taxes in 2016. These items were historically recorded in additional paid-in capital. In addition, for 2016, cash flows related to excess tax benefits are classified as an operating activity. Cash paid on employees' behalf related to shares withheld for tax purposes is classified as a financing activity. Retrospective application of the cash flow presentation requirements resulted in increases to both "Net cash provided by operating activities" and "Net cash used by financing activities" of $59 million for 2016, $84 million for 2015 and $52 for 2014. Our stock compensation expense continues to reflect estimated forfeitures.

During 2016, we adopted ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern (Topic 205)". This standard requires us to evaluate, for each annual and interim reporting period, whether there are conditions and events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date the Consolidated Financial Statements are issued or are available to be issued. If substantial doubt is raised, additional disclosures around our plan to alleviate these doubts are required. The adoption of this standard did not affect our Consolidated Financial Statements.

During 2016, we adopted ASU 2015-07, "Fair Value Measurement - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (Topic 820)". This standard requires us to disclose which assets we value using net asset value as a practical expedient, and ends the requirement to classify these assets within the GAAP fair value hierarchy. See Note 15 of our Consolidated Financial Statements for disclosures of assets we value using net asset value as a practical expedient.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," as amended by several subsequent ASUs, which provides guidance for revenue recognition. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Per ASU 2015-14, "Deferral of Effective Date," this guidance will be effective for us in the first quarter of our fiscal year ending February 2, 2019. Early adoption is permitted as of the first quarter of our fiscal year ending February 3, 2018. We are currently in the process of evaluating the effect of adoption of this ASU on our Consolidated Financial Statements.

In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” This amendment requires deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance will be effective for our fiscal year ending February 3, 2018. Early adoption is permitted. The implementation of this amendment will not have an effect on our Consolidated Statements of Operations and will not have a significant effect on our Consolidated Balance Sheets.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which provides guidance for the recognition of lease agreements. The standard’s core principle is that a company will now recognize most leases on its balance sheet as lease liabilities with corresponding right-of-use assets. This guidance will be effective for us in the first quarter of fiscal year ending February 1, 2020. Early adoption is permitted. The adoption of this ASU will result in a significant increase to our Consolidated Balance Sheets for lease liabilities and right-of-use assets, and we are currently evaluating the other effects of adoption of this ASU on our Consolidated Financial Statements. We believe our current off-balance sheet leasing commitments are reflected in our investment grade debt rating.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Information

Net cash provided by operating activities

We generated $4.3 billion of cash from operations in 2016, compared to $4.9 billion in 2015 and $4.2 billion in 2014. The cash provided by operating activities came from net earnings including non-controlling interests adjusted primarily for non-cash expenses of depreciation and amortization, stock compensation, expense for Company-sponsored pension plans and the LIFO charge. Changes in working capital created a net cash outflow in 2016, and net cash inflows for 2015 and 2014.

The decrease in net cash provided by operating activities in 2016, compared to 2015, resulted primarily due to a decrease in net earnings including noncontrolling interests and changes in working capital, partially offset by an increase in non-cash expenses, deferred taxes and lower payments on long-term liabilities.

The increase in net cash provided by operating activities in 2015, compared to 2014, resulted primarily due to an increase in net earnings including non-controlling interests, an increase in non-cash items and changes in working capital. The increase in non-cash items in 2015, as compared to 2014, was primarily due to increases in depreciation and amortization expense and expense for Company-sponsored pension plans, partially offset by a lower LIFO charge.

Cash provided (used) by operating activities for changes in working capital was ($492) million in 2016, compared to $180 million in 2015 and $3 million in 2014. The decrease in cash provided by operating activities for changes in working capital in 2016, compared to 2015, was primarily due to the net effect of the following:

- Higher receivables due to increasing vendor allowance activity and pharmacy sales requiring third party payments,
- Increased inventory purchases due to store growth and new distribution centers,
- Higher prepayment of benefit costs,
- Lower accrued expenses due to reduced incentive plan payout accruals, and
- Lower tax payments due to a 2015 tax deduction associated with tangible property regulations.

The increase in cash provided by operating activities for changes in working capital in 2015, compared to 2014, was primarily due to an increase in cash provided by trade accounts payables and store deposits in transit, partially offset by a decrease in cash provided by income taxes receivable and payable.

Net cash used by investing activities

Cash used by investing activities was $3.9 billion in 2016, compared to $3.6 billion in 2015 and $3.1 billion in 2014. The amount of cash used by investing activities increased in 2016, compared to 2015, primarily due to increased cash payments for capital investments and our merger with ModernHEALTH. The amount of cash used by investing activities increased in 2015, compared to 2014, due to increased payments for capital investments, partially offset by lower payments for mergers.

Net cash provided (used) by financing activities

Financing activities used cash of $352 million in 2016, $1.3 billion in 2015 and $1.2 billion in 2014. The decrease in the amount of cash used for financing activities in 2016, compared to 2015, was primarily due to higher treasury stock purchases, partially offset by higher long-term and commercial paper borrowings. The increase in the amount of cash used for financing activities in 2015, compared to 2014, was primarily related to increased payments on long-term debt and commercial paper, partially offset by higher proceeds from issuances of long-term debt and decreased treasury stock purchases.

Debt Management

Total debt, including both the current and long-term portions of capital lease and lease-financing obligations, increased $2.0 billion to $14.1 billion as of year-end 2016, compared to 2015. The increase in 2016, compared to 2015, resulted from the issuance of (i) $1.0 billion of senior notes bearing an interest rate of 4.45%, (ii) 750 million of senior notes bearing an interest rate of 2.65%, (iii) $500 million of senior notes bearing an interest rate of 3.875%, (iv) $500 million of senior notes bearing an interest rate of 1.5%, (v) increases in commercial paper borrowings and (vi) increases in capital lease obligations due to additional leased locations, partially offset by payments of $1.4 billion on maturing long-term debt obligations.

Total debt, including both the current and long-term portions of capital lease and lease-financing obligations, increased $481 million to $12.1 billion as of year-end 2015, compared to 2014. The increase in 2015, compared to 2014, resulted primarily from the issuance of (i) $300 million of senior notes bearing an interest rate of 2.00%, (ii) $300 million of senior notes bearing an interest rate of 2.60%, (iii) $500 million of senior notes bearing an interest rate of 3.50% and (iv) an increase in capital lease obligations due to our merger with Roundy's and various leased locations, partially offset by payments of $678 million on long-term debt obligations assumed as part of our merger with Roundy's and $500 million of payments at maturity of senior notes bearing an interest rate of 3.90%. The increase in financing obligations was due to partially funding our merger with Roundy's.

Liquidity Needs

We estimate our liquidity needs over the next twelve-month period to range from $5.9 to $6.4 billion, which includes anticipated requirements for working capital, capital investments, interest payments and scheduled principal payments of debt and commercial paper, offset by cash and temporary cash investments on hand at the end of 2016. We generally operate with a working capital deficit due to our efficient use of cash in funding operations and because we have consistent access to the capital markets. Based on current operating trends, we believe that cash flows from operating activities and other sources of liquidity, including borrowings under our commercial paper program and bank credit facility, will be adequate to meet our liquidity needs for the next twelve months and for the foreseeable future beyond the next twelve months. We have approximately $1.4 billion of commercial paper and $600 million of senior notes maturing in the next twelve months, which is included in the range of $5.9 to $6.4 billion in estimated liquidity needs. We expect to refinance this debt, in 2017, by issuing additional senior notes or commercial paper on favorable terms based on our past experience. We also currently plan to continue repurchases of common shares under the Company's share repurchase programs and a growing dividend. We believe we have adequate coverage of our debt covenants to continue to maintain our current debt ratings and to respond effectively to competitive conditions.

Factors Affecting Liquidity

We can currently borrow on a daily basis approximately $2.75 billion under our commercial paper program. At January 28, 2017, we had $1.4 billion of commercial paper borrowings outstanding. Commercial paper borrowings are backed by our credit facility, and reduce the amount we can borrow under the credit facility. If our short-term credit ratings fall, the ability to borrow under our current commercial paper program could be adversely affected for a period of time and increase our interest cost on daily borrowings under our commercial paper program. This could require us to borrow additional funds under the credit facility, under which we believe we have sufficient capacity. However, in the event of a ratings decline, we do not anticipate that our borrowing capacity under our commercial paper program would be any lower than $500 million on a daily basis. Although our ability to borrow under the credit facility is not affected by our credit rating, the interest cost on borrowings under the credit facility could be affected by an increase in our Leverage Ratio. As of March 22, 2017, we had $956 million of commercial paper borrowings outstanding.

Our credit facility requires the maintenance of a Leverage Ratio and a Fixed Charge Coverage Ratio (our "financial covenants"). A failure to maintain our financial covenants would impair our ability to borrow under the credit facility. These financial covenants are described below:

- Our Leverage Ratio (the ratio of Net Debt to Consolidated EBITDA, as defined in the credit facility) was 2.27 to 1 as of January 28, 2017. If this ratio were to exceed 3.50 to 1, we would be in default of our credit facility and our ability to borrow under the facility would be impaired. In addition, our applicable margin on borrowings is determined by our Leverage Ratio.
- Our Fixed Charge Coverage Ratio (the ratio of Consolidated EBITDA plus Consolidated Rental Expense to Consolidated Cash Interest Expense plus Consolidated Rental Expense, as defined in the credit facility) was 4.75 to 1 as of January 28, 2017. If this ratio fell below 1.70 to 1, we would be in default of our credit facility and our ability to borrow under the facility would be impaired.

Our credit facility is more fully described in Note 6 to the Consolidated Financial Statements. We were in compliance with our financial covenants at year-end 2016.

The tables below illustrate our significant contractual obligations and other commercial commitments, based on year of maturity or settlement, as of January 28, 2017 (in millions of dollars):

	2017	2018	2019	2020	2021	Thereafter	Total
Contractual Obligations (1) (2)							
Long-term debt(3)	$ 2,197	$ 1,315	$ 1,246	$ 724	$ 797	$ 7,036	$ 13,315
Interest on long-term debt (4)	444	479	422	343	330	3,995	6,013
Capital lease obligations	92	76	71	66	64	647	1,016
Operating lease obligations	986	932	856	759	656	3,992	8,181
Financed lease obligations	7	8	8	9	9	53	94
Self-insurance liability (5)	229	146	100	68	41	98	682
Construction commitments(6)	428	—	—	—	—	—	428
Purchase obligations(7)	478	178	78	68	36	65	903
Total	$ 4,861	$ 3,134	$ 2,781	$ 2,037	$ 1,933	$ 15,886	$ 30,632
Other Commercial Commitments							
Standby letters of credit	$ 242	$ —	$ —	$ —	$ —	$ —	$ 242
Surety bonds	396	—	—	—	—	—	396
Total	$ 638	$ —	$ —	$ —	$ —	$ —	$ 638

(1) The contractual obligations table excludes funding of pension and other postretirement benefit obligations, which totaled approximately $33 million in 2016. This table also excludes contributions under various multi-employer pension plans, which totaled $289 million in 2016.
(2) The liability related to unrecognized tax benefits has been excluded from the contractual obligations table because a reasonable estimate of the timing of future tax settlements cannot be determined.
(3) As of January 28, 2017 we had $1.4 billion of commercial paper and no borrowings under our credit facility.
(4) Amounts include contractual interest payments using the interest rate as of January 28, 2017, and stated fixed and swapped interest rates, if applicable, for all other debt instruments.
(5) The amounts included in the contractual obligations table for self-insurance liability related to workers' compensation claims have been stated on a present value basis.
(6) Amounts include funds owed to third parties for projects currently under construction. These amounts are reflected in other current liabilities in our Consolidated Balance Sheets.
(7) Amounts include commitments, many of which are short-term in nature, to be utilized in the normal course of business, such as several contracts to purchase raw materials utilized in our food production plants and several contracts to purchase energy to be used in our stores and food production plants. Our obligations also include management fees for facilities operated by third parties and outside service contracts. Any upfront vendor allowances or incentives associated with outstanding purchase commitments are recorded as either current or long-term liabilities in our Consolidated Balance Sheets.

As of January 28, 2017, we maintained a $2.75 billion (with the ability to increase by $750 million), unsecured revolving credit facility that, unless extended, terminates on June 30, 2019. Outstanding borrowings under the credit facility and commercial paper borrowings, and some outstanding letters of credit, reduce funds available under the credit facility. As of January 28, 2017, we had $1.4 billion of borrowings of commercial paper and no borrowings under our credit facility. The outstanding letters of credit that reduce funds available under our credit facility totaled $13 million as of January 28, 2017.

In addition to the available credit mentioned above, as of January 28, 2017, we had authorized for issuance $4 billion of securities under a shelf registration statement filed with the SEC and effective on December 14, 2016.

We also maintain surety bonds related primarily to our self-insured workers' compensation claims. These bonds are required by most states in which we are self-insured for workers' compensation and are placed with predominately third-party insurance providers to insure payment of our obligations in the event we are unable to meet our claim payment obligations up to our self-insured retention levels. These bonds do not represent liabilities of ours, as we already have reserves on our books for the claims costs. Market changes may make the surety bonds more costly and, in some instances, availability of these bonds may become more limited, which could affect our costs of, or access to, such bonds. Although we do not believe increased costs or decreased availability would significantly affect our ability to access these surety bonds, if this does become an issue, we would issue letters of credit, in states where allowed, against our credit facility to meet the state bonding requirements. This could increase our cost and decrease the funds available under our credit facility.

We also are contingently liable for leases that have been assigned to various third parties in connection with facility closings and dispositions. We could be required to satisfy obligations under the leases if any of the assignees are unable to fulfill their lease obligations. Due to the wide distribution of our assignments among third parties, and various other remedies available to us, we believe the likelihood that we will be required to assume a material amount of these obligations is remote. We have agreed to indemnify certain third-party logistics operators for certain expenses, including multi-employer pension plan obligations and withdrawal liabilities.

In addition to the above, we enter into various indemnification agreements and take on indemnification obligations in the ordinary course of business. Such arrangements include indemnities against third party claims arising out of agreements to provide services to us; indemnities related to the sale of our securities; indemnities of directors, officers and employees in connection with the performance of their work; and indemnities of individuals serving as fiduciaries on benefit plans. While our aggregate indemnification obligation could result in a material liability, we are not aware of any current matter that could result in a material liability.

OUTLOOK

This discussion and analysis contains certain forward-looking statements about our future performance. These statements are based on management's assumptions and beliefs in light of the information currently available to it. Such statements are indicated by words such as "comfortable," "committed," "will," "expect," "goal," "should," "intend," "target," "believe," "anticipate," "plan," and similar words or phrases. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially.

Statements elsewhere in this report and below regarding our expectations, projections, beliefs, intentions or strategies are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. While we believe that the statements are accurate, uncertainties about the general economy, our labor relations, our ability to execute our plans on a timely basis and other uncertainties described below could cause actual results to differ materially.

- For 2017, we expect net earnings to be $2.21 to $2.25 per diluted share, including an estimated $0.09 for the 53rd week. We expect the first quarter to be in the $0.55 to $0.59 range, the second quarter to be up slightly compared to last year, the third quarter to be up strongly compared to last year, and the fourth quarter to be up high single-digits compared to last year, without the benefit of the 53rd week.
- We expect identical supermarket sales growth, excluding fuel sales, in 2017 to range from flat to 1.0% growth.
- We expect full-year FIFO operating margin in 2017, excluding fuel, to decline approximately 10 basis points compared to 2016 results.
- We expect capital investments, excluding mergers, acquisitions and purchases of leased facilities, to be $3.2 to $3.5 billion. These capital investments include approximately 55 major projects covering new stores, expansions and relocations; 175 major remodels; and other investments including digital, technology, minor remodels, and upgrades to logistics, merchandising systems and infrastructure to support our Customer 1st business strategy.
- We expect total supermarket square footage for 2017 to grow approximately 1.8% before mergers, acquisitions and operational closings.
- We expect the 2017 effective tax rate to be approximately 35%, excluding the resolution of certain tax items.
- In 2017, we anticipate annualized product cost inflation, excluding fuel, and an annualized LIFO charge of approximately $25 million.
- We expect 2017 Company-sponsored pension plans expense to be approximately $110 million. We are not required to make a cash contribution in 2017.
- In 2017, we expect to contribute approximately $360 million to multi-employer pension funds. Of this amount, $35 million has been accrued for as of year-end. This excludes any additional multi-employer pension plan restructuring that could occur. We continue to evaluate and address our potential exposure to under-funded multi-employer pension plans. Although these liabilities are not a direct obligation or liability of Kroger, any new agreements that would commit us to fund certain multi-employer plans will be expensed when our commitment is probable and an estimate can be made.
- We are currently negotiating an agreement with UFCW for store associates in Atlanta. In 2017, we will also negotiate agreements with UFCW for store associates in Dallas and Food 4 Less® Warehouse Stores. Negotiations this year will be challenging as we must have competitive cost structures in each market while meeting our associates' needs for solid wages and good quality, affordable health care and retirement benefits.

