

KROGER CO  
Form 10-K  
April 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 3, 2018.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from                      to

Commission file number 1-303

THE KROGER CO.

(Exact name of registrant as specified in its charter)

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|                                                                              |                                                    |
|------------------------------------------------------------------------------|----------------------------------------------------|
| Ohio<br>(State or Other Jurisdiction of Incorporation or Organization)       | 31-0345740<br>(I.R.S. Employer Identification No.) |
| 1014 Vine Street, Cincinnati, OH<br>(Address of Principal Executive Offices) | 45202<br>(Zip Code)                                |

Registrant's telephone number, including area code (513) 762-4000

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class        | Name of each exchange on which registered |
|----------------------------|-------------------------------------------|
| Common Stock \$1 par value | New York Stock Exchange                   |

Securities registered pursuant to Section 12(g) of the Act:

NONE

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§299.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

|                         |                                               |                                                                  |
|-------------------------|-----------------------------------------------|------------------------------------------------------------------|
| Large accelerated filer |                                               | Accelerated<br>filer                                             |
| Non-accelerated filer   | (Do not check if a smaller reporting company) | Smaller<br>reporting<br>company<br>Emerging<br>growth<br>company |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the Common Stock of The Kroger Co. held by non-affiliates as of August 12, 2017: \$21.1 billion. There were 865,976,354 shares of Common Stock (\$1 par value) outstanding as of March 29, 2018.

Documents Incorporated by Reference:

Portions of Kroger's definitive proxy statement for its 2018 annual meeting of shareholders, which shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference into Part III of this Report.

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## PART I

### FORWARD LOOKING STATEMENTS.

This Annual Report on Form 10-K contains forward-looking statements about our future performance. These statements are based on our assumptions and beliefs in light of the information currently available to us. These statements are subject to a number of known and unknown risks, uncertainties and other important factors, including the risks and other factors discussed in “Risk Factors” and “Outlook” below, that could cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward looking statements. Such statements are indicated by words such as “comfortable,” “committed,” “will,” “expect,” “goal,” “should,” “intend,” “target,” “believe,” “anticipate,” “plan,” and similar words or phrases. Moreover, statements in the sections entitled Risk Factors, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) and Outlook, and elsewhere in this report 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, as amended.

### ITEM 1. BUSINESS.

The Kroger Co. (the “Company” or “Kroger”) was founded in 1883 and incorporated in 1902. As of February 3, 2018, 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](http://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 2017, 2016 and 2015 are to the fiscal years ended February 3, 2018, January 28, 2017 and January 30, 2016, respectively, unless specifically indicated otherwise.

### EMPLOYEES

As of February 3, 2018, Kroger employed approximately 449,000 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 360 such agreements, usually with terms of three to five years.

## STORES

As of February 3, 2018, Kroger operated, either directly or through its subsidiaries, 2,782 supermarkets under a variety of local banner names, of which 2,268 had pharmacies and 1,489 had fuel centers. We offer ClickList™ and Harris Teeter ExpressLane— personalized, order online, pick up at the store services — at 1,056 of our supermarkets and continue to increase our home delivery service available to customers. Approximately 45% of our 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 February 3, 2018, we operated, through subsidiaries, 782 convenience stores, 274 fine jewelry stores and an online retailer. All 71 of our fine jewelry stores located in malls are operated in leased locations. In addition, 66 convenience stores were operated by franchisees through franchise agreements. Approximately 55% 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 97% of our consolidated sales, 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

Our Brands products play an important role in our merchandising strategy. Our supermarkets, on average, stock over 15,000 private label items. Our Brands 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\$ST...®, 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 Brands offerings, 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 33% of Our Brands units and 44% of the grocery category Our Brands units sold in our supermarkets are produced in our food production plants; the remaining Our Brands items are produced to our strict specifications by outside manufacturers. We perform a “make or buy” analysis on Our Brands products and decisions are based upon a comparison of market-based transfer prices versus open market purchases. As of February 3, 2018, we operated 37 food production plants. These plants consisted of 17 dairies, ten deli or bakery plants, five grocery product plants, two beverage plants, one meat plant 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.”

## ITEM 1A.RISK FACTORS.

There are risks and uncertainties that can affect our business. The significant risk factors are discussed below. The following information should be read together with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the “Outlook” section in Item 7 of this Form 10-K, which include forward-looking statements and factors that could cause us not to realize our goals or meet our expectations.

## COMPETITIVE ENVIRONMENT

The operating environment for the food retailing industry continues to be characterized by intense price competition, aggressive expansion, increasing fragmentation of retail and online formats, entry of non-traditional competitors and market consolidation. In addition, evolving customer preferences and the advancement of online, delivery, ship to home, and mobile channels in our industry enhance the competitive environment.

We believe our Restock Kroger plan provides a balanced approach that will enable us to meet the wide-ranging needs and expectations of our customers. However, we may be unsuccessful in implementing Restock Kroger, which could

adversely affect our relationships with our customers, our market share and business growth, and our operations and results. The nature and extent to which our competitors respond to the evolving and competitive industry by developing and implementing their competitive strategies could adversely affect our profitability.

## PRODUCT SAFETY

Customers count on Kroger to provide them with safe food and drugs and other merchandise. Concerns regarding the safety of the products that we sell could cause shoppers to avoid purchasing certain products from us, or to seek alternative sources of supply even if the basis for the concern is outside of our control. Any lost confidence on the part of our customers would be difficult and costly to reestablish. Any issue regarding the safety of items we sell, regardless of the cause, could have a substantial and adverse effect on our reputation, financial condition, results of operations, or cash flows.

## LABOR RELATIONS

A majority of our employees are covered by collective bargaining agreements with unions, and our relationship with those unions, including a prolonged work stoppage affecting a substantial number of locations, could have a material adverse effect on our results.

We are a party to approximately 360 collective bargaining agreements. Upon the expiration of our collective bargaining agreements, work stoppages by the affected workers could occur if we are unable to negotiate new contracts with labor unions. A prolonged work stoppage affecting a substantial number of locations could have a material adverse effect on our results. Further, if we are unable to control health care, pension and wage costs, or if we have insufficient operational flexibility under our collective bargaining agreements, we may experience increased operating costs and an adverse effect on our financial condition, results of operations, or cash flows.

## DATA AND TECHNOLOGY

Our business is increasingly dependent on information technology systems that are complex and vital to continuing operations, resulting in an expansion of our technological presence and corresponding risk exposure. If we were to experience difficulties maintaining or operating existing systems or implementing new systems, we could incur significant losses due to disruptions in our operations.

Through our sales and marketing activities, we collect and store some personal information that our customers provide to us. We also gather and retain information about our associates in the normal course of business. Under certain circumstances, we may share information with vendors that assist us in conducting our business, as required by law, or otherwise in accordance with our privacy policy.

Our technology systems are vulnerable to disruption from circumstances beyond our control. Cyber-attackers may attempt to access information stored in our or our vendors' systems in order to misappropriate confidential customer or business information. Although we have implemented procedures to protect our information, and require our vendors to do the same, we cannot be certain that our security systems will successfully defend against rapidly evolving, increasingly sophisticated cyber-attacks as they become more difficult to detect and defend against. Further, a Kroger associate, a contractor or other third party with whom we do business may in the future circumvent our security measures in order to obtain information or may inadvertently cause a breach involving information. In addition, hardware, software or applications we may use may have inherent defects or could be inadvertently or intentionally applied or used in a way that could compromise our information security.

Our continued investment in our information technology systems may not effectively insulate us from potential attacks, breaches or disruptions to our business operations, which could result in a loss of customers or business information, negative publicity, damage to our reputation, and exposure to claims from customers, financial institutions, regulatory authorities, payment card associations, associates and other persons. Any such events could have an adverse effect on our business, financial condition and results of operations and may not be covered by our insurance. In addition, compliance with privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes and may require us to devote significant management resources to address these issues.

Additionally, on October 1, 2015, the payment card industry shifted liability for certain transactions to retailers who are not able to accept Europay, MasterCard, Visa (EMV) transactions. We completed the implementation of the EMV technology for our supermarket transactions, and have a plan in place to complete implementation for our fuel centers prior to the liability shift for fuel centers, which will occur in 2020.

## INDEBTEDNESS

Our indebtedness could reduce our ability to obtain additional financing for working capital, mergers and acquisitions or other purposes and could make us vulnerable to future economic downturns as well as competitive pressures. If debt markets do not permit us to refinance certain maturing debt, we may be required to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness. Changes in our credit ratings, or in the interest rate environment, could have an adverse effect on our financing costs and structure.

## LEGAL PROCEEDINGS AND INSURANCE

From time to time, we are a party to legal proceedings, including matters involving personnel and employment issues, personal injury, antitrust claims and other proceedings. Other legal proceedings purport to be brought as class actions on behalf of similarly situated parties. Some of these proceedings could result in a substantial loss to Kroger. We estimate our exposure to these legal proceedings and establish accruals for the estimated liabilities, where it is reasonably possible to estimate and where an adverse outcome is probable. Assessing and predicting the outcome of these matters involves substantial uncertainties. Adverse outcomes in these legal proceedings, or changes in our evaluations or predictions about the proceedings, could have a material adverse effect on our financial results. Please also refer to the “Legal Proceedings” section in Item 3 and the “Litigation” section in Note 13 to the Consolidated Financial Statements.

We use a combination of insurance and self-insurance to provide for potential liability for workers' compensation, automobile and general liability, property, director and officers' liability, and employee health care benefits. Any actuarial projection of losses is subject to a high degree of variability. Changes in legal claims, trends and interpretations, variability in inflation rates, changes in the nature and method of claims settlement, benefit level changes due to changes in applicable laws, insolvency of insurance carriers, and changes in discount rates could all affect our financial condition, results of operations, or cash flows.

## MULTI-EMPLOYER PENSION OBLIGATIONS

As discussed in more detail below in "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies-Multi-Employer Pension Plans," Kroger contributes to several multi-employer pension plans based on obligations arising under collective bargaining agreements with unions representing employees covered by those agreements. We believe that the present value of actuarially accrued liabilities in most of these multi-employer plans substantially exceeds the value of the assets held in trust to pay benefits, and we expect that Kroger's contributions to those funds will increase over the next few years. A significant increase to those funding requirements could adversely affect our financial condition, results of operations, or cash flows. Despite the fact that the pension obligations of these funds are not the liability or responsibility of the Company, except as noted below, there is a risk that the agencies that rate our outstanding debt instruments could view the underfunded nature of these plans unfavorably when determining their ratings on our debt securities. Any downgrading of our debt ratings likely would adversely affect our cost of borrowing and access to capital.

We also currently bear the investment risk of two of the larger multi-employer pension plans in which we participate. In addition, we have been designated as the named fiduciary of these funds with sole investment authority of the assets of these funds. If investment results fail to meet our expectations, we could be required to make additional contributions to fund a portion of or the entire shortfall, which could have an adverse effect on our business, financial condition, results of operations, or cash flows.

## INTEGRATION OF NEW BUSINESS

We enter into mergers and acquisitions with expected benefits including, among other things, operating efficiencies, procurement savings, innovation, sharing of best practices and increased market share that may allow for future growth. Achieving the anticipated benefits may be subject to a number of significant challenges and uncertainties, including, without limitation, whether unique corporate cultures will work collaboratively in an efficient and effective manner, the coordination of geographically separate organizations, the possibility of imprecise assumptions underlying expectations regarding potential synergies and the integration process, unforeseen expenses and delays, and competitive factors in the marketplace. We could also encounter unforeseen transaction and integration-related costs or other circumstances such as unforeseen liabilities or other issues. Many of these potential circumstances are outside of our control and any of them could result in increased costs, decreased revenue, decreased synergies and the diversion of management time and attention. If we are unable to achieve our objectives within the anticipated time frame, or at all, the expected benefits may not be realized fully or at all, or may take longer to realize than expected, which could have an adverse effect on our business, financial condition and results of operations, or cash flows.