Various uncertainties and other factors could cause actual results to differ materially from those contained in the forward-looking statements. These include:

- The extent to which our sources of liquidity are sufficient to meet our requirements may be affected by the state of the financial markets and the effect that such condition has on our ability to issue commercial paper at acceptable rates. Our ability to borrow under our committed lines of credit, including our bank credit facilities, could be impaired if one or more of our lenders under those lines is unwilling or unable to honor its contractual obligation to lend to us, or in the event that natural disasters or weather conditions interfere with the ability of our lenders to lend to us. Our ability to refinance maturing debt may be affected by the state of the financial markets.
- Our ability to achieve sales, earnings and cash flow goals may be affected by: labor negotiations or disputes; changes in the types and numbers of businesses that compete with us; pricing and promotional activities of existing and new competitors, including non-traditional competitors, and the aggressiveness of that competition; our response to these actions; the state of the economy, including interest rates, the inflationary and deflationary trends in certain commodities, and the unemployment rate; the effect that fuel costs have on consumer spending; volatility of fuel margins; changes in government-funded benefit programs; manufacturing commodity costs; diesel fuel costs related to our logistics operations; trends in consumer spending; the extent to which our customers exercise caution in their purchasing in response to economic conditions; the inconsistent pace of the economic recovery; changes in inflation or deflation in product and operating costs; stock repurchases; our ability to retain pharmacy sales from third party payors; consolidation in the healthcare industry, including pharmacy benefit managers; our ability to negotiate modifications to multi-employer pension plans; natural disasters or adverse weather conditions; the potential costs and risks associated with potential cyber-attacks or data security breaches; the success of our future growth plans; and the successful integration of Harris Teeter and Roundy's. Our ability to achieve sales and earnings goals may also be affected by our ability to manage the factors identified above. Our ability to execute our financial strategy may be affected by our ability to generate cash flow.
- During the first three quarters of each fiscal year, our LIFO charge and the recognition of LIFO expense is affected primarily by estimated year-end changes in product costs. Our fiscal year LIFO charge is affected primarily by changes in product costs at year-end.
- If actual results differ significantly from anticipated future results for certain reporting units, including variable interest entities, an impairment loss for any excess of the carrying value of the reporting units' goodwill over the implied fair value would have to be recognized.
- Our effective tax rate may differ from the expected rate due to changes in laws, the status of pending items with various taxing authorities, and the deductibility of certain expenses.
- Changes in our product mix may negatively affect certain financial indicators. For example, we continue to add supermarket fuel centers to our store base. Since fuel generates lower profit margins than our supermarket sales, we expect to see our FIFO gross margins decline as fuel sales increase.

We cannot fully foresee the effects of changes in economic conditions on our business. We have assumed economic and competitive situations will not change significantly in 2017.

Other factors and assumptions not identified above could also cause actual results to differ materially from those set forth in the forward-looking information. Accordingly, actual events and results may vary significantly from those included in, contemplated or implied by forward-looking statements made by us or our representatives. We undertake no obligation to update the forward-looking information contained in this filing.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
The Kroger Co.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of The Kroger Co. and its subsidiaries at January 28, 2017 and January 30, 2016, and the results of their operations and their cash flows for each of the three years in the period ended January 28, 2017 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 28, 2017, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing on page A-1. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Modern HC Holdings, Inc. from its assessment of internal control over financial reporting as of January 28, 2017 because it was acquired by the Company in a purchase business combination on September 2, 2016. We have also excluded Modern HC Holdings, Inc. from our audit of internal control over financial reporting. Modern HC Holdings, Inc. is a wholly-owned subsidiary whose total assets and total revenues represent 1% and less than 1%, respectively, of the related consolidated financial statement amounts as of and for the year ended January 28, 2017.

PricewaterhouseCoopers LLP

Cincinnati, Ohio
March 28, 2017

THE KROGER CO.
CONSOLIDATED BALANCE SHEETS

(In millions, except par values)	January 28, 2017	January 30, 2016
ASSETS		
Current assets		
Cash and temporary cash investments	$ 322	$ 277
Store deposits in-transit	910	923
Receivables	1,649	1,734
FIFO inventory	7,852	7,440
LIFO reserve	(1,291)	(1,272)
Prepaid and other current assets	898	790
Total current assets	10,340	9,892
Property, plant and equipment, net	21,016	19,619
Intangibles, net	1,153	1,053
Goodwill	3,031	2,724
Other assets	965	609
Total Assets	$ 36,505	$ 33,897
LIABILITIES		
Current liabilities		
Current portion of long-term debt including obligations under capital leases and financing obligations	$ 2,252	$ 2,370
Trade accounts payable	5,818	5,728
Accrued salaries and wages	1,234	1,426
Deferred income taxes	251	221
Other current liabilities	3,305	3,226
Total current liabilities	12,860	12,971
Long-term debt including obligations under capital leases and financing obligations	11,825	9,709
Deferred income taxes	1,927	1,752
Pension and postretirement benefit obligations	1,524	1,380
Other long-term liabilities	1,659	1,287
Total Liabilities	29,795	27,099
Commitments and contingencies (see Note 13)		
SHAREHOLDERS' EQUITY		
Preferred shares, $100 per share, 5 shares authorized and unissued	—	—
Common shares, $1 par per share, 2,000 shares authorized; 1,918 shares issued in 2016 and 2015	1,918	1,918
Additional paid-in capital	3,070	2,980
Accumulated other comprehensive loss	(715)	(680)
Accumulated earnings	15,543	14,011
Common shares in treasury, at cost, 994 shares in 2016 and 951 shares in 2015	(13,118)	(11,409)
Total Shareholders' Equity - The Kroger Co.	6,698	6,820
Noncontrolling interests	12	(22)
Total Equity	6,710	6,798
Total Liabilities and Equity	$ 36,505	$ 33,897

The accompanying notes are an integral part of the consolidated financial statements.

THE KROGER CO.
CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended January 28, 2017, January 30, 2016 and January 31, 2015

(In millions, except per share amounts)	2016 (52 weeks)	2015 (52 weeks)	2014 (52 weeks)
Sales	$ 115,337	$ 109,830	$ 108,465
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	89,502	85,496	85,512
Operating, general and administrative	19,178	17,946	17,161
Rent	881	723	707
Depreciation and amortization	2,340	2,089	1,948
Operating profit	3,436	3,576	3,137
Interest expense	522	482	488
Earnings before income tax expense	2,914	3,094	2,649
Income tax expense	957	1,045	902
Net earnings including noncontrolling interests	1,957	2,049	1,747
Net earnings (loss) attributable to noncontrolling interests	(18)	10	19
Net earnings attributable to The Kroger Co.	$ 1,975	$ 2,039	$ 1,728
Net earnings attributable to The Kroger Co. per basic common share	$ 2.08	$ 2.09	$ 1.74
Average number of common shares used in basic calculation	942	966	981
Net earnings attributable to The Kroger Co. per diluted common share	$ 2.05	$ 2.06	$ 1.72
Average number of common shares used in diluted calculation	958	980	993
Dividends declared per common share	$ 0.465	$ 0.408	$ 0.350

The accompanying notes are an integral part of the consolidated financial statements.

THE KROGER CO.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended January 28, 2017, January 30, 2016 and January 31, 2015

(In millions)	2016 (52 weeks)	2015 (52 weeks)	2014 (52 weeks)
Net earnings including noncontrolling interests	$ 1,957	$ 2,049	$ 1,747
Other comprehensive income (loss)			
Realized and unrealized gains and losses on available for sale securities, net of income tax(1)	(20)	3	5
Change in pension and other postretirement defined benefit plans, net of income tax(2)	(64)	131	(329)
Unrealized gains and losses on cash flow hedging activities, net of income tax(3)	47	(3)	(25)
Amortization of unrealized gains and losses on cash flow hedging activities, net of income tax	2	1	1
Total other comprehensive income (loss)	(35)	132	(348)
Comprehensive income	1,922	2,181	1,399
Comprehensive income (loss) attributable to noncontrolling interests	(18)	10	19
Comprehensive income attributable to The Kroger Co.	$ 1,940	$ 2,171	$ 1,380

(1) Amount is net of tax of $(16) in 2016 and $2 in 2015 and $3 2014.
(2) Amount is net of tax of $(39) in 2016, $77 in 2015 and $(193) in 2014.
(3) Amount is net of tax of $27 in 2016, $(2) in 2015 and $(14) in 2014.

The accompanying notes are an integral part of the consolidated financial statements.

THE KROGER CO.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended January 28, 2017, January 30, 2016 and January 31, 2015

(In millions)	2016 (52 weeks)	2015 (52 weeks)	2014 (52 weeks)
Cash Flows from Operating Activities:			
Net earnings including noncontrolling interests	$ 1,957	$ 2,049	$ 1,747
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	2,340	2,089	1,948
Asset impairment charge	26	46	37
LIFO charge	19	28	147
Stock-based employee compensation	141	165	155
Expense for Company-sponsored pension plans	94	103	55
Deferred income taxes	201	317	73
Other	(28)	54	72
Changes in operating assets and liabilities net of effects from mergers of businesses:			
Store deposits in-transit	13	95	(27)
Receivables	(110)	(59)	(141)
Inventories	(382)	(184)	(147)
Prepaid and other current assets	(172)	(28)	2
Trade accounts payable	16	440	135
Accrued expenses	(118)	275	249
Income taxes receivable and payable	261	(359)	(68)
Contribution to Company-sponsored pension plans	—	(5)	—
Other	14	(109)	(22)
Net cash provided by operating activities	4,272	4,917	4,215
Cash Flows from Investing Activities:			
Payments for property and equipment, including payments for lease buyouts	(3,699)	(3,349)	(2,831)
Proceeds from sale of assets	132	45	37
Payments for mergers	(401)	(168)	(252)
Other	93	(98)	(14)
Net cash used by investing activities	(3,875)	(3,570)	(3,060)
Cash Flows from Financing Activities:			
Proceeds from issuance of long-term debt	2,781	1,181	576
Payments on long-term debt	(1,355)	(1,245)	(375)
Net borrowings (payments) on commercial paper	435	(285)	25
Dividends paid	(429)	(385)	(338)
Excess tax benefits on stock-based awards	—	97	52
Proceeds from issuance of capital stock	68	120	110
Treasury stock purchases	(1,766)	(703)	(1,283)
Investment in the remaining equity of a noncontrolling interest	—	(26)	—
Other	(86)	(92)	(55)
Net cash used by financing activities	(352)	(1,338)	(1,288)
Net increase (decrease) in cash and temporary cash investments	45	9	(133)
Cash and temporary cash investments:			
Beginning of year	277	268	401
End of year	$ 322	$ 277	$ 268
Reconciliation of capital investments:			
Payments for property and equipment, including payments for lease buyouts	$ (3,699)	$ (3,349)	$ (2,831)
Payments for lease buyouts	5	35	135
Changes in construction-in-progress payables	72	(35)	(56)
Total capital investments, excluding lease buyouts	$ (3,622)	$ (3,349)	$ (2,752)
Disclosure of cash flow information:			
Cash paid during the year for interest	$ 505	$ 474	$ 477
Cash paid during the year for income taxes	$ 557	$ 1,001	$ 941

The accompanying notes are an integral part of the consolidated financial statements.

THE KROGER CO.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended January 28, 2017, January 30, 2016 and January 31, 2015

(In millions, except per share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Gain (Loss)	Accumulated Earnings	Noncontrolling Interest	Total
Balances at February 1, 2014	1,918	$ 1,918	$ 2,590	902	$ (9,641)	$ (464)	$ 10,981	$ 11	$ 5,395
Issuance of common stock:									
Stock options exercised	—	—	—	(10)	110	—	—	—	110
Restricted stock issued	—	—	(91)	(5)	40	—	—	—	(51)
Treasury stock activity:									
Treasury stock purchases, at cost	—	—	—	51	(1,129)	—	—	—	(1,129)
Stock options exchanged	—	—	—	6	(154)	—	—	—	(154)
Share-based employee compensation	—	—	155	—	—	—	—	—	155
Other comprehensive loss net of income tax of ($204)	—	—	—	—	—	(348)	—	—	(348)
Other	—	—	94	—	(35)	—	—	—	59
Cash dividends declared ($0.350 per common share)	—	—	—	—	—	—	(342)	—	(342)
Net earnings including non-controlling interests	—	—	—	—	—	—	1,728	19	1,747
Balances at January 31, 2015	1,918	$ 1,918	$ 2,748	944	$ (10,809)	$ (812)	$ 12,367	$ 30	$ 5,442
Issuance of common stock:									
Stock options exercised	—	—	—	(9)	120	—	—	—	120
Restricted stock issued	—	—	(122)	(5)	37	—	—	—	(85)
Treasury stock activity:									
Treasury stock purchases, at cost	—	—	—	14	(500)	—	—	—	(500)
Stock options exchanged	—	—	—	7	(203)	—	—	—	(203)
Share-based employee compensation	—	—	165	—	—	—	—	—	165
Other comprehensive gain net of income tax of $77	—	—	—	—	—	132	—	—	132
Investment in the remaining equity of a non-controlling interest	—	—	26	—	—	—	—	(57)	(31)
Other	—	—	163	—	(54)	—	—	(5)	104
Cash dividends declared ($0.408 per common share)	—	—	—	—	—	—	(395)	—	(395)
Net earnings including non-controlling interests	—	—	—	—	—	—	2,039	10	2,049
Balances at January 30, 2016	1,918	$ 1,918	$ 2,980	951	$ (11,409)	$ (680)	$ 14,011	$ (22)	$ 6,798
Issuance of common stock:									
Stock options exercised	—	—	(1)	(5)	68	—	—	—	67
Restricted stock issued	—	—	(116)	(3)	57	—	—	—	(59)
Treasury stock activity:									
Treasury stock purchases, at cost	—	—	—	47	(1,661)	—	—	—	(1,661)
Stock options exchanged	—	—	—	4	(105)	—	—	—	(105)
Share-based employee compensation	—	—	141	—	—	—	—	—	141
Other comprehensive loss net of income tax of $(28)	—	—	—	—	—	(35)	—	—	(35)
Other	—	—	66	—	(68)	—	—	52	50
Cash dividends declared ($0.465 per common share)	—	—	—	—	—	—	(443)	—	(443)
Net earnings (loss) including non-controlling interests	—	—	—	—	—	—	1,975	(18)	1,957
Balances at January 28, 2017	1,918	$ 1,918	$ 3,070	994	$ (13,118)	$ (715)	$ 15,543	$ 12	$ 6,710

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

All amounts in the Notes to Consolidated Financial Statements are in millions except per share amounts.

1. ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in preparing these financial statements.

Description of Business, Basis of Presentation and Principles of Consolidation

The Kroger Co. (the "Company") was founded in 1883 and incorporated in 1902. As of January 28, 2017, the Company was one of the largest retailers in the world based on annual sales. The Company also manufactures and processes food for sale by its supermarkets. The accompanying financial statements include the consolidated accounts of the Company, its wholly-owned subsidiaries and the variable interest entities in which the Company is the primary beneficiary. Intercompany transactions and balances have been eliminated.

On June 25, 2015, the Company's Board of Directors approved a two-for-one stock split of the Company's common shares in the form of a 100% stock dividend, which was effective July 13, 2015. All share and per share amounts in the Company's Consolidated Financial Statements and related notes have been retroactively adjusted to reflect the stock split for all periods presented.

Refer to Note 17 for a description of changes to the Consolidated Statement of Operations and Consolidated Statement of Cash Flows for a recently adopted accounting standard regarding the presentation of employee share-based compensation payments.

Fiscal Year

The Company's fiscal year ends on the Saturday nearest January 31. The last three fiscal years consist of the 52-week periods ended January 28, 2017, January 30, 2016 and January 31, 2015.

Pervasiveness of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amounts of consolidated revenues and expenses during the reporting period is also required. Actual results could differ from those estimates.

Cash, Temporary Cash Investments and Book Overdrafts

Cash and temporary cash investments represent store cash and short-term investments with original maturities of less than three months. Book overdrafts are included in "Trade accounts payable" and "Accrued salaries and wages" in the Consolidated Balance Sheets.

Deposits In-Transit

Deposits in-transit generally represent funds deposited to the Company's bank accounts at the end of the year related to sales, a majority of which were paid for with debit cards, credit cards and checks, to which the Company does not have immediate access but settle within a few days of the sales transaction.