FUEL

We sell a significant amount of fuel, which could face increased regulation and demand could be affected by concerns about the effect of emissions on the environment as well as retail price increases. We are unable to predict future regulations, environmental effects, political unrest, acts of terrorism and other matters that may affect the cost and availability of fuel, and how our customers will react, which could adversely affect our financial condition, results of operations, or cash flows.

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## ECONOMIC CONDITIONS

Our operating results could be materially impacted by changes in overall economic conditions that impact consumer confidence and spending, including discretionary spending. Future economic conditions affecting disposable consumer income such as employment levels, business conditions, changes in housing market conditions, the availability of credit, interest rates, tax rates, the impact of natural disasters or acts of terrorism, and other matters could reduce consumer spending. Increased fuel prices could also have an effect on consumer spending and on our costs of producing and procuring products that we sell. We are unable to predict how the global economy and financial markets will perform. If the global economy and financial markets do not perform as we expect, it could adversely affect our financial condition, results of operations, or cash flows.

## WEATHER AND NATURAL DISASTERS

A large number of our stores and distribution facilities are geographically located in areas that are susceptible to hurricanes, tornadoes, floods, droughts and earthquakes. Weather conditions and natural disasters could disrupt our operations at one or more of our facilities, interrupt the delivery of products to our stores, substantially increase the cost of products, including supplies and materials and substantially increase the cost of energy needed to operate our facilities or deliver products to our facilities. Adverse weather and natural disasters could materially affect our financial condition, results of operations, or cash flows.

## GOVERNMENT REGULATION

Our stores are subject to various laws, regulations, and administrative practices that affect our business. We must comply with numerous provisions regulating, among other things, health and sanitation standards, food labeling and safety, equal employment opportunity, minimum wages, and licensing for the sale of food, drugs, and alcoholic beverages. We cannot predict future laws, regulations, interpretations, administrative orders, or applications, or the effect they will have on our operations. They could, however, significantly increase the cost of doing business. They also could require the reformulation of some of the products that we sell (or manufacture for sale to third parties) to meet new standards. We also could be required to recall or discontinue the sale of products that cannot be reformulated. These changes could result in additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, or scientific substantiation. Any or all of these requirements could have an adverse effect on our financial condition, results of operations, or cash flows.

## ITEM 1B.UNRESOLVED STAFF COMMENTS.

None.

ITEM 2.PROPERTIES.

As of February 3, 2018, we operated approximately 3,900 owned or leased supermarkets, convenience stores, fine jewelry stores, distribution warehouses and food production plants through divisions, subsidiaries or affiliates. These facilities are located throughout the United States. While our current strategy emphasizes ownership of store real estate, a majority of the properties used to conduct our business are leased.

We generally own store equipment, fixtures and leasehold improvements, as well as processing and food production equipment. The total cost of our owned assets and capitalized leases at February 3, 2018, was \$41.7 billion while the accumulated depreciation was \$20.7 billion.

Leased premises generally have base terms ranging from ten-to-twenty years with renewal options for additional periods. Some options provide the right to purchase the property after the conclusion of the lease term. Store rentals are normally payable monthly at a stated amount or at a guaranteed minimum amount plus a percentage of sales over a stated dollar volume. Rentals for the distribution, food production and miscellaneous facilities generally are payable monthly at stated amounts. For additional information on lease obligations, see Note 10 to the Consolidated Financial Statements.



ITEM 3.LEGAL PROCEEDINGS.

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, we believe that any resulting liability will not have a material adverse effect on our financial position, results of operations, or cash flows.

We continually evaluate our exposure to loss contingencies arising from pending or threatened litigation and believe we have made provisions where it is reasonably possible to estimate and where an adverse outcome is probable. Nonetheless, assessing and predicting the outcomes of these matters involves substantial uncertainties. We currently believe that the aggregate range of loss for our exposures is not material. It remains possible that despite our current belief, material differences in actual outcomes or changes in our evaluation or predictions could arise that could have a material adverse effect on our financial condition, results of operations, or cash flows.

ITEM 4.MINE SAFETY DISCLOSURES.

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

(a)

The following table sets forth the high and low sales prices for our common shares on the New York Stock Exchange for each full quarterly period of the two most recently completed fiscal years.

## COMMON SHARE PRICE RANGE

| Quarter | 2017     |          | 2016     |          |
|---------|----------|----------|----------|----------|
|         | High     | Low      | High     | Low      |
| 1st     | \$ 34.75 | \$ 28.29 | \$ 40.91 | \$ 33.62 |
| 2nd     | \$ 30.93 | \$ 20.46 | \$ 37.97 | \$ 32.02 |
| 3rd     | \$ 23.71 | \$ 19.69 | \$ 33.24 | \$ 28.71 |
| 4th     | \$ 31.45 | \$ 21.15 | \$ 36.44 | \$ 30.44 |

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

Number of shareholders of record at fiscal year-end 2017:27,574

Number of shareholders of record at March 29, 2018:27,448

During 2017, we paid two quarterly cash dividends of \$0.12 per share and two quarterly cash dividends of \$0.125 per share. During 2016, we paid two quarterly cash dividends of \$0.105 per share and two quarterly cash dividends of \$0.12 per share. On March 1, 2018, we paid a quarterly cash dividend of \$0.125 per share. On March 15, 2018, we announced that our Board of Directors declared a quarterly cash dividend of \$0.125 per share, payable on June 1, 2018, to shareholders of record at the close of business on May 15, 2018. We currently expect to continue to pay comparable cash dividends on a quarterly basis, that will increase over time, depending on our earnings and other factors, including approval by our Board.

For information on securities authorized for issuance under our existing equity compensation plans, see Item 12 under the heading “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

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## 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<br>Period | INDEXED RETURNS |        |        |        |        |
|--------------------|----------------|-----------------|--------|--------|--------|--------|
|                    |                | Years Ending    |        |        |        |        |
|                    | 2012           | 2013            | 2014   | 2015   | 2016   | 2017   |
| The Kroger Co.     | 100            | 131.71          | 255.60 | 290.43 | 252.96 | 226.64 |
| S&P 500 Index      | 100            | 120.30          | 137.42 | 136.50 | 164.99 | 202.66 |
| Peer Group         | 100            | 113.70          | 142.19 | 132.67 | 130.48 | 168.56 |

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 February 3, 2013, 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), 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. (included through August 28, 2017 when it was acquired by Amazon.com, Inc.).

The following table presents information on our purchases of our common shares during the fourth quarter of 2017.

## 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<br>November 5, 2017 to December 2, 2017   | 3,845,500                            | \$ 22.39                     | 3,845,500                                                                            | \$ 507                                                                                                 |
| Second period - four weeks<br>December 3, 2017 to December 30, 2017 | 4,031,990                            | \$ 26.85                     | 4,005,396                                                                            | \$ 405                                                                                                 |
| Third period — five weeks<br>December 31, 2017 to February 3, 2018  | 5,150,914                            | \$ 28.86                     | 5,118,081                                                                            | \$ 272                                                                                                 |
| Total                                                               | 13,028,404                           | \$ 26.33                     | 12,968,977                                                                           | \$ 272                                                                                                 |

(1) The fourth quarter of 2017 contained two 28-day periods and one 35-day period.

(2) Includes (i) shares repurchased under the June 2017 Repurchase Program described below in (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 (“1999 Repurchase Program”), and (iii) 59,427 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 June 2017 Repurchase Program and the 1999 Repurchase Program.

(4) On June 22, 2017, our Board of Directors approved a \$1.0 billion share repurchase program (the “June 2017 Repurchase Program”). The amounts shown in this column reflect the amount remaining under the June 2017 Repurchase Program as of the specified period end dates. Amounts available under the 1999 Repurchase Program are dependent upon option exercise activity. The June 2017 Repurchase Program and the 1999 Repurchase Program do not have an expiration date but may be suspended or terminated by our Board of Directors at any time. On March 15, 2018, our Board of Directors approved a \$1.0 billion share repurchase program, to supplement the June 2017 Repurchase Program, to reacquire shares via open market purchase or privately negotiated transactions, including accelerated stock repurchase transactions, block trades, or pursuant to trades intending to comply with rule 10b5-1 of the Securities Exchange Act of 1934. The June 2017 Repurchase Program was exhausted during the first quarter of 2018.



## ITEM 6. SELECTED FINANCIAL DATA.

The following table presents our selected consolidated financial data for each of the last five fiscal years. Refer to Note 2 of the Consolidated Financial Statements for disclosure of business combinations and their effect on the Consolidated Statements of Operations and the Consolidated Balance Sheets. All share and per share amounts presented are reflective of the two-for-one stock split that began trading at the split adjusted price on July 14, 2015.

|                                                                                             | Fiscal Years Ended                      |                                   |                                   |                                   |                                   |
|---------------------------------------------------------------------------------------------|-----------------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                                                                                             | February 3,<br>2018<br>(53 weeks)       | January 28,<br>2017<br>(52 weeks) | January 30,<br>2016<br>(52 weeks) | February 1,<br>2015<br>(52 weeks) | February 2,<br>2014<br>(53 weeks) |
|                                                                                             | (In millions, except per share amounts) |                                   |                                   |                                   |                                   |
| Sales                                                                                       | \$ 122,662                              | \$ 115,337                        | \$ 109,830                        | \$ 108,465                        | \$ 98,375                         |
| Net earnings including noncontrolling interests                                             | 1,889                                   | 1,957                             | 2,049                             | 1,747                             | 1,531                             |
| Net earnings attributable to The Kroger Co.                                                 | 1,907                                   | 1,975                             | 2,039                             | 1,728                             | 1,519                             |
| Net earnings attributable to The Kroger Co. per diluted common share                        | 2.09                                    | 2.05                              | 2.06                              | 1.72                              | 1.45                              |
| Total assets                                                                                | 37,197                                  | 36,505                            | 33,897                            | 30,497                            | 29,281                            |
| Long-term liabilities, including obligations under capital leases and financing obligations | 16,095                                  | 16,935                            | 14,128                            | 13,663                            | 13,181                            |
| Total shareholders' equity — The Kroger Co.                                                 | 6,931                                   | 6,698                             | 6,820                             | 5,412                             | 5,384                             |
| Cash dividends per common share                                                             | 0.490                                   | 0.450                             | 0.395                             | 0.340                             | 0.308                             |

ITEM 7.MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of financial condition and results of operations of The Kroger Co. should be read in conjunction with the "Forward-looking Statements" section set forth in Part I, the "Risk Factors" section set forth in Item 1A of Part I and the "Outlook" section below.

OUR BUSINESS

The Kroger Co. was founded in 1883 and incorporated in 1902. As of February 3, 2018, Kroger is one of the world's largest retailers, as measured by revenue, operating 2,782 supermarkets under a variety of local banner names in 35 states and the District of Columbia. Of these stores, 2,268 have pharmacies and 1,489 have fuel centers. We offer ClickList™ and Harris Teeter ExpressLane — personalized, order online, pick up at the store services — at 1,056 of our supermarkets and continue to increase our home delivery service available to customers. In addition, we operate 782 convenience stores, either directly or through franchisees, 274 fine jewelry stores and an online retailer.

We operate 37 food production plants, primarily bakeries and dairies, which supply approximately 33% of Our Brands units and 44% of the grocery category Our Brands units sold in our supermarkets; the remaining Our Brands items are produced to our strict specifications by outside manufacturers.

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 97% of our consolidated sales, 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 2017 and in our Consolidated Statements of Operations from September 2, 2016 through January 28, 2017 and all periods in 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, 2016 and 2017, and in our Consolidated Statements of Operations for the last six weeks of 2015 and all periods in 2016 and 2017.



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

#### USE OF NON-GAAP FINANCIAL MEASURES

The accompanying Consolidated Financial Statements, including the related notes, 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, adjusted net earnings per diluted share and free cash flow 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, net earnings per diluted share and net cash provided or used by operating or investing activities 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 FIFO gross profit divided by sales. FIFO gross profit is calculated as sales less merchandise costs, including advertising, warehousing, and transportation expenses, but excluding the Last-In, First-Out ("LIFO") credit or 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 credit or 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.

The adjusted net earnings per diluted share metric is an important measure used by management to compare the performance of core operating results between periods. We believe adjusted net earnings per diluted share is a useful metric to investors and analysts because it 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. Net earnings for 2017 include the following, which we define as the “2017 Adjusted Items”:

- Charges to operating, general and administrative expenses (“OG&A”) of \$550 million, \$360 million net of tax, for obligations related to withdrawing from and settlements of withdrawal liabilities for certain multi-employer pension funds; \$184 million, \$117 million net of tax, related to the voluntary retirement offering (“VRO”); \$110 million, \$74 million net of tax, related to the Kroger Specialty Pharmacy goodwill impairment; and \$502 million, \$335 million net of tax, related to a company-sponsored pension plan termination (the “2017 OG&A Adjusted Items”).
- A reduction to depreciation and amortization expenses of \$19 million, \$13 million net of tax, related to held for sale assets (the “2017 Depreciation Adjusted Item”).
- A reduction to income tax expense of \$922 million primarily due to the re-measurement of deferred tax liabilities and the reduction of the statutory rate for the last five weeks of the fiscal year from the Tax Cuts and Jobs Act (“Tax Act”) (the “2017 Tax Expense Adjusted Item”).

In addition, net earnings include \$119 million, \$79 million net of tax, due to a 53rd week in fiscal year 2017 (the “Extra Week”).

Net earnings for 2016 include \$111 million, \$71 million net of tax, of charges to OG&A related to the restructuring of certain pension obligations to help stabilize associates’ future benefits (the “2016 Adjusted Items”). There were no adjusted items in 2015.

We calculate free cash flow as net cash provided by operating activities minus net cash used by investing activities. Free cash flow is an important measure used by management to evaluate available funding for share repurchases, dividends, other strategic investments and managing debt levels. Management believes free cash flow is a useful metric to investors and analysts because it demonstrates our ability to make share repurchases and other strategic investments, pay dividends and manage debt levels.

## OVERVIEW

Notable items for 2017 are:

- Net earnings per diluted share of \$2.09.
- Adjusted net earnings per diluted share of \$2.04.
- The Extra Week in 2017 contributed \$0.09 to our net earnings per diluted share result for 2017.
- Identical supermarket sales, excluding fuel, increased 0.7% in 2017.
- Digital revenue up 90% in 2017, driven by ClickList. Digital revenue primarily includes revenue from all curbside pickup locations and online sales by Vitacost.com.
- On February 5, 2018, we announced a definitive agreement for the sale of our convenience store business unit to EG Group for \$2.15 billion.
- Gross margin for 2017 decreased, as a percentage of sales, as compared to 2016. See Gross Margin, LIFO and FIFO Gross Margin section for additional details.
- OG&A expenses for 2017 increased, as a percentage of sales, as compared to 2016. See Operating, General and Administrative Expenses section for additional details on these fluctuations.
- During 2017, we returned \$2.1 billion to shareholders from share repurchases and dividend payments.
- We contributed \$1.2 billion to company-sponsored and company-managed pension plans, which significantly addressed the underfunded position of these plans, and paid \$467 million to satisfy withdrawal obligations to the Central States Pension Fund. These contributions were deductible for tax purposes, resulting in a tax benefit of approximately \$613 million. Included in the contribution is an incremental \$111 million to the United Food and Commercial Workers International Union (“UFCW”) Consolidated Pension Plan (the “2017 UFCW Contribution”), which was contributed in the third quarter of 2017.
- Net cash provided by operating activities was \$3.4 billion in 2017 compared to \$4.3 billion in 2016. Net cash used by investing activities was \$2.7 billion in 2017 compared to \$3.9 billion in 2016.
- Free cash flow was \$706 million in 2017 compared to \$397 million during 2016.
- Announced Restock Kroger during 2017. Restock Kroger has four main drivers: Redefine the Food and Grocery Customer Experience, Expand Partnerships to Create Customer Value, Develop Talent, and Live Kroger’s Purpose. Over the next three years, Restock Kroger will be fueled by cost savings that we will invest in associates, customers and infrastructure. Our goal is to continue generating shareholder value even as we make strategic investments to grow our business.

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 2017 and 2016 Adjusted Items. In 2015, we did not have any adjustment items that affected net earnings or net earnings per diluted share.

## Net Earnings per Diluted Share excluding the Adjusted Items

(\$ in millions, except per share amounts)

|                                                                                                                                 | 2017     | 2016     | 2015     |
|---------------------------------------------------------------------------------------------------------------------------------|----------|----------|----------|
| Net earnings attributable to The Kroger Co.                                                                                     | \$ 1,907 | \$ 1,975 | \$ 2,039 |
| Adjustments for pension plan agreements (1)(2)                                                                                  | 360      | 71       | —        |
| Adjustment for voluntary retirement offering (1)(3)                                                                             | 117      | —        | —        |
| Adjustment for Kroger Specialty Pharmacy goodwill impairment (1)(4)                                                             | 74       | —        | —        |
| Adjustment for company-sponsored pension plan termination (1)(5)                                                                | 335      | —        | —        |
| Adjustment for depreciation related to held for sale assets (1)(6)                                                              | (13)     | —        | —        |
| Adjustment for Tax Act (1)(7)                                                                                                   | (922)    | —        | —        |
| Total Adjusted Items                                                                                                            | (49)     | 71       | —        |
| Net earnings attributable to The Kroger Co. excluding the Adjusted Items                                                        | \$ 1,858 | \$ 2,046 | \$ 2,039 |
| Extra Week adjustment (1)(8)                                                                                                    | (79)     | —        | —        |
| Net earnings attributable to The Kroger Co. excluding the Adjusted Items and the Extra Week adjustment                          | \$ 1,779 | \$ 2,046 | \$ 2,039 |
| Net earnings attributable to The Kroger Co. per diluted common share                                                            | \$ 2.09  | \$ 2.05  | \$ 2.06  |
| Adjustments for pension plan agreements (9)                                                                                     | 0.40     | 0.07     | —        |
| Adjustment for voluntary retirement offering (9)                                                                                | 0.13     | —        | —        |
| Adjustment for Kroger Specialty Pharmacy goodwill impairment (9)                                                                | 0.08     | —        | —        |
| Adjustment for company-sponsored pension plan termination (9)                                                                   | 0.37     | —        | —        |
| Adjustment for depreciation related to held for sale assets (9)                                                                 | (0.01)   | —        | —        |
| Adjustment for Tax Act (9)                                                                                                      | (1.02)   | —        | —        |
| Total Adjusted Items                                                                                                            | (0.05)   | 0.07     | —        |
| Net earnings attributable to The Kroger Co. per diluted common share excluding the Adjusted Items                               | \$ 2.04  | \$ 2.12  | \$ 2.06  |
| Extra Week adjustment(9)                                                                                                        | (0.09)   | —        | —        |
| Net earnings attributable to The Kroger Co. per diluted common share excluding the Adjusted Items and the Extra Week adjustment | \$ 1.95  | \$ 2.12  | \$ 2.06  |
| Average numbers of common shares used in diluted calculation                                                                    | 904      | 958      | 980      |

(1) The amounts presented represent the after-tax effect of each adjustment.

(2) The pre-tax adjustments for the pension plan agreements were \$550 and \$111 in 2017 and 2016, respectively.

(3) The pre-tax adjustment for the voluntary retirement offering was \$184.

(4) The pre-tax adjustment for Kroger Specialty Pharmacy goodwill impairment was \$110.

(5) The pre-tax adjustment for the company-sponsored pension plan termination was \$502.

(6) The pre-tax adjustment for depreciation related to held for sale assets was (\$19).

(7) Due to the re-measurement of deferred tax liabilities and the reduction of the statutory income tax rate for the last few weeks of the fiscal year.

- (8) The pretax Extra Week adjustment was (\$119).
- (9) The amount presented represents the net earnings per diluted common share effect of each adjustment.

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## RESULTS OF OPERATIONS

## Sales

## Total Sales

(\$ in millions)

|                         | 2017       | 2017<br>Adjusted<br>(2) | Percentage<br>Change (3) |   | 2016       | Percentage<br>Change (4) |   | 2015       |
|-------------------------|------------|-------------------------|--------------------------|---|------------|--------------------------|---|------------|
| Total supermarket sales |            |                         |                          |   |            |                          |   |            |
| without fuel            | \$ 100,800 | \$ 99,025               | 2.2                      | % | \$ 96,900  | 6.1                      | % | \$ 91,310  |
| Fuel sales              | 16,246     | 15,918                  | 13.9                     | % | 13,979     | (5.6)                    | % | 14,804     |
| Other Sales (1)         | 5,616      | 5,440                   | 22.0                     | % | 4,458      | 20.0                     | % | 3,716      |
| Total sales             | \$ 122,662 | \$ 120,383              | 4.4                      | % | \$ 115,337 | 5.0                      | % | \$ 109,830 |

- (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; Kroger Specialty Pharmacy; in-store health clinics; digital coupon services; and online sales by Vitacost.com.
- (2) The 2017 Adjusted column represents the items presented in the 2017 column adjusted to remove the Extra Week.
- (3) This column represents the percentage change in 2017 adjusted sales, compared to 2016.
- (4) This column represents the percentage change in 2016, compared to 2015.

The increase in total sales in 2017, compared to 2016, is due to the increase in adjusted sales and the Extra Week. Total adjusted sales increased in 2017, compared to 2016, by 4.4%. This increase was primarily due to our increases in total supermarket sales without fuel, fuel sales and our merger with Modern HC Holdings, Inc. (“ModernHEALTH”). The increase in total supermarket sales without fuel for 2017, adjusted for the Extra Week, compared to 2016, was primarily due to our identical supermarket sales increase, excluding fuel, of 0.7%, and an increase in supermarket square footage. Identical supermarket sales, excluding fuel, for 2017, compared to 2016, increased primarily due to an increase in the number of households shopping with us, changes in product mix and product cost inflation of 0.7%, partially offset by our continued investments in lower prices for our customers. Excluding mergers, acquisitions and operational closings, total supermarket square footage at the end of 2017 increased 1.9% over the end of 2016. Total adjusted fuel sales increased 13.9% in 2017, compared to 2016, primarily due to an increase in the average retail fuel price of 12.3% and an increase in fuel gallons sold of 1.4%. The increase in the average retail fuel price was caused by an increase in the product cost of fuel.

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.

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 illustrated below 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. 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 2017 and 2016.

## Identical Supermarket Sales

(\$ in millions)

|                                    | 2017       | 2016 (1)   |     |   |
|------------------------------------|------------|------------|-----|---|
| Including supermarket fuel centers | \$ 109,161 | \$ 107,135 |     |   |
| Excluding supermarket fuel centers | \$ 96,639  | \$ 95,942  |     |   |
| Including supermarket fuel centers | 1.9        | %          | 0.1 | % |
| Excluding supermarket fuel centers | 0.7        | %          | 1.0 | % |

(1) Identical supermarket sales for 2016 were adjusted to a comparable 53 week basis by including week 1 of fiscal 2017 in our 2016 identical supermarket sales base. However, for purposes of determining the percentage change in identical supermarket sales from 2015 to 2016, 2016 identical supermarket sales were not adjusted to include the sales from week 1 of 2017.

## Gross Margin, LIFO and FIFO Gross Margin

We define gross margin as sales minus merchandise costs, including advertising, warehousing, and transportation. Rent expense, depreciation and amortization expense, and interest expense are not included in gross margin.