Inventories

Inventories are stated at the lower of cost (principally on a last-in, first-out "LIFO" basis) or market. In total, approximately 89% of inventories in 2016 and 95% of inventories in 2015 were valued using the LIFO method. Cost for the balance of the inventories, including substantially all fuel inventories, was determined using the first-in, first-out ("FIFO") method. Replacement cost was higher than the carrying amount by $1,291 at January 28, 2017 and $1,272 at January 30, 2016. The Company follows the Link-Chain, Dollar-Value LIFO method for purposes of calculating its LIFO charge or credit.

The item-cost method of accounting to determine inventory cost before the LIFO adjustment is followed for substantially all store inventories at the Company's supermarket divisions. This method involves counting each item in inventory, assigning costs to each of these items based on the actual purchase costs (net of vendor allowances and cash discounts) of each item and recording the cost of items sold. The item-cost method of accounting allows for more accurate reporting of periodic inventory balances and enables management to more precisely manage inventory. In addition, substantially all of the Company's inventory consists of finished goods and is recorded at actual purchase costs (net of vendor allowances and cash discounts).

The Company evaluates inventory shortages throughout the year based on actual physical counts in its facilities. Allowances for inventory shortages are recorded based on the results of these counts to provide for estimated shortages as of the financial statement date.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, in the case of assets acquired in a business combination, at fair value. Depreciation and amortization expense, which includes the depreciation of assets recorded under capital leases, is computed principally using the straight-line method over the estimated useful lives of individual assets. Buildings and land improvements are depreciated based on lives varying from 10 to 40 years. All new purchases of store equipment are assigned lives varying from three to nine years. Leasehold improvements are amortized over the shorter of the lease term to which they relate, which generally varies from four to 25 years, or the useful life of the asset. Food production plant and distribution center equipment is depreciated over lives varying from three to 15 years. Information technology assets are generally depreciated over five years. Depreciation and amortization expense was $2,340 in 2016, $2,089 in 2015 and $1,948 in 2014.

Interest costs on significant projects constructed for the Company's own use are capitalized as part of the costs of the newly constructed facilities. Upon retirement or disposal of assets, the cost and related accumulated depreciation and amortization are removed from the balance sheet and any gain or loss is reflected in net earnings. Refer to Note 4 for further information regarding the Company's property, plant and equipment.

Deferred Rent

The Company recognizes rent holidays, including the time period during which the Company has access to the property for construction of buildings or improvements and escalating rent provisions on a straight-line basis over the term of the lease. The deferred amount is included in "Other current liabilities" and "Other long-term liabilities" on the Company's Consolidated Balance Sheets.

Goodwill

The Company reviews goodwill for impairment during the fourth quarter of each year, and also upon the occurrence of a triggering event. The Company performs reviews of each of its operating divisions and variable interest entities (collectively, "reporting units") that have goodwill balances. Generally, fair value is determined using a multiple of earnings, or discounted projected future cash flows, and is compared to the carrying value of a reporting unit for purposes of identifying potential impairment. Projected future cash flows are based on management's knowledge of the current operating environment and expectations for the future. If potential for impairment is identified, the fair value of a reporting unit is measured against the fair value of its underlying assets and liabilities, excluding goodwill, to estimate an implied fair value of the reporting unit's goodwill. Goodwill impairment is recognized for any excess of the carrying value of the reporting unit's goodwill over the implied fair value. Results of the goodwill impairment reviews performed during 2016, 2015 and 2014 are summarized in Note 3.

Impairment of Long-Lived Assets

The Company monitors the carrying value of long-lived assets for potential impairment each quarter based on whether certain triggering events have occurred. These events include current period losses combined with a history of losses or a projection of continuing losses or a significant decrease in the market value of an asset. When a triggering event occurs, an impairment calculation is performed, comparing projected undiscounted future cash flows, utilizing current cash flow information and expected growth rates related to specific stores, to the carrying value for those stores. If the Company identifies impairment for long-lived assets to be held and used, the Company compares the assets' current carrying value to the assets' fair value. Fair value is based on current market values or discounted future cash flows. The Company records impairment when the carrying value exceeds fair market value. With respect to owned property and equipment held for disposal, the value of the property and equipment is adjusted to reflect recoverable values based on previous efforts to dispose of similar assets and current economic conditions. Impairment is recognized for the excess of the carrying value over the estimated fair market value, reduced by estimated direct costs of disposal. The Company recorded asset impairments in the normal course of business totaling $26, $46 and $37 in 2016, 2015 and 2014, respectively. Costs to reduce the carrying value of long-lived assets for each of the years presented have been included in the Consolidated Statements of Operations as "Operating, general and administrative" expense.

Store Closing Costs

The Company provides for closed store liabilities relating to the present value of the estimated remaining non-cancellable lease payments after the closing date, net of estimated subtenant income. The Company estimates the net lease liabilities using a discount rate to calculate the present value of the remaining net rent payments on closed stores. The closed store lease liabilities usually are paid over the lease terms associated with the closed stores, which generally have remaining terms ranging from one to 20 years. Adjustments to closed store liabilities primarily relate to changes in subtenant income and actual exit costs differing from original estimates. Adjustments are made for changes in estimates in the period in which the change becomes known. Store closing liabilities are reviewed quarterly to ensure that any accrued amount that is not a sufficient estimate of future costs is adjusted to income in the proper period.

Owned stores held for disposal are reduced to their estimated net realizable value. Costs to reduce the carrying values of property, equipment and leasehold improvements are accounted for in accordance with the Company's policy on impairment of long-lived assets. Inventory write-downs, if any, in connection with store closings, are classified in the Consolidated Statements of Operations as "Merchandise costs." Costs to transfer inventory and equipment from closed stores are expensed as incurred.

The current portion of the future lease obligations of stores is included in "Other current liabilities," and the long-term portion is included in "Other long-term liabilities" in the Consolidated Balance Sheets.

Interest Rate Risk Management

The Company uses derivative instruments primarily to manage its exposure to changes in interest rates. The Company's current program relative to interest rate protection and the methods by which the Company accounts for its derivative instruments are described in Note 7.

Benefit Plans and Multi-Employer Pension Plans

The Company recognizes the funded status of its retirement plans on the Consolidated Balance Sheets. Actuarial gains or losses, prior service costs or credits and transition obligations that have not yet been recognized as part of net periodic benefit cost are required to be recorded as a component of Accumulated Other Comprehensive Income ("AOCI"). All plans are measured as of the Company's fiscal year end.

The determination of the obligation and expense for Company-sponsored pension plans and other post-retirement benefits is dependent on the selection of assumptions used by actuaries and the Company in calculating those amounts. Those assumptions are described in Note 15 and include, among others, the discount rate, the expected long-term rate of return on plan assets, mortality and the rates of increase in compensation and health care costs. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in future periods. While the Company believes that the assumptions are appropriate, significant differences in actual experience or significant changes in assumptions may materially affect the pension and other post-retirement obligations and future expense.

The Company also participates in various multi-employer plans for substantially all union employees. Pension expense for these plans is recognized as contributions are funded or when commitments are probable and reasonably estimable, in accordance with GAAP. Refer to Note 16 for additional information regarding the Company's participation in these various multi-employer pension plans.

The Company administers and makes contributions to the employee 401(k) retirement savings accounts. Contributions to the employee 401(k) retirement savings accounts are expensed when contributed. Refer to Note 15 for additional information regarding the Company's benefit plans.

Share Based Compensation

The Company accounts for stock options under fair value recognition provisions. Under this method, the Company recognizes compensation expense for all share-based payments granted. The Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. In addition, the Company records expense for restricted stock awards in an amount equal to the fair market value of the underlying stock on the grant date of the award, over the period the awards lapse. Excess tax benefits related to share-based payments are recognized in the provision for income taxes. Refer to Note 12 for additional information regarding the Company's stock based compensation.

Deferred Income Taxes

Deferred income taxes are recorded to reflect the tax consequences of differences between the tax basis of assets and liabilities and their financial reporting basis. Refer to Note 5 for the types of differences that give rise to significant portions of deferred income tax assets and liabilities. Deferred income taxes are classified as a net current or noncurrent asset or liability based on the classification of the related asset or liability for financial reporting purposes. A deferred tax asset or liability that is not related to an asset or liability for financial reporting is classified according to the expected reversal date.

Uncertain Tax Positions

The Company reviews the tax positions taken or expected to be taken on tax returns to determine whether and to what extent a benefit can be recognized in its consolidated financial statements. Refer to Note 5 for the amount of unrecognized tax benefits and other related disclosures related to uncertain tax positions.

Various taxing authorities periodically audit the Company's income tax returns. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions. In evaluating the exposures connected with these various tax filing positions, including state and local taxes, the Company records allowances for probable exposures. A number of years may lapse before a particular matter, for which an allowance has been established, is audited and fully resolved. As of January 28, 2017, the Internal Revenue Service had concluded its examination of the Company's 2012 and 2013 federal tax returns.

The assessment of the Company's tax position relies on the judgment of management to estimate the exposures associated with the Company's various filing positions.

Self-Insurance Costs

The Company is primarily self-insured for costs related to workers' compensation and general liability claims. Liabilities are actuarially determined and are recognized based on claims filed and an estimate of claims incurred but not reported. The liabilities for workers' compensation claims are accounted for on a present value basis. The Company has purchased stop-loss coverage to limit its exposure to any significant exposure on a per claim basis. The Company is insured for covered costs in excess of these per claim limits.

The following table summarizes the changes in the Company's self-insurance liability through January 28, 2017.

	2016	2015	2014
Beginning balance	$ 639	$ 599	$ 569
Expense	263	234	246
Claim payments	(220)	(225)	(216)
Assumed from mergers	—	31	—
Ending balance	682	639	599
Less: Current portion	(229)	(223)	(213)
Long-term portion	$ 453	$ 416	$ 386

The current portion of the self-insured liability is included in "Other current liabilities," and the long-term portion is included in "Other long-term liabilities" in the Consolidated Balance Sheets.

The Company maintains surety bonds related to self-insured workers' compensation claims. These bonds are required by most states in which the Company is self-insured for workers' compensation and are placed with third-party insurance providers to insure payment of the Company's obligations in the event the Company is unable to meet its claim payment obligations up to its self-insured retention levels. These bonds do not represent liabilities of the Company, as the Company has recorded reserves for the claim costs.

The Company is similarly self-insured for property-related losses. The Company maintains stop loss coverage to limit its property loss exposures including coverage for earthquake, wind, flood and other catastrophic events.

Revenue Recognition

Revenues from the sale of products are recognized at the point of sale. Discounts provided to customers by the Company at the time of sale, including those provided in connection with loyalty cards, are recognized as a reduction in sales as the products are sold. Discounts provided by vendors, usually in the form of paper coupons, are not recognized as a reduction in sales provided the coupons are redeemable at any retailer that accepts coupons. The Company records a receivable from the vendor for the difference in sales price and cash received. Pharmacy sales are recorded when product is provided to the customer. Sales taxes are recorded as other accrued liabilities and not as a component of sales. The Company does not recognize a sale when it sells its own gift cards and gift certificates. Rather, it records a deferred liability equal to the amount received. A sale is then recognized when the gift card or gift certificate is redeemed to purchase the Company's products. In 2016, the Company began recognizing gift card and gift certificate breakage under the proportional method, where recognition of breakage income is based upon the historical run-off rate of unredeemed gift cards and gift certificates. Prior to 2016, gift card and gift certificate breakage was recognized under the remote method, where breakage income is recognized when redemption is unlikely to occur and there is no legal obligation to remit the value of the unredeemed gift cards or gift certificates. The amount of breakage was not material for 2016, 2015 and 2014.

Merchandise Costs

The “Merchandise costs” line item of the Consolidated Statements of Operations includes product costs, net of discounts and allowances; advertising costs (see separate discussion below); inbound freight charges; warehousing costs, including receiving and inspection costs; transportation costs; and food production and operational costs. Warehousing, transportation and manufacturing management salaries are also included in the “Merchandise costs” line item; however, purchasing management salaries and administration costs are included in the “Operating, general and administrative” line item along with most of the Company’s other managerial and administrative costs. Rent expense and depreciation and amortization expense are shown separately in the Consolidated Statements of Operations.

Warehousing and transportation costs include distribution center direct wages, transportation direct wages, repairs and maintenance, utilities, inbound freight and, where applicable, third party warehouse management fees. These costs are recognized in the periods the related expenses are incurred.

The Company believes the classification of costs included in merchandise costs could vary widely throughout the industry. The Company’s approach is to include in the “Merchandise costs” line item the direct, net costs of acquiring products and making them available to customers in its stores. The Company believes this approach most accurately presents the actual costs of products sold.

The Company recognizes all vendor allowances as a reduction in merchandise costs when the related product is sold. When possible, vendor allowances are applied to the related product cost by item and, therefore, reduce the carrying value of inventory by item. When the items are sold, the vendor allowance is recognized. When it is not possible, due to systems constraints, to allocate vendor allowances to the product by item, vendor allowances are recognized as a reduction in merchandise costs based on inventory turns and, therefore, recognized as the product is sold.

Advertising Costs

The Company’s advertising costs are recognized in the periods the related expenses are incurred and are included in the “Merchandise costs” line item of the Consolidated Statements of Operations. The Company’s pre-tax advertising costs totaled $717 in 2016, $679 in 2015 and $648 in 2014. The Company does not record vendor allowances for co-operative advertising as a reduction of advertising expense.

Consolidated Statements of Cash Flows

For purposes of the Consolidated Statements of Cash Flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be temporary cash investments.

Segments

The Company operates supermarkets, multi-department stores, jewelry stores, and convenience stores throughout the United States. The Company’s retail operations, which represent over 98% of the Company’s consolidated sales and EBITDA, are its only reportable segment. The Company’s operating divisions have been aggregated into one reportable segment due to the operating divisions having similar economic characteristics with similar long-term financial performance. In addition, the Company’s operating divisions offer customers similar products, have similar distribution methods, operate in similar regulatory environments, purchase the majority of the merchandise for retail sale from similar (and in many cases identical) vendors on a coordinated basis from a centralized location, serve similar types of customers, and are allocated capital from a centralized location. Operating divisions are organized primarily on a geographical basis so that the operating division management team can be responsive to local needs of the operating division and can execute company strategic plans and initiatives throughout the locations in the operating division. The geographical separation is the primary differentiation between these operating divisions. The Company’s geographic basis of organization reflects the manner in which the business is managed and how the Company’s Chief Executive Officer, who acts as the Company’s chief operating decision maker, assesses performance internally. All of the Company’s operations are domestic.

The following table presents sales revenue by type of product for 2016, 2015 and 2014.

	2016		2015		2014	
	Amount	% of total	Amount	% of total	Amount	% of total
Non Perishable [1]	$ 60,220	52.2 %	$ 57,187	52.1 %	$ 54,392	50.1 %
Perishable [2]	27,666	24.0 %	25,726	23.4 %	24,178	22.3 %
Fuel	13,979	12.1 %	14,802	13.5 %	18,850	17.4 %
Pharmacy	10,432	9.0 %	9,778	8.9 %	9,032	8.3 %
Other [3]	3,040	2.7 %	2,337	2.1 %	2,013	1.9 %
Total Sales and other revenue	$ 115,337	100 %	$ 109,830	100 %	$ 108,465	100 %

(1) Consists primarily of grocery, general merchandise, health and beauty care and natural foods.
(2) Consists primarily of produce, floral, meat, seafood, deli, bakery and fresh prepared.
(3) Consists primarily of sales related to jewelry stores, food production plants to outside customers, data analytic services, variable interest entities, specialty pharmacy, in-store health clinics, digital coupon services and online sales by Vitacost.com.

2. MERGERS

On September 2, 2016, the Company closed its merger with Modern HC Holdings, Inc. ("ModernHEALTH") by purchasing 100% of the outstanding shares of ModernHEALTH for $407. This merger allows the Company to expand its specialty pharmacy services by significantly increasing geographic reach and patient therapies. The merger was accounted for under the purchase method of accounting and was financed through the issuance of commercial paper. In a business combination, the purchase price is allocated to assets acquired and liabilities assumed based on their fair values, with any excess of purchase price over fair value recognized as goodwill. In addition to recognizing the assets and liabilities on the acquired company's balance sheet, the Company reviews supply contracts, leases, financial instruments, employment agreements and other significant agreements to identify potential assets or liabilities that require recognition in connection with the application of acquisition accounting under Accounting Standards Codification ("ASC") 805. Intangible assets are recognized apart from goodwill when the asset arises from contractual or other legal rights, or are separable from the acquired entity such that they may be sold, transferred, licensed, rented or exchanged either on a standalone basis or in combination with a related contract, asset or liability.