Our gross margin rates, as a percentage of sales, were 22.01% in 2017, 22.40% in 2016 and 22.16% in 2015. The decrease in 2017, compared to 2016, resulted primarily from continued investments in lower prices for our customers and our merger with ModernHEALTH due to its lower gross margin rate, and increased warehousing, transportation and shrink costs, as a percentage of sales, partially offset by improved merchandise costs, a lower LIFO charge, a change in our product sales mix, including higher gross margin perishable departments growing their percentage share of sales to total sales, growth in Our Brands products which have a higher gross margin compared to national brand products, decreased advertising costs, as a percentage of sales, and a higher gross margin rate on fuel sales.

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.

Our LIFO credit for 2017 was \$8 million, compared to a LIFO charge of \$19 million in 2016 and \$28 million in 2015. Our LIFO credit in 2017 was primarily due to a reduction of pharmacy inventory in 2017 compared to 2016. 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, 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.

Our FIFO gross margin rates, which exclude the LIFO credit and charge, were 22.01% in 2017, 22.42% in 2016 and 22.18% in 2015. Excluding the effect of fuel, the Extra Week and ModernHEALTH, our FIFO gross margin rate decreased 19 basis points in 2017, compared to 2016. This decrease resulted primarily from continued investments in lower prices for our customers, increased warehousing, transportation and shrink costs, as a percentage of sales, partially offset by improved merchandise costs, a change in our product sales mix, including higher gross margin perishable departments growing their percentage share of sales to total sales, growth in Our Brands products which have a higher gross margin compared to national brand products and decreased advertising costs, as a percentage of sales. Excluding the effect of fuel and our mergers with Roundy's and ModernHEALTH, 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.

#### Operating, General and Administrative Expenses

OG&A expenses consist primarily of employee-related costs such as wages, healthcare benefit costs and retirement plan costs; and 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 17.58% in 2017, 16.63% in 2016 and 16.34% in 2015. The increase in 2017, compared to 2016, resulted primarily from the 2017 OG&A Adjusted Items, investing in our digital strategy, increases in store wages attributed to investing in incremental labor hours and higher wages to improve retention, employee engagement and customer experience, the 2017 UFCW Contribution, increases in incentive plan and healthcare costs, partially offset by savings from the VRO, effective cost controls, higher fuel sales, the 2016 Adjusted Items and our merger with ModernHEALTH due to its lower OG&A rate, 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 Extra Week, the 2017 UFCW Contribution, the 2017 OG&A and 2016 Adjusted Items and ModernHEALTH, our OG&A rate increased 22 basis points in 2017, compared to 2016. This increase resulted primarily from investing in our digital strategy, increases in store wages attributed to investing in incremental labor hours and higher wages to improve retention, employee engagement and customer experience, increases in incentive plan and healthcare costs, partially offset by savings from the VRO and effective cost controls.

The increase in 2016, compared to 2015, 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 mergers with Roundy's and ModernHEALTH 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 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. 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.

#### Rent Expense

Rent expense decreased as a percentage of sales in 2017, compared to 2016, due to our continued emphasis on owning rather than leasing, whenever possible, and higher fuel sales, which decreases our rent expense, as a percentage of sales, partially offset by increased closed store liabilities.

Rent expense increased as a percentage of sales 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.

#### Depreciation and Amortization Expense

Depreciation and amortization expense decreased as a percentage of sales in 2017, compared to 2016, due to higher fuel sales, which decreases our depreciation expense as a percentage of sales, the Extra Week and the 2017 Depreciation Adjusted Item, partially offset by additional depreciation on capital investments, excluding mergers and lease buyouts, of \$3.0 billion, during 2017.

Depreciation and amortization expense increased as a percentage of sales 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.

#### Operating Profit and FIFO Operating Profit

Operating profit was \$2.1 billion in 2017, \$3.4 billion in 2016 and \$3.6 billion in 2015. Operating profit, as a percentage of sales, was 1.70% in 2017, 2.98% in 2016 and 3.26% in 2015. Operating profit, as a percentage of sales, decreased 128 basis points in 2017, compared to 2016, due to a lower gross margin and increased OG&A, partially offset by lower depreciation and amortization expenses and a lower LIFO charge, as a percentage of sales.

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.

FIFO operating profit was \$2.1 billion in 2017, \$3.5 billion in 2016 and \$3.6 billion in 2015. FIFO operating profit, as a percentage of sales, was 1.69% in 2017, 3.00% in 2016 and 3.28% in 2015. 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 Extra Week, the 2017 UFCW Contribution, the 2017 and 2016 Adjusted Items and ModernHEALTH, decreased 46 basis points in 2017, compared to 2016, due to a lower gross margin and increased OG&A and depreciation and amortization expenses, as a percentage of 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.

Specific factors of the above operating trends under operating profit and FIFO operating profit are discussed earlier in this section.

#### Interest Expense

Interest expense totaled \$601 million in 2017, \$522 million in 2016 and \$482 million in 2015. The increase in interest expense in 2017, compared to 2016, resulted primarily from additional borrowings used for share repurchases, the Extra Week, the \$1.2 billion we contributed to company-sponsored and company-managed pension plans in 2017, a \$467 million pre-tax payment to satisfy withdrawal obligations to the Central States Pension Fund, partially offset by a lower weighted average interest rate. 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.

#### Income Taxes

Our effective income tax rate was (27.3)% in 2017, 32.8% in 2016 and 33.8% in 2015. The 2017 tax rate differed from the federal statutory rate primarily as a result of remeasuring deferred taxes due to the Tax Act, the Domestic Manufacturing Deduction and other changes, partially offset by non-deductible goodwill impairment charges and the effect of state income taxes. 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 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 \$2.09 per diluted share in 2017 represented an increase of 2.0% from net earnings of \$2.05 per diluted share in 2016. Excluding the 2017 and 2016 Adjusted Items and the Extra Week, adjusted net earnings of \$1.95 per diluted share in 2017 represented a decrease of 8.0% from adjusted net earnings of \$2.12 per diluted share in 2016. The 8.0% decrease in adjusted net earnings per diluted share resulted primarily from lower non-fuel FIFO operating profit and increased interest expense, partially offset by higher fuel earnings, a lower LIFO charge, decreased income tax expense and lower weighted average common shares outstanding due to common share repurchases.

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.

## 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. The share repurchase programs do not have an expiration date but may be suspended or terminated by our Board of Directors at any time. We made open market purchases of our common shares totaling \$1.6 billion in 2017, \$1.7 billion in 2016 and \$500 million in 2015 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 \$66 million in 2017, \$105 million in 2016 and \$203 million in 2015 of our common shares under the stock option program.

The shares repurchased in 2017 were reacquired under the following repurchase programs authorized by the Board of Directors to reacquire shares via open market purchases:

- On September 15, 2016, our Board of Directors approved a \$500 million share repurchase program (the “September 2016 Repurchase Program”). This program was exhausted during the first quarter of 2017.
- On March 9, 2017, our Board of Directors approved an additional \$500 million share repurchase program to supplement the September 2016 Repurchase Program. This program was exhausted during the second quarter of 2017.
- On June 22, 2017, our Board of Directors approved a \$1.0 billion share repurchase program. As of February 3, 2018, there was \$272 million remaining under this share repurchase program.

On March 15, 2018, our Board of Directors approved a \$1.0 billion share repurchase program, to supplement the June 2017 Repurchase Program, to reacquire shares via open market purchase or privately negotiated transactions, including accelerated stock repurchase transactions, block trades, or pursuant to trades intending to comply with rule 10b5-1 of the Securities Exchange Act of 1934 (the “March 2018 Repurchase Program”).

During the first quarter through March 29, 2018, we used an additional \$388 million of cash to repurchase 16 million common shares at an average price of \$25.05 per share. As of March 29, 2018, we have exhausted the June 2017 Repurchase Program and have \$885 million remaining under the March 2018 Repurchase Program.

## CAPITAL INVESTMENTS

Capital investments, including changes in construction-in-progress payables and excluding mergers and the purchase of leased facilities, totaled \$3.0 billion in 2017, \$3.7 billion in 2016 and \$3.3 billion in 2015. Capital investments for mergers totaled \$16 million in 2017, \$401 million in 2016 and \$168 million in 2015. We merged with ModernHEALTH in 2016 and Roundy's in 2015. Refer to Note 2 to the Consolidated Financial Statements for more information on these mergers. Capital investments for the purchase of leased facilities totaled \$13 million in 2017, \$5 million in 2016 and \$35 million in 2015. The table below shows our supermarket storing activity and our total supermarket square footage:

Supermarket Storing Activity

|                                                | 2017  | 2016  | 2015  |
|------------------------------------------------|-------|-------|-------|
| Beginning of year                              | 2,796 | 2,778 | 2,625 |
| Opened                                         | 24    | 50    | 31    |
| Opened (relocation)                            | 15    | 21    | 12    |
| Acquired                                       | 3     | —     | 159   |
| Closed (operational)                           | (41)  | (32)  | (37)  |
| Closed (relocation)                            | (15)  | (21)  | (12)  |
| End of year                                    | 2,782 | 2,796 | 2,778 |
| Total supermarket square footage (in millions) | 179   | 178   | 173   |

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, (iv) the average other current liabilities, excluding accrued income taxes and (v) the average liabilities held for sale. 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.



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The following table provides a calculation of ROIC for 2017 and 2016 on a 52 week basis (\$ in millions).

|                                                              | Rolling Four Quarters<br>Ended |                        |       |   |
|--------------------------------------------------------------|--------------------------------|------------------------|-------|---|
|                                                              | February<br>3,<br>2018         | January<br>28,<br>2017 |       |   |
| Return on Invested Capital                                   |                                |                        |       |   |
| Numerator                                                    |                                |                        |       |   |
| Operating profit on a 53 week basis in fiscal year 2017      | \$ 2,085                       | \$ 3,436               |       |   |
| Extra Week operating profit adjustment                       | (131)                          | —                      |       |   |
| LIFO (credit) charge                                         | (8)                            | 19                     |       |   |
| Depreciation and amortization                                | 2,436                          | 2,340                  |       |   |
| Rent on 53 week basis in fiscal year 2017                    | 911                            | 881                    |       |   |
| Extra Week rent adjustment                                   | (17)                           | —                      |       |   |
| Adjustment for Kroger Specialty Pharmacy goodwill impairment | 110                            | —                      |       |   |
| Adjustments for pension plan agreements                      | 550                            | 111                    |       |   |
| Adjustment for company-sponsored pension plan termination    | 502                            | —                      |       |   |
| Adjustment for depreciation related to held for sale assets  | (19)                           | —                      |       |   |
| Adjustments for voluntary retirement offering                | 184                            | —                      |       |   |
| Adjusted operating profit on a 52 week basis                 | \$ 6,603                       | \$ 6,787               |       |   |
| Denominator                                                  |                                |                        |       |   |
| Average total assets                                         | \$ 36,851                      | \$ 35,201              |       |   |
| Average taxes receivable (1)                                 | (181)                          | (262)                  |       |   |
| Average LIFO reserve                                         | 1,270                          | 1,283                  |       |   |
| Average accumulated depreciation and amortization            | 20,287                         | 18,940                 |       |   |
| Average trade accounts payable                               | (5,838)                        | (5,773)                |       |   |
| Average accrued salaries and wages                           | (1,167)                        | (1,330)                |       |   |
| Average other current liabilities (2)                        | (3,363)                        | (3,265)                |       |   |
| Average liabilities held for sale                            | (130)                          | —                      |       |   |
| Rent x 8                                                     | 7,152                          | 7,048                  |       |   |
| Average invested capital                                     | \$ 54,881                      | \$ 51,842              |       |   |
| Return on Invested Capital                                   | 12.03                          | %                      | 13.09 | % |

(1) Taxes receivable were \$229 as of February 3, 2018, \$132 as of January 28, 2017 and \$392 as of January 30, 2016. 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. We did not have any accrued income taxes as of February 3, 2018 or 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 February 3, 2018. 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 \$3 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 \$71 million in 2017, \$26 million in 2016 and \$46 million in 2015. 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 \$2.9 billion as of February 3, 2018. 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. Generally, 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. We recognize goodwill impairment for any excess of a reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

Our annual evaluation of goodwill is performed for our reporting units during the fourth quarter. In 2017, we recorded goodwill impairment for our Kroger Specialty Pharmacy reporting unit totaling \$110 million, \$74 million net of tax. The annual evaluation of goodwill performed in 2016 and 2015 did not result in impairment. Based on current and future expected cash flows, we believe additional 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 2017, 2016 and 2015 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.