Pending finalization of the Company's valuation and other items, the following table summarizes the preliminary fair values of the assets acquired and liabilities assumed as part of the merger with ModernHEALTH:

	September 2, 2016
ASSETS	
Total current assets	$ 82
Property, plant and equipment	8
Intangibles	136
Total Assets, excluding Goodwill	226
LIABILITIES	
Total current liabilities	(70)
Fair-value of long-term debt including obligations under capital leases and financing obligations	(1)
Deferred income taxes	(33)
Total Liabilities	(104)
Total Identifiable Net Assets	122
Goodwill	285
Total Purchase Price	$ 407

Of the $136 allocated to intangible assets, the Company recorded $131 and $5 related to pharmacy prescription files and distribution agreements, respectively. The Company will amortize the pharmacy prescription files and distribution agreements, using the straight line method, over 10 years. The goodwill recorded as part of the merger was attributable to the assembled workforce of ModernHEALTH and operational synergies expected from the merger, as well as any intangible assets that did not qualify for separate recognition. The merger was treated as a stock purchase for income tax purposes. The assets acquired and liabilities assumed as part of the merger did not result in a step up of tax basis and goodwill is not expected to be deductible for tax purposes.

On December 18, 2015, the Company closed its merger with Roundy's by purchasing 100% of Roundy's outstanding common stock for $3.60 per share and assuming Roundy's outstanding debt, for a purchase price of $866. The merger brings a complementary store base in communities throughout Wisconsin and a stronger presence in the greater Chicagoland area. The merger was accounted for under the purchase method of accounting and was financed through a combination of commercial paper and long-term debt.

The Company's purchase price allocation was finalized in the fourth quarter of 2016. The changes in the fair values assumed from the preliminary amounts determined as of December 18, 2015 were a decrease in goodwill of $13, a decrease in current liabilities of $8 and a decrease in deferred tax liabilities of $5. The table below summarizes the final fair value of the assets acquired and liabilities assumed:

	December 18, 2015
ASSETS	
Cash and temporary cash investments	$ 20
Store deposits in-transit	30
Receivables	43
FIFO inventory	323
Prepaid and other current assets	19
Total current assets	435
Property, plant and equipment	342
Intangibles	324
Other assets	4
Total Assets, excluding Goodwill	1,105
LIABILITIES	
Current portion of obligations under capital leases and financing obligations	(9)
Trade accounts payable	(236)
Accrued salaries and wages	(40)
Other current liabilities	(81)
Total current liabilities	(366)
Fair-value of long-term debt	(678)
Fair-value of long-term obligations under capital leases and financing obligations	(20)
Deferred income taxes	(107)
Pension and postretirement benefit obligations	(36)
Other long-term liabilities	(111)
Total Liabilities	(1,318)
Total Identifiable Net Liabilities	(213)
Goodwill	401
Total Purchase Price	$ 188

Of the $324 allocated to intangible assets, $211 relates to the Mariano's®, Pick 'n Save®, Metro Market and Copps™ trade names, to which was assigned an indefinite life and, therefore, will not be amortized. The Company also recorded $69, $38, and $6 related to favorable leasehold interests, pharmacy prescription files and customer lists, respectively. The Company will amortize the favorable leasehold interests over a weighted average of twelve years. The Company will amortize the pharmacy prescription files and customer lists over seven and two years, respectively, on a straight-line basis. The goodwill recorded as part of the merger was attributable to the assembled workforce of Roundy's and operational synergies expected from the merger, as well as any intangible assets that do not qualify for separate recognition. The transaction was treated as a stock purchase for income tax purposes. The assets acquired and liabilities assumed as part of the merger did not result in a step up of the tax basis and goodwill is not expected to be deductible for tax purposes.

On August 18, 2014, the Company closed its merger with Vitacost.com, Inc. ("Vitacost.com") by purchasing 100% of the Vitacost.com outstanding common stock for $8.00 per share or $287. This merger affords the Company access to Vitacost.com's extensive e-commerce platform, which can be combined with the Company's customer insights and loyal customer base, to create new levels of personalization and convenience for customers. The merger was accounted for under the purchase method of accounting and was financed through the issuance of commercial paper.

The Company's purchase price allocation was finalized in the second quarter of 2015. The changes in the fair values assumed from the preliminary amounts were not material. The table below summarizes the final fair values of the assets acquired and liabilities assumed:

	August 18, 2014
ASSETS	
Total current assets	$ 80
Property, plant and equipment	28
Intangibles	81
Total Assets, excluding Goodwill	189
LIABILITIES	
Total current liabilities	(56)
Deferred income taxes	(6)
Total Liabilities	(62)
Total Identifiable Net Assets	127
Goodwill	160
Total Purchase Price	$ 287

Of the $81 allocated to intangible assets, the Company recorded $49, $26 and $6 related to customer relationships, technology and the trade name, respectively. The Company will amortize the technology and the trade name, using the straight line method, over 10 and three years, respectively, while the customer relationships will be amortized over five years using the declining balance method. The goodwill recorded as part of the merger was attributable to the assembled workforce of Vitacost.com and operational synergies expected from the merger, as well as any intangible assets that did not qualify for separate recognition. The transaction was treated as a stock purchase for income tax purposes. The assets acquired and liabilities assumed as part of the merger did not result in a step up of the tax basis and goodwill is not expected to be deductible for tax purposes.

Pro forma results of operations, assuming the Vitacost.com merger had taken place at the beginning of 2013, the Roundy's transaction had taken place at the beginning of 2014 and the ModernHEALTH merger had taken place at the beginning of 2015, are included in the following table. The pro forma information includes historical results of operations of Vitacost.com, Roundy's and ModernHEALTH, as well as adjustments for interest expense that would have been incurred due to financing the mergers, depreciation and amortization of the assets acquired and excludes the pre-merger transaction related expenses incurred by Vitacost.com, Roundy's, ModernHEALTH and the Company. The pro forma information does not include efficiencies, cost reductions, synergies or investments in lower prices for our customers expected to result from the mergers. The unaudited pro forma financial information is not necessarily indicative of the results that actually would have occurred had the Vitacost.com merger completed at the beginning of 2013, the Roundy's merger completed at the beginning of 2014 or the ModernHEALTH merger completed at beginning of 2015.

	Fiscal year ended January 28, 2017	Fiscal year ended January 30, 2016	Fiscal year ended January 31, 2015
Sales	$ 115,994	$ 114,341	$ 112,458
Net earnings including noncontrolling interests	1,958	2,059	1,751
Net earnings (loss) attributable to noncontrolling interests	(18)	10	19
Net earnings attributable to The Kroger Co.	$ 1,976	$ 2,049	$ 1,732

3. GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the changes in the Company's net goodwill balance through January 28, 2017.

	2016	2015
Balance beginning of year		
Goodwill	$ 5,256	$ 4,836
Accumulated impairment losses	(2,532)	(2,532)
	2,724	2,304
Activity during the year		
Mergers	307	420
Balance end of year		
Goodwill	5,563	5,256
Accumulated impairment losses	(2,532)	(2,532)
	$ 3,031	$ 2,724

In 2016, the Company acquired all of the outstanding shares of ModernHEALTH (see Note 2) resulting in additional goodwill totaling $285.

In 2015, the Company acquired all the outstanding shares of Roundy's (see Note 2), resulting in additional goodwill totaling $401. In 2016, the Company finalized its Roundy's purchase allocation resulting in a decrease in goowill of $13 (see Note 2).

Testing for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or a change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The annual evaluations of goodwill and indefinite-lived intangible assets were performed during the fourth quarter of 2016, 2015 and 2014 did not result in impairment.

Based on current and future expected cash flows, the Company believes goodwill impairments are not reasonably likely. A 10% reduction in fair value of the Company's reporting units would not indicate a potential for impairment of the Company's remaining goodwill balance.

In 2016, the Company acquired definite and indefinite lived intangible assets totaling approximately $136 as a result of the merger with ModernHEALTH.

In 2015, the Company acquired definite and indefinite lived intangible assets totaling approximately $324 as a result of the merger with Roundy's.

The following table summarizes the Company's intangible assets balance through January 28, 2017.

	2016		2015	
	Gross carrying amount	Accumulated amortization[(1)]	Gross carrying amount	Accumulated amortization[(1)]
Definite-lived favorable leasehold interests	$ 167	$ (41)	$ 169	$ (31)
Definite-lived pharmacy prescription files	254	(56)	127	(40)
Definite-lived customer relationships	93	(55)	93	(39)
Definite-lived other	97	(33)	78	(23)
Indefinite-lived trade name	641	—	641	—
Indefinite-lived liquor licenses	86	—	78	—
Total	$ 1,338	$ (185)	$ 1,186	$ (133)

(1) Favorable leasehold interests are amortized to rent expense, pharmacy prescription files are amortized to merchandise costs, customer relationships are amortized to depreciation and amortization expense and other intangibles are amortized to operating, general and administrative ("OG&A") expense and depreciation and amortization expense.

Amortization expense associated with intangible assets totaled approximately $63, $51 and $41, during fiscal years 2016, 2015 and 2014, respectively. Future amortization expense associated with the net carrying amount of definite-lived intangible assets for the years subsequent to 2016 is estimated to be approximately:

2017	$ 73
2018	57
2019	39
2020	30
2021	28
Thereafter	199
Total future estimated amortization associated with definite-lived intangible assets	$ 426

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of:

	2016	2015
Land	$ 3,197	$ 2,997
Buildings and land improvements	11,643	10,524
Equipment	13,495	12,520
Leasehold improvements	9,342	8,710
Construction-in-progress	1,979	2,115
Leased property under capital leases and financing obligations	932	801
Total property, plant and equipment	40,588	37,667
Accumulated depreciation and amortization	(19,572)	(18,048)
Property, plant and equipment, net	$ 21,016	$ 19,619

Accumulated depreciation and amortization for leased property under capital leases was $330 at January 28, 2017 and $293 at January 30, 2016.

Approximately $219 and $264, net book value, of property, plant and equipment collateralized certain mortgages at January 28, 2017 and January 30, 2016, respectively.

5. TAXES BASED ON INCOME

The provision for taxes based on income consists of:

	2016	2015	2014
Federal			
Current	$ 721	$ 723	$ 847
Deferred	158	266	(15)
Subtotal federal	879	989	832
State and local			
Current	51	37	59
Deferred	27	19	11
Subtotal state and local	78	56	70
Total	$ 957	$ 1,045	$ 902

A reconciliation of the statutory federal rate and the effective rate follows:

	2016	2015	2014
Statutory rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	1.6 %	1.2 %	1.7 %
Credits	(1.1)%	(1.2)%	(1.2)%
Favorable resolution of audit issues	(0.5)%	(0.2)%	(0.4)%
Domestic manufacturing deduction	(0.7)%	(0.7)%	(0.7)%
Excess tax benefits from share-based payments	(1.6)%	— %	— %
Other changes, net	0.1 %	(0.3)%	(0.3)%
	32.8 %	33.8 %	34.1 %

The 2016 tax rate differed from the federal statutory rate primarily as a result of the recognition of excess tax benefits related to share-based payments after the adoption of ASU 2016-09 (see Note 17), the utilization of tax credits, the Domestic Manufacturing Deduction and other changes, partially offset by the effect of state income taxes.

The 2015 rate for state income taxes is less than 2016 and 2014 due to filing amended returns to claim additional benefits in years still under review, the favorable resolution of state issues and an increase in state credits.

The tax effects of significant temporary differences that comprise tax balances were as follows:

	2016	2015
Current deferred tax assets:		
Net operating loss and credit carryforwards	$ 23	$ 10
Compensation related costs	67	83
Other	50	61
Subtotal	140	154
Valuation allowance	(11)	(9)
Total current deferred tax assets	129	145
Current deferred tax liabilities:		
Insurance related costs	(52)	(56)
Inventory related costs	(328)	(310)
Total current deferred tax liabilities	(380)	(366)
Current deferred taxes	$ (251)	$ (221)
Long-term deferred tax assets:		
Compensation related costs	$ 783	$ 709
Lease accounting	121	106
Closed store reserves	46	57
Insurance related costs	7	29
Net operating loss and credit carryforwards	101	128
Other	1	17
Subtotal	1,059	1,046
Valuation allowance	(39)	(43)
Total long-term deferred tax assets	1,020	1,003
Long-term deferred tax liabilities:		
Depreciation and amortization	(2,947)	(2,755)
Total long-term deferred tax liabilities	(2,947)	(2,755)
Long-term deferred taxes	$ (1,927)	$ (1,752)

At January 28, 2017, the Company had net operating loss carryforwards for state income tax purposes of $1,206. These net operating loss carryforwards expire from 2017 through 2036. The utilization of certain of the Company's state net operating loss carryforwards may be limited in a given year. Further, based on the analysis described below, the Company has recorded a valuation allowance against some of the deferred tax assets resulting from its state net operating losses.

At January 28, 2017, the Company had state credit carryforwards of $62, most of which expire from 2017 through 2027. The utilization of certain of the Company's credits may be limited in a given year. Further, based on the analysis described below, the Company has recorded a valuation allowance against some of the deferred tax assets resulting from its state credits.

At January 28, 2017, the Company had federal net operating loss carryforwards of $55. These net operating loss carryforwards expire from 2030 through 2035. The utilization of certain of the Company's federal net operating loss carryforwards may be limited in a given year. Further, based on the analysis described below, the Company has not recorded a valuation allowance against the deferred tax assets resulting from its federal net operating losses.

The Company regularly reviews all deferred tax assets on a tax filer and jurisdictional basis to estimate whether these assets are more likely than not to be realized based on all available evidence. This evidence includes historical taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Projected future taxable income is based on expected results and assumptions as to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based on current tax law and the Company's tax methods of accounting. Unless deferred tax assets are more likely than not to be realized, a valuation allowance is established to reduce the carrying value of the deferred tax asset until such time that realization becomes more likely than not. Increases and decreases in these valuation allowances are included in "Income tax expense" in the Consolidated Statements of Operations.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, including positions impacting only the timing of tax benefits, is as follows:

	2016	2015	2014
Beginning balance	$ 204	$ 246	$ 325
Additions based on tax positions related to the current year	10	11	17
Reductions based on tax positions related to the current year	(1)	(11)	(6)
Additions for tax positions of prior years	3	4	9
Reductions for tax positions of prior years	(30)	(27)	(36)
Settlements	(2)	(17)	(63)
Lapse of statute	(7)	(2)	—
Ending balance	$ 177	$ 204	$ 246

The Company does not anticipate that changes in the amount of unrecognized tax benefits over the next twelve months will have a significant impact on its results of operations or financial position.

As of January 28, 2017, January 30, 2016 and January 31, 2015, the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was $73, $83 and $90, respectively.

To the extent interest and penalties would be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and classified as a component of income tax expense. During the years ended January 28, 2017, January 30, 2016 and January 31, 2015, the Company recognized approximately $(1), $(5) and $3, respectively, in interest and penalties (recoveries). The Company had accrued approximately $20, $25 and $30 for the payment of interest and penalties as of January 28, 2017, January 30, 2016 and January 31, 2015, respectively.

As of January 28, 2017, the Internal Revenue Service had concluded its examination of the Company's 2012 and 2013 federal tax returns.

6. DEBT OBLIGATIONS

Long-term debt consists of:

	January 28, 2017	January 30, 2016
1.14% to 8.00% Senior Notes due through 2047	$ 11,311	$ 9,826
5.00% to 12.75% Mortgages due in varying amounts through 2027	38	58
0.66% to 0.91% Commercial paper borrowings due through February 2017	1,425	990
Other	541	522
Total debt, excluding capital leases and financing obligations	13,315	11,396
Less current portion	(2,197)	(2,318)
Total long-term debt, excluding capital leases and financing obligations	$ 11,118	$ 9,078

In 2016, the Company issued $1,000 of senior notes due in fiscal year 2047 bearing an interest rate of 4.45%, $500 of senior notes due in fiscal year 2046 bearing an interest rate of 3.88%, $750 of senior notes due in fiscal year 2026 bearing an interest rate of 2.65% and $500 of senior notes due in fiscal year 2019 bearing an interest

rate of 1.50%. The Company also repaid $450 of senior notes bearing an interest rate of 2.20%, $500 of senior notes bearing an interest rate of 3-month London Inter-Bank Offering Rate plus 53 basis points and $300 of senior notes bearing an interest rate of 1.20%.

In 2015, the Company issued $500 of senior notes due in fiscal year 2026 bearing an interest rate of 3.50%, $300 of senior notes due in fiscal year 2021 bearing an interest rate of 2.60% and $300 of senior notes due in fiscal year 2019 bearing an interest rate of 2.00%, and repaid $500 of senior notes bearing an interest rate of 3.90% upon maturity. Due to the merger with Roundy's, the Company assumed $678 of term loans, which were entirely paid off following the merger.

On June 30, 2014, the Company amended, extended and restated its $2,000 unsecured revolving credit facility. The Company entered into the amended credit facility to amend, extend and restate the Company's existing credit facility that would have terminated on January 25, 2017. The amended credit facility provides for a $2,750 unsecured revolving credit facility (the "Credit Agreement"), with a termination date of June 30, 2019, unless extended as permitted under the Credit Agreement. The Company has the ability to increase the size of the Credit Agreement by up to an additional $750, subject to certain conditions.

Borrowings under the Credit Agreement bear interest at the Company's option, at either (i) LIBOR plus a market rate spread, based on the Company's Leverage Ratio or (ii) the base rate, defined as the highest of (a) the Federal Funds Rate plus 0.5%, (b) the Bank of America prime rate, and (c) one-month LIBOR plus 1.0%, plus a market rate spread based on the Company's Leverage Ratio. The Company will also pay a Commitment Fee based on the Leverage Ratio and Letter of Credit fees equal to a market rate spread based on the Company's Leverage Ratio. The Credit Agreement contains covenants, which, among other things, require the maintenance of a Leverage Ratio of not greater than 3.50:1.00 and a Fixed Charge Coverage Ratio of not less than 1.70:1.00. The Company may repay the Credit Agreement in whole or in part at any time without premium or penalty. The Credit Agreement is not guaranteed by the Company's subsidiaries.

As of January 28, 2017, the Company had $1,425 of borrowings of commercial paper, with a weighted average interest rate of 0.91%, and no borrowings under the Credit Agreement. As of January 30, 2016, the Company had $990 of borrowings of commercial paper, with a weighted average interest rate of 0.66%, and no borrowings under the Credit Agreement.

As of January 28, 2017, the Company had outstanding letters of credit in the amount of $242, of which $13 reduces funds available under the Credit Agreement. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company.

Most of the Company's outstanding public debt is subject to early redemption at varying times and premiums, at the option of the Company. In addition, subject to certain conditions, some of the Company's publicly issued debt will be subject to redemption, in whole or in part, at the option of the holder upon the occurrence of a redemption event, upon not less than five days' notice prior to the date of redemption, at a redemption price equal to the default amount, plus a specified premium. "Redemption Event" is defined in the indentures as the occurrence of (i) any person or group, together with any affiliate thereof, beneficially owning 50% or more of the voting power of the Company, (ii) any one person or group, or affiliate thereof, succeeding in having a majority of its nominees elected to the Company's Board of Directors, in each case, without the consent of a majority of the continuing directors of the Company or (iii) both a change of control and a below investment grade rating.

The aggregate annual maturities and scheduled payments of long-term debt, as of year-end 2016, and for the years subsequent to 2016 are:

2017	$ 2,197
2018	1,315
2019	1,246
2020	724
2021	797
Thereafter	7,036
Total debt	$ 13,315

7. DERIVATIVE FINANCIAL INSTRUMENTS

GAAP requires that derivatives be carried at fair value on the balance sheet, and provides for hedge accounting when certain conditions are met. The Company's derivative financial instruments are recognized on the balance sheet at fair value. Changes in the fair value of derivative instruments designated as "cash flow" hedges, to the extent the hedges are highly effective, are recorded in other comprehensive income, net of tax effects. Ineffective portions of cash flow hedges, if any, are recognized in current period earnings. Other comprehensive income or loss is reclassified into current period earnings when the hedged transaction affects earnings. Changes in the fair value of derivative instruments designated as "fair value" hedges, along with corresponding changes in the fair values of the hedged assets or liabilities, are recorded in current period earnings. Ineffective portions of fair value hedges, if any, are recognized in current period earnings.

The Company assesses, both at the inception of the hedge and on an ongoing basis, whether derivatives used as hedging instruments are highly effective in offsetting the changes in the fair value or cash flow of the hedged items. If it is determined that a derivative is not highly effective as a hedge or ceases to be highly effective, the Company discontinues hedge accounting prospectively.

Interest Rate Risk Management

The Company is exposed to market risk from fluctuations in interest rates. The Company manages its exposure to interest rate fluctuations through the use of a commercial paper program, interest rate swaps (fair value hedges) and forward-starting interest rate swaps (cash flow hedges). The Company's current program relative to interest rate protection contemplates hedging the exposure to changes in the fair value of fixed-rate debt attributable to changes in interest rates. To do this, the Company uses the following guidelines: (i) use average daily outstanding borrowings to determine annual debt amounts subject to interest rate exposure, (ii) limit the average annual amount subject to interest rate reset and the amount of floating rate debt to a combined total of $2,500 or less, (iii) include no leveraged products, and (iv) hedge without regard to profit motive or sensitivity to current mark-to-market status.

The Company reviews compliance with these guidelines annually with the Financial Policy Committee of the Board of Directors. These guidelines may change as the Company's needs dictate.

Fair Value Interest Rate Swaps

The table below summarizes the outstanding interest rate swaps designated as fair value hedges as of January 28, 2017 and January 30, 2016.

	2016		2015	
	Pay Floating	Pay Fixed	Pay Floating	Pay Fixed
Notional amount	$ 100	$ —	$ 100	$ —
Number of contracts	2	—	2	—
Duration in years	1.92	—	2.92	—
Average variable rate	6.37 %	—	6.00 %	—
Average fixed rate	6.80 %	—	6.80 %	—
Maturity	December 2018		December 2018	

The gain or loss on these derivative instruments as well as the offsetting gain or loss on the hedged items attributable to the hedged risk is recognized in current earnings as "Interest expense." These gains and losses for 2016 and 2015 were as follows:

	Year-To-Date			
	January 28, 2017		January 30, 2016	
Consolidated Statements of Operations Classification	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings	Gain/(Loss) on Swaps	Gain/(Loss) on Borrowings
Interest Expense	$ (2)	$ 2	$ 1	$ (1)

The following table summarizes the location and fair value of derivative instruments designated as fair value hedges on the Company's Consolidated Balance Sheets:

	Asset Derivatives		
	Fair Value		
Derivatives Designated as Fair Value Hedging Instruments	January 28, 2017	January 30, 2016	Balance Sheet Location
Interest Rate Hedges	$ (1)	$ 1	(Other long-term liabilities)/Other assets

Cash Flow Forward-Starting Interest Rate Swaps

As of January 28, 2017, the Company had eleven forward-starting interest rate swap agreements with maturity dates of August 2017 with an aggregate notional amount totaling $600, nine forward-starting interest rate swap agreements with maturity dates of January 2019 with an aggregate notional amount totaling $750 and five forward-starting interest rate swap agreements with maturity dates of January 2020 with an aggregate notional amount totaling $250. A forward-starting interest rate swap is an agreement that effectively hedges the variability in future benchmark interest payments attributable to changes in interest rates on the forecasted issuance of fixed-rate debt. The Company entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on its forecasted issuance of debt in August 2017, January 2019 and January 2020. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of January 28, 2017, the fair value of the interest rate swaps was recorded in other assets and other long-term liabilities for $67 and $7, respectively, and accumulated other comprehensive income for $38 net of tax.

As of January 30, 2016, the Company had seven forward-starting interest rate swap agreements with maturity dates of August 2017 with an aggregate notional amount totaling $400. The Company entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on its forecasted issuances of debt in August 2017. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of January 30, 2016, the fair value of the interest rate swaps was recorded in other long-term liabilities for $27 and accumulated other comprehensive loss for $17 net of tax.

During 2016, the Company terminated forward-starting interest rate swaps with maturity dates of October 2016, with an aggregate notional amount totaling $300. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the third quarter of 2016. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized loss of $13, $8 net of tax, has been deferred in AOCI and will be amortized to earnings as the interest payments are made.

During 2015, the Company terminated eight forward-starting interest rate swap agreements with maturity dates of October 2015 and January 2016 with an aggregate notional amount totaling $600. Four of these forward-starting interest rate swap agreements, with an aggregate notional amount totaling $300, were entered into and terminated in 2015. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued in 2015. As discussed in Note 6, the Company issued $1,100 of senior notes in 2015. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized loss of $17, $11 net of tax, has been deferred in AOCI and will be amortized to earnings as the interest payments are made.

The following table summarizes the effect of the Company's derivative instruments designated as cash flow hedges for 2016 and 2015:

	Year-To-Date				
	Amount of Gain/(Loss) in AOCI on Derivative (Effective Portion)		Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)		
Derivatives in Cash Flow Hedging Relationships	2016	2015	2016	2015	Location of Gain/(Loss) Reclassified into Income (Effective Portion)
Forward-Starting Interest Rate Swaps, net of tax*	$ (2)	$ (51)	$ (2)	$ (1)	Interest expense

* The amounts of Gain/(Loss) in AOCI on derivatives include unamortized proceeds and payments from forward-starting interest rate swaps once classified as cash flow hedges that were terminated prior to end of 2016 and 2015, respectively.

For the above fair value and cash flow interest rate swaps, the Company has entered into International Swaps and Derivatives Association master netting agreements that permit the net settlement of amounts owed under their respective derivative contracts. Under these master netting agreements, net settlement generally permits the Company or the counterparty to determine the net amount payable for contracts due on the same date and in the same currency for similar types of derivative transactions. These master netting agreements generally also provide for net settlement of all outstanding contracts with a counterparty in the case of an event of default or a termination event.

Collateral is generally not required of the counterparties or of the Company under these master netting agreements. As of January 28, 2017 and January 30, 2016, no cash collateral was received or pledged under the master netting agreements.

The effect of the net settlement provisions of these master netting agreements on the Company's derivative balances upon an event of default or termination event is as follows as of January 28, 2017 and January 30, 2016:

				Gross Amounts Not Offset in the Balance Sheet		
January 28, 2017	**Gross Amount Recognized**	**Gross Amounts Offset in the Balance Sheet**	**Net Amount Presented in the Balance Sheet**	**Financial Instruments**	**Cash Collateral**	**Net Amount**
Assets						
Cash Flow Forward-Starting Interest Rate Swaps	$ 67	$ —	$ 67	$ —	$ —	$ 67
Liabilities						
Fair Value Interest Rate Swaps	1	—	1	—	—	1
Cash Flow Forward-Starting Interest Rate Swaps	7	—	7	—	—	7
Total	$ 8	$ —	$ 8	$ —	$ —	$ 8

				Gross Amounts Not Offset in the Balance Sheet		
January 30, 2016	**Gross Amount Recognized**	**Gross Amounts Offset in the Balance Sheet**	**Net Amount Presented in the Balance Sheet**	**Financial Instruments**	**Cash Collateral**	**Net Amount**
Assets						
Fair Value Interest Rate Swaps	$ 1	$ —	$ 1	$ —	$ —	$ 1
Liabilities						
Cash Flow Forward-Starting Interest Rate Swaps	$ 27	$ —	$ 27	$ —	$ —	$ 27

8. FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of the fair value hierarchy defined in the standards are as follows:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities;

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable;

Level 3 - Unobservable pricing inputs in which little or no market activity exists, therefore requiring an entity to develop its own assumptions about the assumptions that market participants would use in pricing an asset or liability.

For items carried at (or adjusted to) fair value in the consolidated financial statements, the following tables summarize the fair value of these instruments at January 28, 2017 and January 30, 2016:

January 28, 2017 Fair Value Measurements Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading Securities	$ 50	$ —	$ —	$ 50
Long-Lived Assets	—	—	3	3
Interest Rate Hedges	—	59	—	59
Total	$ 50	$ 59	$ 3	$ 112

January 30, 2016 Fair Value Measurements Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading Securities	$ 48	$ —	$ —	$ 48
Available-For-Sale Securities	41	—	—	41
Long-Lived Assets	—	—	7	7
Interest Rate Hedges	—	(26)	—	(26)
Total	$ 89	$ (26)	$ 7	$ 70

In the first two quarters of 2016, the Company sold all available-for-sale securities for a gain of $27, which was recorded to “Operating, general and administrative” within the Consolidated Statements of Operations. In 2015, unrealized gains on the Level 1 available-for-sale securities totaled $5.

The Company values interest rate hedges using observable forward yield curves. These forward yield curves are classified as Level 2 inputs.

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analysis of goodwill, other intangible assets, long-lived assets and in the valuation of store lease exit costs. The Company reviews goodwill and indefinite-lived intangible assets for impairment annually, during the fourth quarter of each fiscal year, and as circumstances indicate the possibility of impairment. See Note 3 for further discussion related to the Company’s carrying value of goodwill. Long-lived assets and store lease exit costs were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. See Note 1 for further discussion of the Company’s policies and recorded amounts for impairments of long-lived assets and valuation of store lease exit costs. In 2016, long-lived assets with a carrying amount of $29 were written down to their fair value of $3, resulting in an impairment charge of $26. In 2015, long-lived assets with a carrying amount of $53 were written down to their fair value of $7, resulting in an impairment charge of $46.

Mergers are accounted for using the acquisition method of accounting, which requires that the purchase price paid for an acquisition be allocated to the assets and liabilities acquired based on their estimated fair values as of the effective date of the acquisition, with the excess of the purchase price over the net assets being recorded as goodwill. See Note 2 for further discussion related to accounting for mergers.

Fair Value of Other Financial Instruments

Current and Long-term Debt

The fair value of the Company's long-term debt, including current maturities, was estimated based on the quoted market prices for the same or similar issues adjusted for illiquidity based on available market evidence. If quoted market prices were not available, the fair value was based upon the net present value of the future cash flow using the forward interest rate yield curve in effect at respective year-ends. At January 28, 2017, the fair value of total debt was $13,905 compared to a carrying value of $13,315. At January 30, 2016, the fair value of total debt was $12,344 compared to a carrying value of $11,396.

Cash and Temporary Cash Investments, Store Deposits In-Transit, Receivables, Prepaid and Other Current Assets, Trade Accounts Payable, Accrued Salaries and Wages and Other Current Liabilities

The carrying amounts of these items approximated fair value.

Other Assets

During the second quarter of 2016, the Company entered into agreements with a third party. As part of the consideration for entering these agreements, the Company received a financial instrument that derives its value from the third party's business operations. The Company used the Monte-Carlo simulation method to determine the fair value of this financial instrument. The Monte-Carlo simulation is a generally accepted statistical technique used to generate a defined number of valuation paths in order to develop a reasonable estimate of the fair value of this financial instrument. The assumptions used in the Monte-Carlo simulation are classified as Level 3 inputs. The financial instrument was valued at $335 and recorded in "Other assets" within the Consolidated Balance Sheets. As the financial instrument was obtained in exchange for certain obligations, the Company also recognized offsetting deferred revenue liabilities in "Other current liabilities" and "Other long-term liabilities" within the Consolidated Balance Sheets. The deferred revenue will be amortized to "Sales" within the Consolidated Statements of Operations over the term of the agreements. Post inception, the Company received a distribution of $59, which was recorded as a reduction of the cost method investment.

The fair values of certain investments recorded in "other assets" within the Consolidated Balance Sheets were estimated based on quoted market prices for those or similar investments, or estimated cash flows, if appropriate. At January 28, 2017 and January 30, 2016, the carrying and fair value of long-term investments for which fair value is determinable was $151 and $128 respectively. At January 28, 2017 and January 30, 2016, the carrying value of notes receivable for which fair value is determinable was $182 and $145, respectively.

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table represents the changes in AOCI by component for the years ended January 30, 2016 and January 28, 2017:

	Cash Flow Hedging Activities[1]	Available for sale Securities[1]	Pension and Postretirement Defined Benefit Plans[1]	Total[1]
Balance at January 31, 2015	$ (49)	$ 17	$ (780)	$ (812)
OCI before reclassifications(2)	(3)	3	78	78
Amounts reclassified out of AOCI(3)	1	—	53	54
Net current-period OCI	(2)	3	131	132
Balance at January 30, 2016	$ (51)	$ 20	$ (649)	$ (680)
Balance at January 30, 2016	$ (51)	$ 20	$ (649)	$ (680)
OCI before reclassifications(2)	47	(6)	(97)	(56)
Amounts reclassified out of AOCI(3)	2	(14)	33	21
Net current-period OCI	49	(20)	(64)	(35)
Balance at January 28, 2017	$ (2)	$ —	$ (713)	$ (715)

(1) All amounts are net of tax.
(2) Net of tax of $(2), $2 and $45 for cash flow hedging activities, available for sale securities and pension and postretirement defined benefit plans, respectively, as of January 30, 2016. Net of tax of $27, $(3) and $(59) for cash flow hedging activities, available for sale securities and pension and postretirement defined benefit plans, respectively, as of January 28, 2017.
(3) Net of tax of $32 for pension and postretirement defined benefit plans, as of January 30, 2016. Net of tax of $20 and $(13) for pension and postretirement defined benefit plans and available for sale securities, respectively, as of January 28, 2017.