#### 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 4.00% and 3.93% discount rates as of year-end 2017 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 4.25% and 4.18% as of year-end 2016 for pension and other benefits, respectively. A 100 basis point increase in the discount rate would decrease the projected pension benefit obligation as of February 3, 2018, by approximately \$426 million.

Our 2017 assumed pension plan investment return rate was 7.50% compared to 7.40% in 2016 and 7.44% in 2015. The value of all investments in our company-sponsored defined benefit pension plans during the calendar year ending December 31, 2017, net of investment management fees and expenses, increased 8.7%. Historically, the Kroger pension plans' average rate of return was 5.7% for the 10 calendar years ended December 31, 2017, net of all investment management fees and expenses. For the past 20 years, the Kroger pension plans' average annual rate of return has been 7.10%. At the beginning of 2017, to determine the expected rate of return on pension plan assets held by Kroger for 2017, we considered current and forecasted plan asset allocations as well as historical and forecasted rates of return on various asset categories. Based on this information and forward looking assumptions for investments made in a manner consistent with our target allocations, which contemplates our transition to a liability driven investment strategy, we believed a 7.50% rate of return assumption was reasonable for 2017. In 2016, Kroger began managing the assets for the Harris Teeter and Roundy's pension plans, and our expected rate of return for 2016 reflects implementing a similar investment management strategy for the Harris Teeter and Roundy's plans' assets. 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<br>Point Change | Projected Benefit<br>Obligation<br>Decrease/(Increase) | Expense<br>Decrease/(Increase) |
|---------------------------|----------------------------|--------------------------------------------------------|--------------------------------|
| Discount Rate             | +/- 1.0%                   | \$ 426/(516)                                           | \$ 39/(49)                     |
| Expected Return on Assets | +/- 1.0%                   | —                                                      | \$ 31/(31)                     |

In 2017, we contributed \$1.0 billion to our company-sponsored defined benefit plans and we are not required to make any contributions to these plans in 2018. We contributed \$3 million to our company-sponsored defined benefit plans in 2016 and \$5 million in 2015. 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.

In 2017, we settled certain company-sponsored pension plan obligations using existing assets of the plan and the \$1.0 billion contribution. We recognized a settlement charge of approximately \$502 million, \$335 million net of tax, associated with the settlement of our obligations for the eligible participants' pension balances that were distributed out of the plan via a transfer to other qualified retirement plan options, a lump sum payout, or the purchase of an annuity contract, based on each participant's election.

We contributed and expensed \$219 million in 2017, \$215 million in 2016 and \$196 million in 2015 to employee 401(k) retirement savings accounts. The increase in 2016, compared to 2015, is primarily due to our recent mergers. 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 \$954 million in 2017, \$289 million in 2016 and \$426 million in 2015. The increase in 2017, compared to 2016, is due to the \$467 million pre-tax payment to satisfy withdrawal obligations to the Central States Pension Fund and the 2017 UFCW Contribution.



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 since these off balance sheet commitments are typically considered in our investment grade debt rating. We are currently designated as the named fiduciary of the UFCW Consolidated Pension Plan and the International Brotherhood of Teamsters ("IBT") Consolidated Pension Fund and have sole investment authority over these assets. As such, we include contributions to these plans when we disclose contributions to company-sponsored and company-managed pension plans. We became the fiduciary of the IBT Consolidated Pension Fund in 2017 due to the ratification of a new labor contract with the IBT that provided our withdrawal from the Central States Pension Fund. Significant effects of these restructuring agreements recorded in our Consolidated Financial Statements are:

- In 2017, we incurred a \$550 million charge, \$360 million net of tax, for obligations related to withdrawing from and settlements for withdrawal liabilities for certain multi-employer pension plan obligations, of which \$467 million was contributed to the Central States Pension Fund in 2017.
- In 2017, we contributed an incremental \$111 million, \$71 million net of tax, to the UFCW Consolidated Pension Plan.
- In 2016, we incurred a charge of \$111 million, \$71 million net of 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.

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.

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, 2017. 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, 2017, we estimate 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 \$2.3 billion, \$1.8 billion net of tax. This represents a decrease in the estimated amount of underfunding of approximately \$700 million, \$446 million net of tax, as of December 31, 2017, compared to December 31, 2016. The decrease in the amount of underfunding is primarily attributable to

withdrawing from and settlements for withdrawal liabilities for certain multi-employer pension plan obligations, the 2017 UFCW Contribution and returns on assets in the funds. 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 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.

## Inventories

Inventories are stated at the lower of cost (principally on a LIFO basis) or market. In total, approximately 93% and 89% of inventories were valued using the LIFO method in 2017 and 2016, respectively. The remaining inventories, including substantially all fuel inventories, are stated at the lower of cost (on a FIFO basis) or net realizable value. Replacement cost was higher than the carrying amount by \$1.2 billion at February 3, 2018 and \$1.3 billion at January 28, 2017. 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 \$8.5 billion in 2017, \$7.8 billion in 2016 and \$7.3 billion in 2015 of vendor allowances as a reduction in merchandise costs. We recognized approximately 93% 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 a material 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 and \$84 million for 2015. 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.

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 to be classified as noncurrent in a classified statement of financial position. This amendment became effective for us beginning January 29, 2017, and was adopted prospectively in accordance with the standard. The implementation of this amendment resulted in the reclassification of current deferred tax liabilities as non-current and had no effect on our Consolidated Statements of Operations.

During the fourth quarter of 2017, we adopted ASU 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating the second step from the goodwill impairment test. ASU 2017-04 requires applying a one-step quantitative test and recording the amount of goodwill impairment as the excess of the reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 does not amend the optional qualitative assessment of goodwill impairment. We performed our annual evaluation of goodwill in accordance with this standard, which resulted in a goodwill impairment charge of \$110 million, \$74 million net of tax, related to our Kroger Specialty Pharmacy reporting unit.

#### 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 overarching principle is that revenue must be recognized when goods and services are transferred to the customer in an amount that is proportionate to what has been delivered at that point and that reflects the consideration to which the company expects to be entitled 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 fiscal year ending February 2, 2019. We formed a project team to assess and document our accounting policies related to the new revenue guidance. As of the end of 2017, we have completed this assessment and documentation. Based on this project, we do not expect that the implementation of the new standard will have a material effect on our Consolidated Statements of Operations, Consolidated Balance Sheets or Consolidated Statements of Cash Flows. We intend to adopt the new standard on a modified retrospective basis and will be addressing new disclosures regarding revenue recognition policies as required by the new standard at adoption. During our assessment, we identified and will be implementing changes, at the beginning of the first quarter of 2018, to our accounting policies and practices, business processes, systems and controls to support the new revenue recognition and disclosure requirements.

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. This evaluation process includes reviewing all forms of leases, performing a completeness assessment over the lease population, analyzing the practical expedients and assessing opportunities to make certain changes to our lease accounting information technology system in order to determine the best implementation strategy. We believe our current off-balance sheet leasing commitments are reflected in our investment grade debt rating.

In March 2017, the FASB issued ASU 2017-07 "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." ASU 2017-07 requires an employer to report the service cost component of retiree benefits in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented separately from the service cost component and outside a subtotal of income from operations. ASU 2017-07 is effective for years, and interim periods within those years, beginning after December 15, 2017, and requires retrospective application to all periods presented. This ASU will impact our Operating Profit subtotal as reported in our Consolidated Statement of Operations by excluding interest expense, investment returns, settlements and other non-service cost components of retiree benefit expenses. Information about interest expense, investment returns and other components of retiree benefit expenses can be found in Note 15 of our Consolidated Financial Statements.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income." ASU 2018-02 amends ASC 220, "Income Statement - Reporting Comprehensive Income," to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. In addition, under the ASU 2018-02, we may be required to provide certain disclosures regarding stranded tax effects. ASU 2018-02 is effective for years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the effect of the standard on our Consolidated Financial Statements.

## LIQUIDITY AND CAPITAL RESOURCES

### Cash Flow Information

Net cash provided by operating activities

We generated \$3.4 billion of cash from operations in 2017, compared to \$4.3 billion in 2016 and \$4.9 billion in 2015. The cash provided by operating activities came from net earnings including non-controlling interests adjusted

primarily for non-cash expenses of depreciation and amortization, LIFO (credit) charge, stock compensation, expense for company-sponsored pension plans, goodwill impairment charge and deferred income taxes. Changes in working capital created a net cash outflow in 2017 and 2016, and a net cash inflow for 2015.

The decrease in net cash provided by operating activities in 2017, compared to 2016, resulted primarily from a decrease in net earnings including noncontrolling interests, the \$1.0 billion contribution to the company-sponsored defined benefit plans and deferred taxes, partially offset by an increase in non-cash expenses and changes in working capital. Deferred taxes changed in 2017, compared to 2016, as a result of remeasuring deferred taxes due to the Tax Act.

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.



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Cash provided (used) by operating activities for changes in working capital was (\$164) in 2017 compared to (\$492) million in 2016 and \$180 million in 2015. The decrease in cash used by operating activities for changes in working capital in 2017, compared to 2016, was primarily due to the following:

- A lower amount of cash used for inventory purchases due to decreased capital investments related to store growth,
  - Increased cash collections due to our emphasis on better receivables management, and
- A lower increase, over the prior year, of prepaid benefit costs in 2017, compared to 2016; partially offset by
- An overpayment of our fourth quarter 2017 estimated income taxes, and
- An increase in store deposits in-transit due to increased sales in the last few days of the year.

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.

Net cash used by investing activities

Cash used by investing activities was \$2.7 billion in 2017, compared to \$3.9 billion in 2016 and \$3.6 billion in 2015. The amount of cash used by investing activities decreased in 2017 compared to 2016 primarily due to reduced cash payments for capital investments and lower payments for mergers. 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.

### Net cash used by financing activities

Cash used by financing activities was \$681 million in 2017, \$352 million in 2016 and \$1.3 billion in 2015. The increase in the amount of cash used for financing activities in 2017 compared to 2016 was primarily due to lower net long-term borrowings, partially offset by lower treasury stock purchases and higher net commercial paper borrowings. 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.

### Debt Management

Total debt, including both the current and long-term portions of capital lease and lease-financing obligations, increased \$1.5 billion to \$15.6 billion as of year-end 2017 compared to 2016. The increase in 2017, compared to 2016, resulted from the issuance of (i) \$400 million of senior notes bearing an interest rate of 2.80%, (ii) \$600 million of senior notes bearing an interest rate of 3.70%, (iii) \$500 million of senior notes bearing an interest rate of 4.65% and (iv) increases in commercial paper borrowings, partially offset by payments of \$700 million on maturing long-term debt obligations.

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.