The following table represents the items reclassified out of AOCI and the related tax effects for the years ended January 28, 2017, January 30, 2016 and January 31, 2015:

	For the year ended January 28, 2017	For the year ended January 30, 2016	For the year ended January 31, 2015
Cash flow hedging activity items			
Amortization of gains and losses on cash flow hedging activities(1)	$ 2	$ 1	$ 1
Tax expense	—	—	—
Net of tax	2	1	1
Available for sale security items			
Realized gains on available for sale securities(2)	(27)	—	—
Tax expense	13	—	—
Net of tax	(14)	—	—
Pension and postretirement defined benefit plan items			
Amortization of amounts included in net periodic pension expense(3)	53	85	35
Tax expense	(20)	(32)	(13)
Net of tax	33	53	22
Total reclassifications, net of tax	$ 21	$ 54	$ 23

(1) Reclassified from AOCI into interest expense.
(2) Reclassified from AOCI into operating, general and administrative expense.
(3) Reclassified from AOCI into merchandise costs and OG&A expense. These components are included in the computation of net periodic pension costs.

10. LEASES AND LEASE-FINANCED TRANSACTIONS

While the Company's current strategy emphasizes ownership of store real estate, the Company operates primarily in leased facilities. Lease terms generally range from 10 to 20 years with options to renew for varying terms. Terms of certain leases include escalation clauses, percentage rent based on sales or payment of executory costs such as property taxes, utilities or insurance and maintenance. Rent expense for leases with escalation clauses or other lease concessions are accounted for on a straight-line basis beginning with the earlier of the lease commencement date or the date the Company takes possession. Portions of certain properties are subleased to others for periods generally ranging from one to 20 years.

Rent expense (under operating leases) consists of:

	2016	2015	2014
Minimum rentals	$ 973	$ 807	$ 795
Contingent payments	16	18	16
Tenant income	(108)	(102)	(104)
Total rent expense	$ 881	$ 723	$ 707

Minimum annual rentals and payments under capital leases and lease-financed transactions for the five years subsequent to 2016 and in the aggregate are:

	Capital Leases	Operating Leases	Lease-Financed Transactions
2017	$ 92	$ 986	$ 7
2018	76	932	8
2019	71	856	8
2020	66	759	9
2021	64	656	9
Thereafter	647	3,992	53
Total	$1,016	$ 8,181	$ 94
Less estimated executory costs included in capital leases	—		
Net minimum lease payments under capital leases	1,016		
Less amount representing interest	348		
Present value of net minimum lease payments under capital leases	$ 668		

Total future minimum rentals under noncancellable subleases at January 28, 2017 were $268.

11. EARNINGS PER COMMON SHARE

Net earnings attributable to The Kroger Co. per basic common share equals net earnings attributable to The Kroger Co. less income allocated to participating securities divided by the weighted average number of common shares outstanding. Net earnings attributable to The Kroger Co. per diluted common share equals net earnings attributable to The Kroger Co. less income allocated to participating securities divided by the weighted average number of common shares outstanding, after giving effect to dilutive stock options. The following table provides a reconciliation of net earnings attributable to The Kroger Co. and shares used in calculating net earnings attributable to The Kroger Co. per basic common share to those used in calculating net earnings attributable to The Kroger Co. per diluted common share:

	For the year ended January 28, 2017			For the year ended January 30, 2016			For the year ended January 31, 2015		
(in millions, except per share amounts)	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Net earnings attributable to The Kroger Co. per basic common share	$ 1,959	942	$ 2.08	$ 2,021	966	$ 2.09	$ 1,711	981	$ 1.74
Dilutive effect of stock options		16			14			12	
Net earnings attributable to The Kroger Co. per diluted common share	$ 1,959	958	$ 2.05	$ 2,021	980	$ 2.06	$ 1,711	993	$ 1.72

The Company had combined undistributed and distributed earnings to participating securities totaling $16, $18 and $17 in 2016, 2015 and 2014, respectively.

The Company had options outstanding for approximately 7.1 million, 1.9 million and 4.6 million, respectively, for the years ended January 28, 2017, January 30, 2016 and January 31, 2015, which were excluded from the computations of net earnings per diluted common share because their inclusion would have had an anti-dilutive effect on net earnings per diluted share.

12. STOCK OPTION PLANS

The Company grants options for common shares ("stock options") to employees under various plans at an option price equal to the fair market value of the stock at the date of grant. The Company accounts for stock options under the fair value recognition provisions. Under this method, the Company recognizes compensation expense for all share-based payments granted. The Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award. Excess tax benefits related to share-based payments are recognized in the provision for income taxes. Equity awards may be made at one of four meetings of its Board of Directors occurring shortly after the Company's release of quarterly earnings. The 2016 primary grant was made in conjunction with the June meeting of the Company's Board of Directors. Certain changes to the stock option compensation strategy were put into effect in 2015, which resulted in a reduction to the number of stock options granted in 2016 and 2015, compared to 2014.

Stock options typically expire 10 years from the date of grant. Stock options vest between one and five years from the date of grant. At January 28, 2017, approximately 33 million common shares were available for future option grants under the 2008, 2011 and 2014 Long-Term Incentive Plans (the "Plans").

In addition to the stock options described above, the Company awards restricted stock to employees and non-employee directors under various plans. The restrictions on these awards generally lapse between one and five years from the date of the awards. The Company records expense for restricted stock awards in an amount equal to the fair market value of the underlying shares on the grant date of the award, over the period the awards lapse. As of January 28, 2017, approximately 17 million common shares were available under the Plans for future restricted stock awards or shares issued to the extent performance criteria are achieved. The Company has the ability to convert shares available for stock options under the Plans to shares available for restricted stock awards. Under the Plans, four shares available for option awards can be converted into one share available for restricted stock awards.

All awards become immediately exercisable upon certain changes of control of the Company.

Stock Options

Changes in options outstanding under the stock option plans are summarized below:

	Shares subject to option (in millions)	Weighted-average exercise price
Outstanding, year-end 2013	43.3	$ 12.83
Granted	8.4	$ 24.71
Exercised	(10.3)	$ 11.56
Canceled or Expired	(0.6)	$ 15.56
Outstanding, year-end 2014	40.8	$ 15.56
Granted	3.4	$ 38.40
Exercised	(8.9)	$ 13.54
Canceled or Expired	(0.4)	$ 19.98
Outstanding, year-end 2015	34.9	$ 18.26
Granted	4.8	$ 37.10
Exercised	(4.9)	$ 14.20
Canceled or Expired	(0.5)	$ 28.35
Outstanding, year-end 2016	34.3	$ 21.32

A summary of options outstanding, exercisable and expected to vest at January 28, 2017 follows:

	Number of shares	Weighted-average remaining contractual life	Weighted-average exercise price	Aggregate intrinsic value
	(in millions)	(in years)		(in millions)
Options Outstanding	34.3	6.04	$ 21.32	447
Options Exercisable	21.7	4.84	$ 16.00	381
Options Expected to Vest	12.3	8.09	$ 30.45	65

Restricted stock

Changes in restricted stock outstanding under the restricted stock plans are summarized below:

	Restricted shares outstanding (in millions)	Weighted-average grant-date fair value
Outstanding, year-end 2013	9.6	$ 16.16
Granted	6.1	$ 24.76
Lapsed	(5.2)	$ 16.52
Canceled or Expired	(0.3)	$ 18.67
Outstanding, year-end 2014	10.2	$ 21.04
Granted	3.2	$ 38.34
Lapsed	(5.4)	$ 21.49
Canceled or Expired	(0.4)	$ 22.80
Outstanding, year-end 2015	7.6	$ 28.01
Granted	3.6	$ 37.03
Lapsed	(3.5)	$ 28.52
Canceled or Expired	(0.3)	$ 30.70
Outstanding, year-end 2016	7.4	$ 32.09

The weighted-average grant date fair value of stock options granted during 2016, 2015 and 2014 was $7.48, $9.78 and $5.98, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model, based on the assumptions shown in the table below. The Black-Scholes model utilizes accounting judgment and financial estimates, including the term option holders are expected to retain their stock options before exercising them, the volatility of the Company's share price over that expected term, the dividend yield over the term and the number of awards expected to be forfeited before they vest. Using alternative assumptions in the calculation of fair value would produce fair values for stock option grants that could be different than those used to record stock-based compensation expense in the Consolidated Statements of Operations. The decrease in the fair value of the stock options granted during 2016, compared to 2015, resulted primarily from a decrease in the Company's share price, which increased the expected dividend yield, and decreases in the weighted average expected volatitity and the weighted average risk free discount rate. The increase in the fair value of the stock options granted during 2015, compared to 2014, resulted primarily from an increase in the Company's share price, which decreased the expected dividend yield, and an increase in the weighted average risk-free interest rate.

The following table reflects the weighted-average assumptions used for grants awarded to option holders:

	2016	2015	2014
Weighted average expected volatility	21.40 %	24.07 %	25.29 %
Weighted average risk-free interest rate	1.29 %	2.12 %	2.06 %
Expected dividend yield	1.40 %	1.20 %	1.51 %
Expected term (based on historical results)	7.2 years	7.2 years	6.6 years

The weighted-average risk-free interest rate was based on the yield of a treasury note as of the grant date, continuously compounded, which matures at a date that approximates the expected term of the options. The dividend yield was based on our history and expectation of dividend payouts. Expected volatility was determined based upon historical stock volatilities; however, implied volatility was also considered. Expected term was determined based upon historical exercise and cancellation experience.

Total stock compensation recognized in 2016, 2015 and 2014 was $141, $165 and $155, respectively. Stock option compensation recognized in 2016, 2015 and 2014 was $28, $31 and $32, respectively. Restricted shares compensation recognized in 2016, 2015 and 2014 was $113, $134 and $123, respectively.

The total intrinsic value of stock options exercised was $105, $217 and $142 in 2016, 2015 and 2014, respectively. The total amount of cash received in 2016 by the Company from the exercise of stock options granted under share-based payment arrangements was $68. As of January 28, 2017, there was $218 of total unrecognized compensation expense remaining related to non-vested share-based compensation arrangements granted under Plans. This cost is expected to be recognized over a weighted-average period of approximately two years. The total fair value of options that vested was $28, $33 and $26 in 2016, 2015 and 2014, respectively.

Shares issued as a result of stock option exercises may be newly issued shares or reissued treasury shares. Proceeds received from the exercise of options, and the related tax benefit, may be utilized to repurchase the Company's common shares under a stock repurchase program adopted by the Company's Board of Directors. During 2016, the Company repurchased approximately three million common shares in such a manner.

13. COMMITMENTS AND CONTINGENCIES

The Company continuously evaluates contingencies based upon the best available evidence.

The Company believes that allowances for loss have been provided to the extent necessary and that its assessment of contingencies is reasonable. To the extent that resolution of contingencies results in amounts that vary from the Company's estimates, future earnings will be charged or credited.

The principal contingencies are described below:

Insurance — The Company's workers' compensation risks are self-insured in most states. In addition, other workers' compensation risks and certain levels of insured general liability risks are based on retrospective premium plans, deductible plans, and self-insured retention plans. The liability for workers' compensation risks is accounted for on a present value basis. Actual claim settlements and expenses incident thereto may differ from the provisions for loss. Property risks have been underwritten by a subsidiary and are all reinsured with unrelated insurance companies. Operating divisions and subsidiaries have paid premiums, and the insurance subsidiary has provided loss allowances, based upon actuarially determined estimates.

Litigation — Various claims and lawsuits arising in the normal course of business, including suits charging violations of certain antitrust, wage and hour, or civil rights laws, as well as product liability cases, are pending against the Company. Some of these suits purport or have been determined to be class actions and/or seek substantial damages. Any damages that may be awarded in antitrust cases will be automatically trebled. Although it is not possible at this time to evaluate the merits of all of these claims and lawsuits, nor their likelihood of success, the Company is of the belief that any resulting liability will not have a material effect on the Company's financial position, results of operations, or cash flows.

The Company continually evaluates its exposure to loss contingencies arising from pending or threatened litigation and believes it has made provisions where it is reasonably possible to estimate and when an adverse outcome is probable. Nonetheless, assessing and predicting the outcomes of these matters involves substantial uncertainties. Management currently believes that the aggregate range of loss for the Company's exposure is not material to the Company. It remains possible that despite management's current belief, material differences in actual outcomes or changes in management's evaluation or predictions could arise that could have a material adverse effect on the Company's financial condition, results of operations, or cash flows.

Assignments — The Company is contingently liable for leases that have been assigned to various third parties in connection with facility closings and dispositions. The Company could be required to satisfy the obligations under the leases if any of the assignees is unable to fulfill its lease obligations. Due to the wide distribution of the Company's assignments among third parties, and various other remedies available, the Company believes the likelihood that it will be required to assume a material amount of these obligations is remote.

14. STOCK

Preferred Shares

The Company has authorized five million shares of voting cumulative preferred shares; two million shares were available for issuance at January 28, 2017. The shares have a par value of $100 per share and are issuable in series.

Common Shares

The Company has authorized two billion common shares, $1 par value per share.

On June 25, 2015, the Company's Board of Directors approved a two-for-one stock split of The Kroger Co.'s common shares in the form of a 100% stock dividend, which was effective July 13, 2015. All share and per share amounts in the Company's Consolidated Financial Statements and related notes have been retroactively adjusted to reflect the stock split for all periods presented.

Common Stock Repurchase Program

The Company maintains stock repurchase programs that comply with Rule 10b5-1 of the Securities Exchange Act of 1934 to allow for the orderly repurchase of The Kroger Co. common shares, from time to time. The Company made open market purchases totaling $1,661, $500 and $1,129 under these repurchase programs in 2016, 2015 and 2014, respectively. In addition to these repurchase programs, in December 1999, the Company began a program to repurchase common shares to reduce dilution resulting from its employee stock option plans. This program is solely funded by proceeds from stock option exercises and the related tax benefit. The Company repurchased approximately $105, $203 and $154 under the stock option program during 2016, 2015 and 2014, respectively.

15. COMPANY- SPONSORED BENEFIT PLANS

The Company administers non-contributory defined benefit retirement plans for some non-union employees and union-represented employees as determined by the terms and conditions of collective bargaining agreements. These include several qualified pension plans (the "Qualified Plans") and non-qualified pension plans (the "Non-Qualified Plans"). The Non-Qualified Plans pay benefits to any employee that earns in excess of the maximum allowed for the Qualified Plans by Section 415 of the Internal Revenue Code. The Company only funds obligations under the Qualified Plans. Funding for the Company-sponsored pension plans is based on a review of the specific requirements and on evaluation of the assets and liabilities of each plan.

In addition to providing pension benefits, the Company provides certain health care benefits for retired employees. The majority of the Company's employees may become eligible for these benefits if they reach normal retirement age while employed by the Company. Funding of retiree health care benefits occurs as claims or premiums are paid.

The Company recognizes the funded status of its retirement plans on the Consolidated Balance Sheets. Actuarial gains or losses, prior service costs or credits and transition obligations that have not yet been recognized as part of net periodic benefit cost are required to be recorded as a component of AOCI. All plans are measured as of the Company's fiscal year end.

Amounts recognized in AOCI as of January 28, 2017 and January 30, 2016 consists of the following (pre-tax):

	Pension Benefits		Other Benefits		Total	
	2016	2015	2016	2015	2016	2015
Net actuarial loss (gain)	$ 1,308	$ 1,213	$ (120)	$ (121)	$ 1,188	$ 1,092
Prior service cost (credit)	—	1	(58)	(66)	(58)	(65)
Total	$ 1,308	$ 1,214	$ (178)	$ (187)	$ 1,130	$ 1,027

Amounts in AOCI expected to be recognized as components of net periodic pension or postretirement benefit costs in the next fiscal year are as follows (pre-tax):

	Pension Benefits	Other Benefits	Total
	2017	2017	2017
Net actuarial loss (gain)	$ 85	$ (9)	$ 76
Prior service credit	—	(8)	(8)
Total	$ 85	$ (17)	$ 68

Other changes recognized in other comprehensive income in 2016, 2015 and 2014 were as follows (pre-tax):

	Pension Benefits			Other Benefits			Total		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Incurred net actuarial loss (gain)	$ 165	$ (83)	$ 590	$ (9)	$ (39)	$ 14	$ 156	$ (122)	$ 604
Amortization of prior service credit	—	—	—	8	11	7	8	11	7
Amortization of net actuarial gain (loss)	(71)	(102)	(50)	10	7	8	(61)	(95)	(42)
Other	—	—	—	—	(2)	(47)	—	(2)	(47)
Total recognized in other comprehensive income (loss)	94	(185)	540	9	(23)	(18)	103	(208)	522
Total recognized in net periodic benefit cost and other comprehensive income	$ 188	$ (82)	$ 595	$ 10	$ (22)	$ (9)	$ 198	$ (104)	$ 586

Information with respect to change in benefit obligation, change in plan assets, the funded status of the plans recorded in the Consolidated Balance Sheets, net amounts recognized at the end of fiscal years, weighted average assumptions and components of net periodic benefit cost follow:

	Pension Benefits					
	Qualified Plans		Non-Qualified Plans		Other Benefits	
	2016	2015	2016	2015	2016	2015
Change in benefit obligation:						
Benefit obligation at beginning of fiscal year	$ 3,922	$ 4,102	$ 290	$ 304	$ 244	$ 275
Service cost	68	62	2	3	9	10
Interest cost	177	154	14	12	10	9
Plan participants' contributions	—	—	—	—	12	10
Actuarial (gain) loss	186	(411)	29	(17)	(9)	(39)
Benefits paid	(211)	(162)	(19)	(17)	(23)	(19)
Other	(2)	(17)	—	3	—	(2)
Assumption of Roundy's benefit obligation	—	194	—	2	—	—
Benefit obligation at end of fiscal year	$ 4,140	$ 3,922	$ 316	$ 290	$ 243	$ 244
Change in plan assets:						
Fair value of plan assets at beginning of fiscal year	$ 3,045	$ 3,189	$ —	$ —	$ —	$ —
Actual return (loss) on plan assets	302	(124)	—	—	—	—
Employer contributions	3	5	19	17	11	9
Plan participants' contributions	—	—	—	—	12	10
Benefits paid	(211)	(162)	(19)	(17)	(23)	(19)
Other	(1)	(18)	—	—	—	—
Assumption of Roundy's plan assets	—	155	—	—	—	—
Fair value of plan assets at end of fiscal year	$ 3,138	$ 3,045	$ —	$ —	$ —	$ —
Funded status and net liability recognized at end of fiscal year	$ (1,002)	$ (877)	$ (316)	$ (290)	$ (243)	$ (244)

As of January 28, 2017 and January 30, 2016, other current liabilities include $37 and $31, respectively, of net liability recognized for the above benefit plans.

As of January 28, 2017 and January 30, 2016, pension plan assets do not include common shares of The Kroger Co.

	Pension Benefits			Other Benefits		
Weighted average assumptions	2016	2015	2014	2016	2015	2014
Discount rate — Benefit obligation	4.25 %	4.62 %	3.87 %	4.18 %	4.44 %	3.74 %
Discount rate — Net periodic benefit cost	4.62 %	3.87 %	4.99 %	4.44 %	3.74 %	4.68 %
Expected long-term rate of return on plan assets	7.40 %	7.44 %	7.44 %			
Rate of compensation increase — Net periodic benefit cost	2.71 %	2.85 %	2.86 %			
Rate of compensation increase — Benefit obligation	2.72 %	2.71 %	2.85 %			

The Company's discount rate assumptions were intended to reflect the rates at which the pension benefits could be effectively settled. They take into account the timing and amount of benefits that would be available under the plans. The Company's policy is to match the plan's cash flows to that of a hypothetical bond portfolio whose cash flow from coupons and maturities match the plan's projected benefit cash flows. The discount rates are the single rates that produce the same present value of cash flows. The selection of the 4.25% and 4.18% discount rates as of year-end 2016 for pension and other benefits, respectively, represents the hypothetical bond portfolio using bonds with an AA or better rating constructed with the assistance of an outside consultant. A 100 basis point increase in the discount rate would decrease the projected pension benefit obligation as of January 31, 2017, by approximately $510.

To determine the expected rate of return on pension plan assets held by the Company for 2016, the Company considered current and forecasted plan asset allocations as well as historical and forecasted rates of return on various asset categories. In 2016, the Company assumed a pension plan investment return rate to 7.40% compared to 7.44% in 2015 and 2014. The Company pension plan's average rate of return was 5.81% for the 10 calendar years ended December 31, 2016, net of all investment management fees and expenses. The value of all investments in the Qualified Plans during the calendar year ending December 31, 2016 increased 6.90%, net of investment management fees and expenses. For the past 20 years, the Company's average annual rate of return has been 7.77%. Based on the above information and forward looking assumptions for investments made in a manner consistent with the Company's target allocations, the Company believes a 7.40% rate of return assumption is reasonable.

The Company calculates its expected return on plan assets by using the market-related value of plan assets. The market-related value of plan assets is determined by adjusting the actual fair value of plan assets for gains or losses on plan assets. Gains or losses represent the difference between actual and expected returns on plan investments for each plan year. Gains or losses on plan assets are recognized evenly over a five year period. Using a different method to calculate the market-related value of plan assets would provide a different expected return on plan assets.

On January 31, 2015, the Company adopted new industry specific mortality tables based on mortality experience and assumptions for generational mortality improvement in determining the Company's benefit obligations. On January 28, 2017, the Company adopted an updated assumption for generational mortality improvement, based on additional years of published mortality experience.

The funded status decreased in 2016, compared to 2015, due primarily to a decrease in the discount rate, partially offset by an increase in plan assets.

The following table provides the components of the Company's net periodic benefit costs for 2016, 2015 and 2014:

	Pension Benefits								
	Qualified Plans			Non-Qualified Plans			Other Benefits		
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Components of net periodic benefit cost:									
Service cost	$ 68	$ 62	$ 48	$ 2	$ 3	$ 3	$ 9	$ 10	$ 11
Interest cost	177	154	169	14	12	13	10	9	13
Expected return on plan assets	(238)	(230)	(228)	—	—	—	—	—	—
Amortization of:									
Prior service credit	—	—	—	—	—	—	(8)	(11)	(7)
Actuarial (gain) loss	60	93	46	8	9	4	(10)	(7)	(8)
Other	3	—	—	—	—	—	—	—	—
Net periodic benefit cost	$ 70	$ 79	$ 35	$ 24	$ 24	$ 20	$ 1	$ 1	$ 9

The following table provides the projected benefit obligation ("PBO"), accumulated benefit obligation ("ABO") and the fair value of plan assets for all Company-sponsored pension plans.

	Qualified Plans		Non-Qualified Plans	
	2016	2015	2016	2015
PBO at end of fiscal year	$ 4,140	$ 3,922	$ 316	$ 290
ABO at end of fiscal year	$ 3,997	$ 3,786	$ 297	$ 280
Fair value of plan assets at end of year	$ 3,138	$ 3,045	$ —	$ —

The following table provides information about the Company's estimated future benefit payments.

	Pension Benefits	Other Benefits
2017	$ 246	$ 14
2018	$ 242	$ 14
2019	$ 253	$ 15
2020	$ 265	$ 17
2021	$ 276	$ 18
2022 —2026	$ 1,522	$ 104

The following table provides information about the weighted average target and actual pension plan asset allocations.

	Target allocations	Actual Allocations	
	2016	2016	2015
Pension plan asset allocation			
Global equity securities	13.2 %	14.3 %	14.9 %
Emerging market equity securities	5.8	6.5	5.2
Investment grade debt securities	8.0	12.0	11.3
High yield debt securities	14.0	14.2	11.9
Private equity	6.0	7.5	7.4
Hedge funds	39.0	35.2	36.0
Real estate	3.0	2.8	3.9
Other	11.0	7.5	9.4
Total	100.0 %	100.0 %	100.0 %

Investment objectives, policies and strategies are set by the Pension Investment Committee (the "Committee"). The primary objectives include holding and investing the assets and distributing benefits to participants and beneficiaries of the pension plans. Investment objectives have been established based on a comprehensive review of the capital markets and each underlying plan's current and projected financial requirements. The time horizon of the investment objectives is long-term in nature and plan assets are managed on a going-concern basis.

Investment objectives and guidelines specifically applicable to each manager of assets are established and reviewed annually. Derivative instruments may be used for specified purposes, including rebalancing exposures to certain asset classes. Any use of derivative instruments for a purpose or in a manner not specifically authorized is prohibited, unless approved in advance by the Committee.

The current target allocations shown represent the 2016 targets that were established in 2015. The Company will rebalance by liquidating assets whose allocation materially exceeds target, if possible, and investing in assets whose allocation is materially below target. If markets are illiquid, the Company may not be able to rebalance to target quickly. To maintain actual asset allocations consistent with target allocations, assets are reallocated or rebalanced periodically. In addition, cash flow from employer contributions and participant benefit payments can be used to fund underweight asset classes and divest overweight asset classes, as appropriate. The Company expects that cash flow will be sufficient to meet most rebalancing needs.

The Company is not required to make any contributions to the Qualified Plans in 2017. If the Company does make any contributions in 2017, the Company expects these contributions will decrease its required contributions in future years. Among other things, investment performance of plan assets, the interest rates required to be used to calculate the pension obligations, and future changes in legislation, will determine the amounts of any contributions. The Company expects 2017 expense for Company-sponsored pension plans to be approximately $110.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The Company used a 6.10% initial health care cost trend rate, which is assumed to decrease on a linear basis to a 4.50% ultimate health care cost trend rate in 2037, to determine its expense. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	$ 2	$ (2)
Effect on postretirement benefit obligation	$ 24	$ (21)

The following tables, which both reflect the adoption of Accounting Standards Update ("ASU") 2015-07 (see Note 17), set forth by level, within the fair value hierarchy, the Qualified Plans' assets at fair value as of January 28, 2017 and January 30, 2016:

Assets at Fair Value as of January 28, 2017

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets Measured at NAV	Total
Cash and cash equivalents	$ 183	$ —	$ —	$ —	$ 183
Corporate Stocks	240	—	—	—	240
Corporate Bonds	—	57	—	—	57
U.S. Government Securities	—	37	—	—	37
Mutual Funds/Collective Trusts	122	4	—	827	953
Partnerships/Joint Ventures	—	156	—	—	156
Hedge Funds	—	—	67	1,034	1,101
Private Equity	—	—	—	245	245
Real Estate	—	—	65	22	87
Other	—	35	—	44	79
Total	$ 545	$ 289	$ 132	$ 2,172	$ 3,138

Assets at Fair Value as of January 30, 2016

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets Measured at NAV	Total
Cash and cash equivalents	$ 27	$ —	$ —	$ —	$ 27
Corporate Stocks	231	—	—	—	231
Corporate Bonds	—	76	—	—	76
U.S. Government Securities	—	75	—	—	75
Mutual Funds/Collective Trusts	89	5	—	896	990
Partnerships/Joint Ventures	—	118	—	—	118
Hedge Funds	—	—	61	1,043	1,104
Private Equity	—	—	—	225	225
Real Estate	—	—	79	24	103
Other	—	47	—	49	96
Total	$ 347	$ 321	$ 140	$ 2,237	$ 3,045

For measurements using significant unobservable inputs (Level 3) during 2016 and 2015, a reconciliation of the beginning and ending balances is as follows:

	Hedge Funds	Real Estate
Ending balance, January 31, 2015	$ 56	$ 84
Contributions into Fund	13	9
Realized gains	—	5
Unrealized (losses) gains	(1)	2
Distributions	(7)	(21)
Ending balance, January 30, 2016	61	79
Contributions into Fund	10	9
Realized gains	1	12
Unrealized losses	(1)	(2)
Distributions	(4)	(32)
Other	—	(1)
Ending balance, January 28, 2017	$ 67	$ 65

See Note 8 for a discussion of the levels of the fair value hierarchy. The assets' fair value measurement level above is based on the lowest level of any input that is significant to the fair value measurement.

The following is a description of the valuation methods used for the Qualified Plans' assets measured at fair value in the above tables:

- Cash and cash equivalents: The carrying value approximates fair value.
- Corporate Stocks: The fair values of these securities are based on observable market quotations for identical assets and are valued at the closing price reported on the active market on which the individual securities are traded.
- Corporate Bonds: The fair values of these securities are primarily based on observable market quotations for similar bonds, valued at the closing price reported on the active market on which the individual securities are traded. When such quoted prices are not available, the bonds are valued using a discounted cash flow approach using current yields on similar instruments of issuers with similar credit ratings, including adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- U.S. Government Securities: Certain U.S. Government securities are valued at the closing price reported in the active market in which the security is traded. Other U.S. government securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for similar securities, the security is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- Mutual Funds/Collective Trusts: The mutual funds/collective trust funds are public investment vehicles valued using a Net Asset Value (NAV) provided by the manager of each fund. The NAV is based on the underlying net assets owned by the fund, divided by the number of shares outstanding. The NAV's unit price is quoted on a private market that is not active. However, the NAV is based on the fair value of the underlying securities within the fund, which are traded on an active market, and valued at the closing price reported on the active market on which those individual securities are traded.
- Partnerships/Joint Ventures: These funds consist primarily of U.S. government securities, Corporate Bonds, Corporate Stocks, and derivatives, which are valued in a manner consistent with these types of investments, noted above.

- Hedge Funds: Hedge funds are private investment vehicles valued using a Net Asset Value (NAV) provided by the manager of each fund. The NAV is based on the underlying net assets owned by the fund, divided by the number of shares outstanding. The NAV's unit price is quoted on a private market that is not active. The NAV is based on the fair value of the underlying securities within the funds, which may be traded on an active market, and valued at the closing price reported on the active market on which those individual securities are traded. For investments not traded on an active market, or for which a quoted price is not publicly available, a variety of unobservable valuation methodologies, including discounted cash flow, market multiple and cost valuation approaches, are employed by the fund manager to value investments. Fair values of all investments are adjusted annually, if necessary, based on audits of the Hedge Fund financial statements; such adjustments are reflected in the fair value of the plan's assets.

- Private Equity: Private Equity investments are valued based on the fair value of the underlying securities within the fund, which include investments both traded on an active market and not traded on an active market. For those investments that are traded on an active market, the values are based on the closing price reported on the active market on which those individual securities are traded. For investments not traded on an active market, or for which a quoted price is not publicly available, a variety of unobservable valuation methodologies, including discounted cash flow, market multiple and cost valuation approaches, are employed by the fund manager to value investments. Fair values of all investments are adjusted annually, if necessary, based on audits of the private equity fund financial statements; such adjustments are reflected in the fair value of the plan's assets.

- Real Estate: Real estate investments include investments in real estate funds managed by a fund manager. These investments are valued using a variety of unobservable valuation methodologies, including discounted cash flow, market multiple and cost valuation approaches.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement.

The Company contributed and expensed $215, $196 and $177 to employee 401(k) retirement savings accounts in 2016, 2015 and 2014, respectively. The 401(k) retirement savings account plans provide to eligible employees both matching contributions and automatic contributions from the Company based on participant contributions, compensation as defined by the plan and length of service.

16. MULTI-EMPLOYER PENSION PLANS

The Company contributes to various multi-employer pension plans based on obligations arising from collective bargaining agreements. These multi-employer pension plans provide retirement benefits to participants based on their service to contributing employers. The benefits are paid from assets held in trust for that purpose. Trustees are appointed in equal number by employers and unions. The trustees typically are responsible for determining the level of benefits to be provided to participants as well as for such matters as the investment of the assets and the administration of the plans.

The Company recognizes expense in connection with these plans as contributions are funded or when commitments are probable and reasonably estimable, in accordance with GAAP. The Company made cash contributions to these plans of $289 million in 2016, $426 million in 2015 and $297 million in 2014.

The Company continues to evaluate and address potential exposure to under-funded multi-employer pension plans as it relates to the Company's associates who are beneficiaries of these plans. These under-fundings are not a liability of the Company. When an opportunity arises that is economically feasible and beneficial to the Company and its associates, the Company may negotiate the restructuring of under-funded multi-employer pension plan obligations to help stabilize associates' future benefits and become the fiduciary of the restructured multi-employer pension plan. The commitments from these restructurings do not change the debt profile of the Company as it relates to the Company's credit rating. The Company is currently designated as the named fiduciary of the UFCW Consolidated Pension Plan and has sole investment authority over these assets. Significant effects of these restructuring agreements recorded in our Consolidated Financial Statements are:

- In 2016, the Company incurred a charge of $111, $71 (after-tax), due to commitments and withdrawal liabilities arising from the restructuring of certain multi-employer pension plan obligations, of which $28 was contributed to the UFCW Consolidated Pension Plan in 2016.

- In 2015, the Company contributed $190 to the UFCW Consolidated Pension Plan. The Company had previously accrued $60 of the total contributions at January 31, 2015 and recorded expense for the remaining $130 at the time of payment in 2015.

- In 2014, the Company incurred a charge of $56 (after-tax) related to commitments and withdrawal liabilities associated with the restructuring of pension plan agreements, of which $15 was contributed to the UFCW Consolidated Pension Plan in 2014.

The risks of participating in multi-employer pension plans are different from the risks of participating in single-employer pension plans in the following respects:

a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan allocable to such withdrawing employer may be borne by the remaining participating employers.

c. If the Company stops participating in some of its multi-employer pension plans, the Company may be required to pay those plans an amount based on its allocable share of the unfunded vested benefits of the plan, referred to as a withdrawal liability.