## Liquidity Needs

We estimate our liquidity needs over the next twelve-month period to approximate \$6.9 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 2017. 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 \$2.1 billion of commercial paper and \$1.3 billion of senior notes maturing in the next twelve months, which is included in the \$6.9 billion of estimated liquidity needs. We expect to refinance this debt, in 2018, by issuing additional senior notes, a term loan or commercial paper on favorable terms based on our past experience. We currently plan to continue repurchases of common shares under the Company's share repurchase programs and have a growing dividend, subject to Board approval. 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 February 3, 2018, we had \$2.1 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 and applicable margin on borrowings under the credit facility could be affected by a downgrade in our Public Debt Rating. As of March 29, 2018, we had \$1.1 billion 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 Adjusted EBITDA, as defined in the credit facility) was 2.45 to 1 as of February 3, 2018. 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.
- Our Fixed Charge Coverage Ratio (the ratio of Adjusted EBITDA plus Consolidated Rental Expense to Consolidated Cash Interest Expense plus Consolidated Rental Expense, as defined in the credit facility) was 4.49 to 1 as of February 3, 2018. 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 2017.

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The tables below illustrate our significant contractual obligations and other commercial commitments, based on year of maturity or settlement, as of February 3, 2018 (in millions of dollars):

|                                | 2018     | 2019     | 2020     | 2021     | 2022     | Thereafter | Total     |
|--------------------------------|----------|----------|----------|----------|----------|------------|-----------|
| Contractual Obligations (1)(2) |          |          |          |          |          |            |           |
| Long-term debt (3)             | \$ 3,509 | \$ 1,243 | \$ 721   | \$ 795   | \$ 897   | \$ 7,622   | \$ 14,787 |
| Interest on long-term debt (4) | 427      | 496      | 440      | 396      | 364      | 4,411      | 6,534     |
| Capital lease obligations      | 88       | 78       | 74       | 71       | 68       | 692        | 1,071     |
| Operating lease obligations    | 992      | 936      | 838      | 736      | 606      | 3,664      | 7,772     |
| Financed lease obligations     | 8        | 8        | 9        | 9        | 9        | 43         | 86        |
| Self-insurance liability (5)   | 234      | 142      | 98       | 65       | 41       | 115        | 695       |
| Construction commitments (6)   | 616      | —        | —        | —        | —        | —          | 616       |
| Purchase obligations (7)       | 455      | 129      | 88       | 44       | 37       | 48         | 801       |
| Total                          | \$ 6,329 | \$ 3,032 | \$ 2,268 | \$ 2,116 | \$ 2,022 | \$ 16,595  | \$ 32,362 |
| Other Commercial Commitments   |          |          |          |          |          |            |           |
| Standby letters of credit      | \$ 222   | \$ —     | \$ —     | \$ —     | \$ —     | \$ —       | \$ 222    |
| Surety bonds                   | 412      | —        | —        | —        | —        | —          | 412       |
| Total                          | \$ 634   | \$ —     | \$ —     | \$ —     | \$ —     | \$ —       | \$ 634    |

- (1) The contractual obligations table excludes funding of pension and other postretirement benefit obligations, which totaled approximately \$1.0 billion in 2017. This table also excludes contributions under various multi-employer pension plans, which totaled \$954 million in 2017.
- (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 February 3, 2018, we had \$2.1 billion of commercial paper and no borrowings under our credit facility.
- (4) Amounts include contractual interest payments using the interest rate as of February 3, 2018, 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 February 3, 2018, we maintained a \$2.75 billion (with the ability to increase by \$1 billion), unsecured revolving credit facility that, unless extended, terminates on August 29, 2022. Outstanding borrowings under the credit facility, the commercial paper borrowings, and some outstanding letters of credit, reduce funds available under the credit facility. As of February 3, 2018, we had \$2.1 billion of outstanding commercial paper and no borrowings under our credit facility. The outstanding letters of credit that reduce funds available under our credit facility totaled \$6 million as of February 3, 2018.

In addition to the available credit mentioned above, as of February 3, 2018, we had authorized for issuance \$2.5 billion of securities remaining under a shelf registration statement filed with the SEC and effective on December 14, 2016.

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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 "will," "would," "could," "continue," "targeting," "range," "guidance," "assess," "possible," "estimate," "may," "expect," "goal," "should," "intend," "believe," "anticipate," "plan," and similar words or phrases. 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, as amended. 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.

- We are targeting identical supermarket sales growth, excluding fuel, to range from 1.5% to 2.0% in 2018.
- We expect net earnings to range from \$1.95 to \$2.15 per diluted share for 2018.
- We expect capital investments, excluding mergers, acquisitions, and purchases of leased facilities, to be approximately \$3.0 billion in 2018.
- We expect our 2018 tax rate to be approximately 22%.



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; the successful integration of our acquired companies; and the successful completion of the sale of our convenience stores business. 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.
- 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.

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 2018.

Other factors and assumptions not identified above, including those discussed in Item 1A of this Report, 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Financial Risk Management

We use derivative financial instruments primarily to manage our exposure to fluctuations in interest rates. We do not enter into derivative financial instruments for trading purposes. As a matter of policy, all of our derivative positions are intended to reduce risk by hedging an underlying economic exposure. Because of the high correlation between the hedging instrument and the underlying exposure, fluctuations in the value of the instruments generally are offset by reciprocal changes in the value of the underlying exposure. The interest rate derivatives we use are straightforward instruments with liquid markets.

We manage our exposure to interest rates and changes in the fair value of our debt instruments primarily through the strategic use of our commercial paper program, variable and fixed rate debt, and interest rate swaps. Our 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, we use 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 of debt subject to interest rate reset and the amount of floating rate debt to a combined total of \$2.5 billion or less, (iii) include no leveraged products, and (iv) hedge without regard to profit motive or sensitivity to current mark-to-market status.

As of February 3, 2018, we maintained two interest rate swap agreements, with an aggregate notional amount totaling \$100 million, to manage our exposure to changes in the fair value of our fixed rate debt resulting from interest rate movements by effectively converting a portion of our debt from fixed to variable rates. These agreements mature in December 2018, and coincide with our scheduled debt maturities. The differential between fixed and variable rates to be paid or received is accrued as interest rates change in accordance with the agreements as an adjustment to interest expense. These interest rate swap agreements are being accounted for as fair value hedges.

As of February 3, 2018, we maintained 14 forward-starting interest rate swap agreements with maturity dates of January 15, 2019 and January 15, 2020 with an aggregate notional amount totaling \$1.0 billion. 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. We entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on our forecasted issuances of debt in fiscal years 2018 and 2019. The fixed interest rates for these forward-starting interest rate swaps range from 2.15% to 2.48%. The variable rate component on the forward-starting interest rate swaps is 3 month LIBOR. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of February 3, 2018, the fair value of the interest rate swaps was recorded in other assets for \$103 million and accumulated other comprehensive income for \$73 million, net of tax.

Annually, we review with the Financial Policy Committee of our Board of Directors compliance with the guidelines described above. The guidelines may change as our business needs dictate.

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The tables below provide information about our interest rate derivatives classified as fair value hedges and underlying debt portfolio as of February 3, 2018 and January 28, 2017. The amounts shown for each year represent the contractual maturities of long-term debt, excluding capital leases, and the average outstanding notional amounts of interest rate derivatives classified as fair value hedges as of February 3, 2018 and January 28, 2017. Interest rates reflect the weighted average rate for the outstanding instruments. The variable component of each interest rate derivative and the variable rate debt is based on U.S. dollar LIBOR using the forward yield curve as of February 3, 2018 and January 28, 2017. The Fair Value column includes the fair value of our debt instruments and interest rate derivatives

classified as fair value hedges as of February 3, 2018 and January 28, 2017. See Notes 6, 7 and 8 to the Consolidated Financial Statements.

|                       | February 3, 2018<br>Expected Year of Maturity |            |          |          |          |            |             | Total       | Fair Value |
|-----------------------|-----------------------------------------------|------------|----------|----------|----------|------------|-------------|-------------|------------|
|                       | 2018                                          | 2019       | 2020     | 2021     | 2022     | Thereafter |             |             |            |
| Debt                  | (in millions)                                 |            |          |          |          |            |             |             |            |
| Fixed rate            | \$ (1,332)                                    | \$ (1,243) | \$ (696) | \$ (795) | \$ (897) | \$ (7,494) | \$ (12,457) | \$ (12,837) |            |
| Average interest rate | 4.48 %                                        | 4.65 %     | 4.58 %   | 4.57 %   | 4.65 %   | 4.60 %     |             |             |            |
| Variable rate         | \$ (2,177)                                    | \$ —       | \$ (25)  | \$ —     | \$ —     | \$ (128)   | \$ (2,330)  | \$ (2,330)  |            |
| Average interest rate | 1.73 %                                        | —          | 3.15 %   | —        | —        | —          |             |             |            |

|                                 | February 3, 2018<br>Average Notional Amounts Outstanding |      |      |      |      |            | February 3, 2018 | February 3, 2018 |
|---------------------------------|----------------------------------------------------------|------|------|------|------|------------|------------------|------------------|
|                                 | 2018                                                     | 2019 | 2020 | 2021 | 2022 | Thereafter | Total            | Fair Value       |
| Interest Rate Derivatives       | (in millions)                                            |      |      |      |      |            |                  |                  |
| Classified as Fair Value Hedges |                                                          |      |      |      |      |            |                  |                  |
| Fixed to variable               | \$ 88                                                    | \$ — | \$ — | \$ — | \$ — | \$ —       | \$ 88            | \$ (1)           |
| Average pay rate                | 7.63 %                                                   | —    | —    | —    | —    | —          |                  |                  |
| Average receive rate            | 6.80 %                                                   | —    | —    | —    | —    | —          |                  |                  |

|  | January 28, 2017<br>Expected Year of Maturity |      |      |      |      | Thereafter | Total | Fair Value |
|--|-----------------------------------------------|------|------|------|------|------------|-------|------------|
|  | 2017                                          | 2018 | 2019 | 2020 | 2021 |            |       |            |
|  | (in millions)                                 |      |      |      |      |            |       |            |

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|          |            |            |            |          |          |            |             |             |  |
|----------|------------|------------|------------|----------|----------|------------|-------------|-------------|--|
| Debt     |            |            |            |          |          |            |             |             |  |
| Fixed    |            |            |            |          |          |            |             |             |  |
| rate     | \$ (716)   | \$ (1,298) | \$ (1,246) | \$ (699) | \$ (797) | \$ (6,955) | \$ (11,711) | \$ (12,301) |  |
| Average  |            |            |            |          |          |            |             |             |  |
| interest |            |            |            |          |          |            |             |             |  |
| rate     | 4.94 %     | 4.54 %     | 4.68 %     | 4.62 %   | 4.63 %   | 4.57 %     |             |             |  |
| Variable |            |            |            |          |          |            |             |             |  |
| rate     | \$ (1,481) | \$ (17)    | \$ —       | \$ (25)  | \$ —     | \$ (81)    | \$ (1,604)  | \$ (1,604)  |  |
| Average  |            |            |            |          |          |            |             |             |  |
| interest |            |            |            |          |          |            |             |             |  |
| rate     | 0.93 %     | 3.53 %     | —          | 5.00 %   | —        | 3.73 %     |             |             |  |

|                           | January 28, 2017                     |        |      |      |      |            | January | January |
|---------------------------|--------------------------------------|--------|------|------|------|------------|---------|---------|
|                           | Average Notional Amounts Outstanding |        |      |      |      |            | 28,     | 28,     |
|                           | 2017                                 | 2018   | 2019 | 2020 | 2021 | Thereafter | 2017    | 2017    |
|                           | (in millions)                        |        |      |      |      |            | Total   | Fair    |
|                           |                                      |        |      |      |      |            |         | Value   |
| Interest Rate Derivatives |                                      |        |      |      |      |            |         |         |
| Classified as Fair Value  |                                      |        |      |      |      |            |         |         |
| Hedges                    |                                      |        |      |      |      |            |         |         |
| Fixed to variable         | \$ 100                               | \$ 88  | \$ — | \$ — | \$ — | \$ —       | \$ 100  | \$ (1)  |
| Average pay rate          | 6.71 %                               | 7.20 % | —    | —    | —    | —          |         |         |
| Average receive rate      | 6.80 %                               | 6.80 % | —    | —    | —    | —          |         |         |

Based on our year-end 2017 variable rate debt levels, a 10 percent change in interest rates would be immaterial. See Note 7 to the Consolidated Financial Statements for further discussion of derivatives and hedging policies.