The Company's participation in multi-employer plans is outlined in the following tables. The EIN / Pension Plan Number column provides the Employer Identification Number ("EIN") and the three-digit pension plan number. The most recent Pension Protection Act Zone Status available in 2016 and 2015 is for the plan's year-end at December 31, 2015 and December 31, 2014, respectively. Among other factors, generally, plans in the red zone are less than 65 percent funded, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent funded. The FIP/RP Status Pending / Implemented Column indicates plans for which a funding improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. Unless otherwise noted, the information for these tables was obtained from the Forms 5500 filed for each plan's year-end at December 31, 2015 and December 31, 2014. The multi-employer contributions listed in the table below are the Company's multi-employer contributions made in fiscal years 2016, 2015 and 2014.

The following table contains information about the Company's multi-employer pension plans:

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status 2016	Pension Protection Act Zone Status 2015	FIP/RP Status Pending/ Implemented	Multi-Employer Contributions 2016	Multi-Employer Contributions 2015	Multi-Employer Contributions 2014	Surcharge Imposed(6)
SO CA UFCW Unions & Food Employers Joint Pension Trust Fund[1][2]	95-1939092 - 001	Red	Red	Implemented	$ 60	$ 55	$ 48	No
Desert States Employers & UFCW Unions Pension Plan[1]	84-6277982 - 001	Green	Green	No	18	18	21	No
Sound Retirement Trust (formerly Retail Clerks Pension Plan)[1][3]	91-6069306 – 001	Red	Red	Implemented	18	17	15	No
Rocky Mountain UFCW Unions and Employers Pension Plan[1]	84-6045986 - 001	Green	Green	No	16	17	17	No
Oregon Retail Employees Pension Plan[1]	93-6074377 - 001	Green	Green	No	8	9	7	No
Bakery and Confectionary Union & Industry International Pension Fund[1]	52-6118572 - 001	Red	Red	Implemented	10	11	11	No
Washington Meat Industry Pension Trust[1][4][5]	91-6134141 - 001	Red	Red	Implemented	—	—	1	No
Retail Food Employers & UFCW Local 711 Pension[1]	51-6031512 - 001	Red	Red	Implemented	9	9	9	No
Denver Area Meat Cutters and Employers Pension Plan[1]	84-6097461 - 001	Green	Green	No	3	7	8	No
United Food & Commercial Workers Intl Union — Industry Pension Fund[1][4]	51-6055922 - 001	Green	Green	No	37	35	33	No
Western Conference of Teamsters Pension Plan	91-6145047 - 001	Green	Green	No	33	31	30	No
Central States, Southeast & Southwest Areas Pension Plan	36-6044243 - 001	Red	Red	Implemented	23	16	15	No
UFCW Consolidated Pension Plan[1]	58-6101602 – 001	Green	Green	No	34	190	70	No
Other					20	11	12	
Total Contributions					$ 289	$ 426	$ 297	

(1) The Company's multi-employer contributions to these respective funds represent more than 5% of the total contributions received by the pension funds.
(2) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at March 31, 2016 and March 31, 2015.
(3) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at September 30, 2015 and September 30, 2014.
(4) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at June 30, 2015 and June 30, 2014.
(5) As of June 30, 2014, this pension fund was merged into the Sound Retirement Trust. After the completion of the merger, on July 1, 2014, certain assets and liabilities related to the Washington Meat Industry Pension Trust were transferred from the Sound Retirement Trust to the UFCW Consolidated Pension Plan. See the above information regarding the restructuring of certain pension plan agreements.
(6) Under the Pension Protection Act, a surcharge may be imposed when employers make contributions under a collective bargaining agreement that is not in compliance with a rehabilitation plan. As of January 28, 2017, the collective bargaining agreements under which the Company was making contributions were in compliance with rehabilitation plans adopted by the applicable pension fund.

The following table describes (a) the expiration date of the Company's collective bargaining agreements and (b) the expiration date of the Company's most significant collective bargaining agreements for each of the material multi-employer funds in which the Company participates.

Pension Fund	Expiration Date of Collective Bargaining Agreements	Most Significant Collective Bargaining Agreements(1) (not in millions)	
		Count	Expiration
SO CA UFCW Unions & Food Employers Joint Pension Trust Fund	June 2017 to March 2019	2	June 2017 to March 2019
UFCW Consolidated Pension Plan	March 2016 (2) to August 2020	8	April 2016 to August 2020
Desert States Employers & UFCW Unions Pension Plan	October 2016 (2) to June 2018	1	June 2018
Sound Retirement Trust (formerly Retail Clerks Pension Plan)	April 2016 (2) to May 2019	2	May 2016 to May 2019
Rocky Mountain UFCW Unions and Employers Pension Plan	January 2019 to February 2019	1	January 2019
Oregon Retail Employees Pension Plan	August 2018 to June 2019	3	August 2018(2) to June 2019
Bakery and Confectionary Union & Industry International Pension Fund	June 2016 (2) to July 2018	4	August 2016 to July 2018
Retail Food Employers & UFCW Local 711 Pension	April 2017 to November 2019	1	March 2019
Denver Area Meat Cutters and Employers Pension Plan	January 2019 to February 2019	1	January 2019
United Food & Commercial Workers Intl Union — Industry Pension Fund	March 2014(2) to April 2019	2	March 2017 to April 2019
Western Conference of Teamsters Pension Plan	April 2017 to September 2020	5	July 2017 to September 2020
Central States, Southeast & Southwest Areas Pension Plan	September 2017 to November 2018	3	September 2017 to November 2018

(1) This column represents the number of significant collective bargaining agreements and their expiration date for each of the Company's pension funds listed above. For purposes of this table, the "significant collective bargaining agreements" are the largest based on covered employees that, when aggregated, cover the majority of the employees for which we make multi-employer contributions for the referenced pension fund.

(2) Certain collective bargaining agreements for each of these pension funds are operating under an extension.

Based on the most recent information available to it, the Company believes the present value of actuarial accrued liabilities in most of these multi-employer plans substantially exceeds the value of the assets held in trust to pay benefits. Moreover, if the Company were to exit certain markets or otherwise cease making contributions to these funds, the Company could trigger a substantial withdrawal liability. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably estimated.

The Company also contributes to various other multi-employer benefit plans that provide health and welfare benefits to active and retired participants. Total contributions made by the Company to these other multi-employer health and welfare plans were approximately $1,143 in 2016, $1,192 in 2015 and $1,200 in 2014.

17. RECENTLY ADOPTED ACCOUNTING STANDARDS

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments." This amendment eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination. This amendment became effective for the Company beginning January 31, 2016, and was adopted prospectively in accordance with the standard. The adoption of this amendment did not have an effect on the Company's Consolidated Balance Sheets or Consolidated Statements of Operations.

During the second quarter of 2016, the Company adopted ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." This amendment addresses several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. As a result of the adoption, the Company recognized $49 of excess tax benefits related to share-based payments in its provision for income taxes in 2016. These items were historically recorded in additional paid-in capital. In addition, for 2016, cash flows related to excess tax benefits are classified as an operating activity. Cash paid on employees' behalf related to shares withheld for tax purposes is classified as a financing activity. Retrospective application of the cash flow presentation requirements resulted in increases to both "Net cash provided by operating activities" and "Net cash used by financing activities" of $59 for 2016, $84 for 2015 and $52 for 2014. The Company's stock compensation expense continues to reflect estimated forfeitures.

During 2016, the Company adopted ASU 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (Topic 205)”. This standard requires management to evaluate, for each annual and interim reporting period, whether there are conditions and events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date the Consolidated Financial Statements are issued or are available to be issued. If substantial doubt is raised, additional disclosures around the Company’s plan to alleviate these doubts are required. The adoption of this standard did not have any affect on the Company’s Consolidated Financial Statements.

During 2016, the Company adopted ASU 2015-07, “Fair Value Measurement - Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent) (Topic 820)”. This standard requires the Company to disclose which assets are valued using net asset value as a practical expedient, and ends the requirement to classify these assets within the GAAP fair value hierarchy. See Note 15 of the Consolidated Financial Statements for disclosures of assets valued using net asset value as a practical expedient.

18. RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” as amended by several subsequent ASUs, which provides guidance for revenue recognition. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Per ASU 2015-14, “Deferral of Effective Date,” this guidance will be effective for the Company in the first quarter of its fiscal year ending February 2, 2019. Early adoption is permitted as of the first quarter of the Company’s fiscal year ending February 3, 2018. The Company is currently in the process of evaluating the effect of adoption of this ASU on its Consolidated Financial Statements.

In November 2015, the FASB issued ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” This amendment requires deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. This guidance will be effective for the Company’s fiscal year ending February 3, 2018. Early adoption is permitted. The implementation of this amendment will not have an effect on the Company’s Consolidated Statements of Operations and will not have a significant effect on the Company’s Consolidated Balance Sheets.

In February 2016, the FASB issued ASU 2016-02, “Leases”, which provides guidance for the recognition of lease agreements. The standard’s core principle is that a company will now recognize most leases on its balance sheet as lease liabilities with corresponding right-of-use assets. This guidance will be effective for the Company in the first quarter of fiscal year ending February 1, 2020. Early adoption is permitted. The adoption of this ASU will result in a significant increase to the Company’s Consolidated Balance Sheets for lease liabilities and right-of-use assets, and the Company is currently evaluating the other effects of adoption of this ASU on the its Consolidated Financial Statements.

19. QUARTERLY DATA (UNAUDITED)

The two tables that follow reflect the unaudited results of operations for 2016 and 2015.

	Quarter				
2016	First (16 Weeks)	Second (12 Weeks)	Third (12 Weeks)	Fourth (12 Weeks)	Total Year (52 Weeks)
Sales	$ 34,604	$ 26,565	$ 26,557	$ 27,611	$ 115,337
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	26,669	20,697	20,653	21,483	89,502
Operating, general and administrative	5,779	4,473	4,443	4,483	19,178
Rent	262	205	199	215	881
Depreciation and amortization	694	525	549	572	2,340
Operating profit	1,200	665	713	858	3,436
Interest expense	155	116	124	126	522
Earnings before income tax expense	1,045	549	589	732	2,914
Income tax expense	350	171	206	230	957
Net earnings including noncontrolling interests	695	378	383	502	1,957
Net loss attributable to noncontrolling interests	(1)	(5)	(8)	(4)	(18)
Net earnings attributable to The Kroger Co.	$ 696	$ 383	$ 391	$ 506	$ 1,975
Net earnings attributable to The Kroger Co. per basic common share	$ 0.72	$ 0.40	$ 0.41	$ 0.54	$ 2.08
Average number of shares used in basic calculation	954	943	940	929	942
Net earnings attributable to The Kroger Co. per diluted common share	$ 0.71	$ 0.40	$ 0.41	$ 0.53	$ 2.05
Average number of shares used in diluted calculation	966	959	953	943	958
Dividends declared per common share	$ 0.105	$ 0.120	$ 0.120	$ 0.120	$ 0.465

Annual amounts may not sum due to rounding.

In the second quarter of 2016, the Company incurred a $111 charge to OG&A expenses for commitments and withdrawal liabilities associated with the restructuring of certain multi-employer pension plan agreements.

2015	Quarter First (16 Weeks)	Second (12 Weeks)	Third (12 Weeks)	Fourth (12 Weeks)	Total Year (52 Weeks)
Sales	$ 33,051	$ 25,539	$ 25,075	$ 26,165	$ 109,830
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	25,760	20,065	19,478	20,193	85,496
Operating, general and administrative	5,354	4,068	4,169	4,355	17,946
Rent	215	155	172	181	723
Depreciation and amortization	620	477	484	508	2,089
Operating profit	1,102	774	772	928	3,576
Interest expense	148	114	107	113	482
Earnings before income tax expense	954	660	665	815	3,094
Income tax expense	330	227	238	250	1,045
Net earnings including noncontrolling interests	624	433	427	565	2,049
Net earnings (loss) attributable to noncontrolling interests	5	—	(1)	6	10
Net earnings attributable to The Kroger Co.	$ 619	$ 433	$ 428	$ 559	$ 2,039
Net earnings attributable to The Kroger Co. per basic common share	$ 0.63	$ 0.44	$ 0.44	$ 0.57	$ 2.09
Average number of shares used in basic calculation	969	963	965	966	966
Net earnings attributable to The Kroger Co. per diluted common share	$ 0.62	$ 0.44	$ 0.43	$ 0.57	$ 2.06
Average number of shares used in diluted calculation	983	977	979	980	980
Dividends declared per common share	$ 0.093	$ 0.105	$ 0.105	$ 0.105	$ 0.408

Annual amounts may not sum due to rounding.

In the third quarter of 2015, the Company incurred a $80 charge to OG&A expenses for contributions to the UFCW Consolidated Pension Plan.

In the fourth quarter of 2015, the Company incurred a $30 charge to OG&A expenses for contributions to the UFCW Consolidated Pension Plan.

20. SUBSEQUENT EVENT

In 2016, the Company announced a Voluntary Retirement Offering (“VRO”) for certain non-store associates. Approximately 1,300 associates irrevocably accepted the VRO in early March 2017. The Company anticipates recognizing a VRO charge of approximately $180, pre-tax, in the first quarter of 2017.

As we continue to work to find solutions to under-funded multi-employer pension plans, it is possible we could incur withdrawal liabilities for certain funds. Two locations have initiated a withdrawal process, in the first quarter of 2017, resulting in an estimated withdrawal liability of less than $100, after-tax.

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Kroger has a variety of plans under which employees may acquire common shares of Kroger. Employees of Kroger and its subsidiaries own shares through a profit sharing plan, as well as 401(k) plans and a payroll deduction plan called the Kroger Stock Exchange. If employees have questions concerning their shares in the Kroger Stock Exchange, or if they wish to sell shares they have purchased through this plan, they should contact:

Computershare Plan Managers
P.O. Box 43021
Providence, RI 02940
Phone 800-872-3307

Questions regarding Kroger's 401(k) plans should be directed to the employee's Human Resources Department or 1-800-2KROGER. Questions concerning any of the other plans should be directed to the employee's Human Resources Department.

SHAREHOLDERS: Wells Fargo Shareowner Services, a division of Wells Fargo Bank, N.A., is Registrar and Transfer Agent for Kroger's common shares. For questions concerning payment of dividends, changes of address, etc., individual shareholders should contact:

Wells Fargo Shareowner Services
P. O. Box 64854
Saint Paul, MN 55164-0854
Toll Free 1-855-854-1369

Shareholder questions and requests for forms available on the Internet should be directed to: www.shareowneronline.com.

FINANCIAL INFORMATION: Call (513) 762-1220 to request printed financial information, including Kroger's most recent report on Form 10-Q or 10-K, or press release. Written inquiries should be addressed to Shareholder Relations, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202-1100. Information also is available on Kroger's corporate website at ir.kroger.com.

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Stuart Aitken
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Robert W. Clark
Senior Vice President

Yael Cosset
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Michael J. Donnelly
Executive Vice President

Carin L. Fike
Vice President and Treasurer

Todd A. Foley
Vice President and Controller

Christopher T. Hjelm
Executive Vice President and Chief Information Officer

Sukanya R. Madlinger
Senior Vice President

Timothy A. Massa
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Chairman of the Board and Chief Executive Officer

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Alessandro Tosolini
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Mark C. Tuffin
Senior Vice President

Christine S. Wheatley
Group Vice President, Secretary and General Counsel

OPERATING UNIT HEADS

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Harris Teeter

Paul L. Bowen
Jay C/Ruler

Timothy F. Brown
Cincinnati Division

Jerry Clontz
Mid-Atlantic Division

Zane Day
Nashville Division

Daniel C. De La Rosa
Columbus Division

Peter M. Engel
Fred Meyer Jewelers

Gerald P. Erickson, II
Tom Thumb

Dennis R. Gibson
King Soopers/City Market

Joseph A. Grieshaber, Jr.
Fred Meyer Stores

Brian Helman
Vitacost

Scot R. Hendricks
Delta Division

Kevin L. Hess
Kwik Shop

Jayne Homco
Michigan Division

Valerie L. Jabbar
Ralphs

Colleen Juergensen
Dillons Food Stores

Bryan H. Kaltenbach
Food 4 Less

Calvin J. Kaufman
Louisville Division

Kenneth C. Kimball
Smith's

Colleen R. Lindholz
Pharmacy and The Little Clinic

Bruce A. Lucia
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Stephen M. McKinney
Fry's Food & Drug

Domenic A. Meffe
Specialty Pharmacy

Gary Millerchip
Kroger Personal Finance

Bill Mullen
Turkey Hill Minit Markets

Jeffrey A. Parker
Convenience Stores & Supermarket Petroleum

Nancy Riggs
Quik Stop

Donald S. Rosanova
Mariano's

Arthur Stawski, Sr.
Loaf 'N Jug

Marlene A. Stewart
Houston Division

Nick Tranchina
Murray's Cheese

Katie Wolfram
Central Division

Dana Zurcher
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