ITEM 8.FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

The Kroger Co.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of The Kroger Co. and its subsidiaries as of February 3, 2018 and January 28, 2017, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended February 3, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of February 3, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 3, 2018 and January 28, 2017, and the results of their operations and their cash flows for each of the three years in the period ended February 3, 2018 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 February 3, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Change in Accounting Principles

As discussed in Note 19 to the consolidated financial statements, the Company changed the manner in which it accounts for deferred income taxes and the manner in which it accounts for goodwill impairments in 2017.

Basis for Opinions

The Company's management is responsible for these consolidated 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 under Item

9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ PricewaterhouseCoopers LLP

Cincinnati, Ohio

April 3, 2018

We have served as the Company's auditor since 1929.



## THE KROGER CO.

## CONSOLIDATED BALANCE SHEETS

| (In millions, except par amounts)                                                                      | February 3,<br>2018 | January 28,<br>2017 |
|--------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>ASSETS</b>                                                                                          |                     |                     |
| Current assets                                                                                         |                     |                     |
| Cash and temporary cash investments                                                                    | \$ 347              | \$ 322              |
| Store deposits in-transit                                                                              | 1,161               | 910                 |
| Receivables                                                                                            | 1,637               | 1,649               |
| FIFO inventory                                                                                         | 7,781               | 7,852               |
| LIFO reserve                                                                                           | (1,248)             | (1,291)             |
| Assets held for sale                                                                                   | 604                 | —                   |
| Prepaid and other current assets                                                                       | 835                 | 898                 |
| Total current assets                                                                                   | 11,117              | 10,340              |
| Property, plant and equipment, net                                                                     | 21,071              | 21,016              |
| Intangibles, net                                                                                       | 1,100               | 1,153               |
| Goodwill                                                                                               | 2,925               | 3,031               |
| Other assets                                                                                           | 984                 | 965                 |
| Total Assets                                                                                           | \$ 37,197           | \$ 36,505           |
| <b>LIABILITIES</b>                                                                                     |                     |                     |
| Current liabilities                                                                                    |                     |                     |
| Current portion of long-term debt including obligations under capital leases and financing obligations | \$ 3,560            | \$ 2,252            |
| Trade accounts payable                                                                                 | 5,858               | 5,818               |
| Accrued salaries and wages                                                                             | 1,099               | 1,234               |
| Deferred income taxes                                                                                  | —                   | 251                 |
| Liabilities held for sale                                                                              | 259                 | —                   |
| Other current liabilities                                                                              | 3,421               | 3,305               |
| Total current liabilities                                                                              | 14,197              | 12,860              |
| Long-term debt including obligations under capital leases and financing obligations                    | 12,029              | 11,825              |
| Deferred income taxes                                                                                  | 1,568               | 1,927               |
| Pension and postretirement benefit obligations                                                         | 792                 | 1,524               |
| Other long-term liabilities                                                                            | 1,706               | 1,659               |
| Total Liabilities                                                                                      | 30,292              | 29,795              |
| Commitments and contingencies (see Note 13)                                                            |                     |                     |
| <b>SHAREHOLDERS' EQUITY</b>                                                                            |                     |                     |
| Preferred shares, \$100 per share, 5 shares authorized and unissued                                    | —                   | —                   |
|                                                                                                        | 1,918               | 1,918               |

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|                                                                                                 |           |           |
|-------------------------------------------------------------------------------------------------|-----------|-----------|
| Common shares, \$1 par per share, 2,000 shares authorized; 1,918 shares issued in 2017 and 2016 |           |           |
| Additional paid-in capital                                                                      | 3,161     | 3,070     |
| Accumulated other comprehensive loss                                                            | (471)     | (715)     |
| Accumulated earnings                                                                            | 17,007    | 15,543    |
| Common shares in treasury, at cost, 1,048 shares in 2017 and 994 shares in 2016                 | (14,684)  | (13,118)  |
| Total Shareholders' Equity - The Kroger Co.                                                     | 6,931     | 6,698     |
| Noncontrolling interests                                                                        | (26)      | 12        |
| Total Equity                                                                                    | 6,905     | 6,710     |
| Total Liabilities and Equity                                                                    | \$ 37,197 | \$ 36,505 |

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

THE KROGER CO.

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years Ended February 3, 2018, January 28, 2017 and January 30, 2016

| (In millions, except per share amounts)                                                                           | 2017<br>(53 weeks) | 2016<br>(52 weeks) | 2015<br>(52 weeks) |
|-------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|
| Sales                                                                                                             | \$ 122,662         | \$ 115,337         | \$ 109,830         |
| Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below | 95,662             | 89,502             | 85,496             |
| Operating, general and administrative                                                                             | 21,568             | 19,178             | 17,946             |
| Rent                                                                                                              | 911                | 881                | 723                |
| Depreciation and amortization                                                                                     | 2,436              | 2,340              | 2,089              |
| Operating profit                                                                                                  | 2,085              | 3,436              | 3,576              |
| Interest expense                                                                                                  | 601                | 522                | 482                |
| Net earnings before income tax (benefit) expense                                                                  | 1,484              | 2,914              | 3,094              |
| Income tax (benefit) expense                                                                                      | (405)              | 957                | 1,045              |
| Net earnings including noncontrolling interests                                                                   | 1,889              | 1,957              | 2,049              |
| Net earnings (loss) attributable to noncontrolling interests                                                      | (18)               | (18)               | 10                 |
| Net earnings attributable to The Kroger Co.                                                                       | \$ 1,907           | \$ 1,975           | \$ 2,039           |
| Net earnings attributable to The Kroger Co. per basic common share                                                | \$ 2.11            | \$ 2.08            | \$ 2.09            |
| Average number of common shares used in basic calculation                                                         | 895                | 942                | 966                |
| Net earnings attributable to The Kroger Co. per diluted common share                                              | \$ 2.09            | \$ 2.05            | \$ 2.06            |
| Average number of common shares used in diluted calculation                                                       | 904                | 958                | 980                |
| Dividends declared per common share                                                                               | \$ 0.495           | \$ 0.465           | \$ 0.408           |

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



THE KROGER CO.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended February 3, 2018, January 28, 2017 and January 30, 2016

| (In millions)                                                                                     | 2017<br>(53 weeks) | 2016<br>(52 weeks) | 2015<br>(52 weeks) |
|---------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|
| Net earnings including noncontrolling interests                                                   | \$ 1,889           | \$ 1,957           | \$ 2,049           |
| Other comprehensive income (loss)                                                                 |                    |                    |                    |
| Realized and unrealized gains and losses on available for sale securities, net of income tax(1)   | 4                  | (20)               | 3                  |
| Change in pension and other postretirement defined benefit plans, net of income tax(2)            | 214                | (64)               | 131                |
| Unrealized gains and losses on cash flow hedging activities, net of income tax(3)                 | 23                 | 47                 | (3)                |
| Amortization of unrealized gains and losses on cash flow hedging activities, net of income tax(4) | 3                  | 2                  | 1                  |
| Total other comprehensive income (loss)                                                           | 244                | (35)               | 132                |
| Comprehensive income                                                                              | 2,133              | 1,922              | 2,181              |
| Comprehensive gain (loss) attributable to noncontrolling interests                                | (18)               | (18)               | 10                 |
| Comprehensive income attributable to The Kroger Co.                                               | \$ 2,151           | \$ 1,940           | \$ 2,171           |

---

(1) Amount is net of tax expense (benefit) of \$1 in 2017, \$(16) in 2016 and \$2 in 2015.

(2) Amount is net of tax expense (benefit) of \$83 in 2017, \$(39) in 2016 and \$77 in 2015.

(3) Amount is net of tax expense (benefit) of \$0 in 2017, \$27 in 2016 and \$(2) in 2015.

(4) Amount is net of tax expense of \$3 in 2017.

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

THE KROGER CO.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended February 3, 2018, January 28, 2017 and January 30, 2016

| (In millions)                                                                                                          | 2017<br>(53 weeks) | 2016<br>(52 weeks) | 2015<br>(52 weeks) |
|------------------------------------------------------------------------------------------------------------------------|--------------------|--------------------|--------------------|
| <b>Cash Flows from Operating Activities:</b>                                                                           |                    |                    |                    |
| Net earnings including noncontrolling interests                                                                        | \$ 1,889           | \$ 1,957           | \$ 2,049           |
| Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities: |                    |                    |                    |
| Depreciation and amortization                                                                                          | 2,436              | 2,340              | 2,089              |
| Asset impairment charge                                                                                                | 71                 | 26                 | 46                 |
| LIFO (credit) charge                                                                                                   | (8)                | 19                 | 28                 |
| Stock-based employee compensation                                                                                      | 151                | 141                | 165                |
| Expense for company-sponsored pension plans                                                                            | 591                | 94                 | 103                |
| Goodwill impairment charge                                                                                             | 110                | —                  | —                  |
| Deferred income taxes                                                                                                  | (694)              | 201                | 317                |
| Other                                                                                                                  | 8                  | (28)               | 54                 |
| Changes in operating assets and liabilities net of effects from mergers of businesses:                                 |                    |                    |                    |
| Store deposits in-transit                                                                                              | (265)              | 13                 | 95                 |
| Receivables                                                                                                            | 61                 | (110)              | (59)               |
| Inventories                                                                                                            | (23)               | (382)              | (184)              |
| Prepaid and other current assets                                                                                       | 41                 | (172)              | (28)               |
| Trade accounts payable                                                                                                 | 158                | 16                 | 440                |
| Accrued expenses                                                                                                       | (40)               | (118)              | 275                |
| Income taxes receivable and payable                                                                                    | (96)               | 261                | (359)              |
| Contribution to company-sponsored pension plans                                                                        | (1,000)            | —                  | (5)                |
| Other                                                                                                                  | 23                 | 14                 | (109)              |
| <b>Net cash provided by operating activities</b>                                                                       | <b>3,413</b>       | <b>4,272</b>       | <b>4,917</b>       |
| <b>Cash Flows from Investing Activities:</b>                                                                           |                    |                    |                    |
| Payments for property and equipment, including payments for lease buyouts                                              | (2,809)            | (3,699)            | (3,349)            |
| Proceeds from sale of assets                                                                                           | 138                | 132                | 45                 |
| Payments for mergers, net of cash acquired                                                                             | (16)               | (401)              | (168)              |
| Other                                                                                                                  | (20)               | 93                 | (98)               |
| <b>Net cash used by investing activities</b>                                                                           | <b>(2,707)</b>     | <b>(3,875)</b>     | <b>(3,570)</b>     |
| <b>Cash Flows from Financing Activities:</b>                                                                           |                    |                    |                    |
| Proceeds from issuance of long-term debt                                                                               | 1,523              | 2,781              | 1,181              |

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|                                                                           |            |            |            |
|---------------------------------------------------------------------------|------------|------------|------------|
| Payments on long-term debt                                                | (788)      | (1,355)    | (1,245)    |
| Net borrowings (payments) on commercial paper                             | 696        | 435        | (285)      |
| Dividends paid                                                            | (443)      | (429)      | (385)      |
| Excess tax benefits on stock-based awards                                 | —          | —          | 97         |
| Proceeds from issuance of capital stock                                   | 51         | 68         | 120        |
| Treasury stock purchases                                                  | (1,633)    | (1,766)    | (703)      |
| Investment in the remaining equity of a noncontrolling interest           | —          | —          | (26)       |
| Other                                                                     | (87)       | (86)       | (92)       |
| Net cash used by financing activities                                     | (681)      | (352)      | (1,338)    |
| Net increase in cash and temporary cash investments                       | 25         | 45         | 9          |
| Cash and temporary cash investments:                                      |            |            |            |
| Beginning of year                                                         | 322        | 277        | 268        |
| End of year                                                               | \$ 347     | \$ 322     | \$ 277     |
| Reconciliation of capital investments:                                    |            |            |            |
| Payments for property and equipment, including payments for lease buyouts | \$ (2,809) | \$ (3,699) | \$ (3,349) |
| Payments for lease buyouts                                                | 13         | 5          | 35         |
| Changes in construction-in-progress payables                              | (188)      | 72         | (35)       |
| Total capital investments, excluding lease buyouts                        | \$ (2,984) | \$ (3,622) | \$ (3,349) |
| Disclosure of cash flow information:                                      |            |            |            |
| Cash paid during the year for interest                                    | \$ 656     | \$ 505     | \$ 474     |
| Cash paid during the year for income taxes                                | \$ 348     | \$ 557     | \$ 1,001   |

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

THE KROGER CO.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended February 3, 2018, January 28, 2017 and January 30, 2016

|                                     | Common Stock |          | Additional | Treasury Stock |             | Accumulated   | Accumulated | Noncontrolling |
|-------------------------------------|--------------|----------|------------|----------------|-------------|---------------|-------------|----------------|
| (except per share amounts)          | Shares       | Amount   | Paid-In    | Shares         | Amount      | Other         | Earnings    | Interest       |
|                                     |              |          | Capital    |                |             | Comprehensive |             |                |
|                                     |              |          |            |                |             | Gain (Loss)   |             |                |
| January 31, 2015                    | 1,918        | \$ 1,918 | \$ 2,748   | 944            | \$ (10,809) | \$ (812)      | \$ 12,367   | \$ 30          |
| Common stock:                       |              |          |            |                |             |               |             |                |
| Shares exercised                    | —            | —        | —          | (9)            | 120         | —             | —           | —              |
| Stock issued                        | —            | —        | (122)      | (5)            | 37          | —             | —           | —              |
| Stock activity:                     |              |          |            |                |             |               |             |                |
| Stock purchases, at cost            | —            | —        | —          | 14             | (500)       | —             | —           | —              |
| Shares exchanged                    | —            | —        | —          | 7              | (203)       | —             | —           | —              |
| Employee compensation               | —            | —        | 165        | —              | —           | —             | —           | —              |
| Comprehensive gain net of           |              |          |            |                |             |               |             |                |
| Income tax expense of \$77          | —            | —        | —          | —              | —           | 132           | —           | —              |
| Change in the remaining equity of a |              |          |            |                |             |               |             |                |
| Noncontrolling interest             | —            | —        | 26         | —              | —           | —             | —           | (57)           |
|                                     | —            | —        | 163        | —              | (54)        | —             | —           | (5)            |
| Dividends declared (\$0.408 per     |              |          |            |                |             |               |             |                |
| share)                              | —            | —        | —          | —              | —           | —             | (395)       | —              |
| Change including non-controlling    |              |          |            |                |             |               |             |                |
| interests                           | —            | —        | —          | —              | —           | —             | 2,039       | 10             |
| January 30, 2016                    | 1,918        | \$ 1,918 | \$ 2,980   | 951            | \$ (11,409) | \$ (680)      | \$ 14,011   | \$ (22)        |
| Common stock:                       |              |          |            |                |             |               |             |                |
| Shares exercised                    | —            | —        | (1)        | (5)            | 68          | —             | —           | —              |
| Stock issued                        | —            | —        | (116)      | (3)            | 57          | —             | —           | —              |
| Stock activity:                     |              |          |            |                |             |               |             |                |
| Stock purchases, at cost            | —            | —        | —          | 47             | (1,661)     | —             | —           | —              |
| Shares exchanged                    | —            | —        | —          | 4              | (105)       | —             | —           | —              |
| Employee compensation               | —            | —        | 141        | —              | —           | —             | —           | —              |
| Comprehensive loss net of           |              |          |            |                |             |               |             |                |
| Income tax expense of \$(28)        | —            | —        | —          | —              | —           | (35)          | —           | —              |
|                                     | —            | —        | 66         | —              | (68)        | —             | —           | 52             |
| Dividends declared (\$0.465 per     |              |          |            |                |             |               |             |                |
| share)                              | —            | —        | —          | —              | —           | —             | (443)       | —              |
| Change (loss) including             |              |          |            |                |             |               |             |                |
| noncontrolling interests            | —            | —        | —          | —              | —           | —             | 1,975       | (18)           |



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|                                           |       |          |          |       |             |          |           |         |
|-------------------------------------------|-------|----------|----------|-------|-------------|----------|-----------|---------|
| January 28, 2017                          | 1,918 | \$ 1,918 | \$ 3,070 | 994   | \$ (13,118) | \$ (715) | \$ 15,543 | \$ 12   |
| Common stock:                             |       |          |          |       |             |          |           |         |
| Shares exercised                          | —     | —        | —        | (4)   | 51          | —        | —         | —       |
| Stock issued                              | —     | —        | (119)    | (2)   | 85          | —        | —         | —       |
| Stock activity:                           |       |          |          |       |             |          |           |         |
| Stock purchases, at cost                  | —     | —        | —        | 58    | (1,567)     | —        | —         | —       |
| Shares exchanged                          | —     | —        | —        | 2     | (66)        | —        | —         | —       |
| Employee compensation                     | —     | —        | 151      | —     | —           | —        | —         | —       |
| Comprehensive gain net of tax             | —     | —        | —        | —     | —           | 244      | —         | —       |
| Dividends declared (\$0.495 per share)    | —     | —        | 59       | —     | (69)        | —        | —         | (20)    |
| (Loss) including noncontrolling interests | —     | —        | —        | —     | —           | —        | 1,907     | (18)    |
| February 3, 2018                          | 1,918 | \$ 1,918 | \$ 3,161 | 1,048 | \$ (14,684) | \$ (471) | \$ 17,007 | \$ (26) |

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 February 3, 2018, 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 19 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 53-week period ended February 3, 2018 and 52-week periods ended 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 93% of inventories in 2017 and 89% of inventories in 2016 were valued using the LIFO method. The remaining inventories, including substantially all fuel inventories, are stated at the lower of cost (on a FIFO basis) or net realizable value. Replacement cost was higher than the carrying amount by \$1,248 at February 3, 2018 and \$1,291 at January 28, 2017. 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 \$2,436 in 2017, \$2,340 in 2016 and \$2,089 in 2015.

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. Goodwill impairment is recognized for any excess of the carrying value of the reporting unit’s goodwill over the fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Results of the goodwill impairment reviews performed during 2017, 2016 and 2015 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 \$71, \$26 and \$46 in 2017, 2016 and 2015, 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. Beginning in 2017, the Company classified all deferred tax liabilities and assets as noncurrent (see Note 5).



## 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 elapse before a particular matter, for which an allowance has been established, is audited and fully resolved. As of February 3, 2018, the Internal Revenue Service had concluded its examination of our 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 February 3, 2018.

|                       | 2017   | 2016   | 2015   |
|-----------------------|--------|--------|--------|
| Beginning balance     | \$ 682 | \$ 639 | \$ 599 |
| Expense               | 247    | 263    | 234    |
| Claim payments        | (234)  | (220)  | (225)  |
| Assumed from mergers  | —      | —      | 31     |
| Ending balance        | 695    | 682    | 639    |
| Less: Current portion | (234)  | (229)  | (223)  |
| Long-term portion     | \$ 461 | \$ 453 | \$ 416 |

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 2017, 2016 and 2015.

#### 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 \$707 in 2017, \$717 in 2016 and \$679 in 2015. The Company does not record vendor allowances for co-operative advertising as a reduction of advertising expense.

#### Operating, General and Administrative Expenses

Operating, general and administrative ("OG&A") expenses include all operating costs of the Company, except merchandise costs, as described above, and rent and depreciation and amortization. Certain other income items are classified as a reduction of OG&A costs. These include items such as gift card and lottery commissions, coupon processing and vending machine fees, check cashing, money order and wire transfer fees, and baled salvage credits.

#### 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 97% of the Company's consolidated sales 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 2017, 2016 and 2015.

|                               | 2017       |            | 2016       |            | 2015       |            |
|-------------------------------|------------|------------|------------|------------|------------|------------|
|                               | Amount     | % of total | Amount     | % of total | Amount     | % of total |
| Non Perishable (1)            | \$ 62,378  | 50.9 %     | \$ 60,220  | 52.2 %     | \$ 57,187  | 52.1 %     |
| Perishable (2)                | 29,145     | 23.8 %     | 27,666     | 24.0 %     | 25,726     | 23.4 %     |
| Fuel                          | 16,246     | 13.2 %     | 13,979     | 12.1 %     | 14,802     | 13.5 %     |
| Pharmacy                      | 10,752     | 8.8 %      | 10,432     | 9.0 %      | 9,778      | 8.9 %      |
| Other (3)                     | 4,141      | 3.3 %      | 3,040      | 2.7 %      | 2,337      | 2.1 %      |
| Total Sales and other revenue | \$ 122,662 | 100 %      | \$ 115,337 | 100 %      | \$ 109,830 | 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.



The Company's purchase price allocation was finalized in the third quarter of 2017. The changes in the fair values assumed from the preliminary amounts determined as of September 2, 2016 were a decrease in goodwill of \$2, a decrease in current liabilities of \$2. The table below summarizes the final fair value of the assets acquired and liabilities assumed:

|                                                                                                   | September 2,<br>2016 |
|---------------------------------------------------------------------------------------------------|----------------------|
| <b>ASSETS</b>                                                                                     |                      |
| Total current assets                                                                              | \$ 82                |
| Property, plant and equipment                                                                     | 8                    |
| Intangibles                                                                                       | 136                  |
| Total Assets, excluding Goodwill                                                                  | 226                  |
| <b>LIABILITIES</b>                                                                                |                      |
| Total current liabilities                                                                         | (68)                 |
| Fair-value of long-term debt including obligations under capital leases and financing obligations | (1)                  |
| Deferred income taxes                                                                             | (33)                 |
| Total Liabilities                                                                                 | (102)                |
| Total Identifiable Net Assets                                                                     | 124                  |
| Goodwill                                                                                          | 283                  |
| 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<br>18,<br>2015 |
|------------------------------------------------------------------------------------|-------------------------|
| <b>ASSETS</b>                                                                      |                         |
| 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                   |
| <b>LIABILITIES</b>                                                                 |                         |
| 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 Copsps™ 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.

Pro forma results of operations for 2016 and 2015, assuming 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. 2017 is not included in the following table as the entities are included within the Company's consolidated results for the entire fiscal year. The pro forma information includes historical results of operations of 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 Roundy's and 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 Roundy's merger completed at the beginning of 2014 or the ModernHEALTH merger completed at beginning of 2015.

|                                                              | Fiscal year ended<br>January 28, 2017 | Fiscal year ended<br>January 30, 2016 |
|--------------------------------------------------------------|---------------------------------------|---------------------------------------|
| Sales                                                        | \$ 115,994                            | \$ 114,341                            |
| Net earnings including noncontrolling interests              | 1,958                                 | 2,059                                 |
| Net earnings (loss) attributable to noncontrolling interests | (18)                                  | 10                                    |
| Net earnings attributable to The Kroger Co.                  | \$ 1,976                              | \$ 2,049                              |

### 3.GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the changes in the Company's net goodwill balance through February 3, 2018.

|                               | 2017     | 2016     |
|-------------------------------|----------|----------|
| Balance beginning of year     |          |          |
| Goodwill                      | \$ 5,563 | \$ 5,256 |
| Accumulated impairment losses | (2,532)  | (2,532)  |
|                               | 3,031    | 2,724    |
| Activity during the year      |          |          |
| Mergers                       | 18       | 307      |
| Impairment losses             | (110)    | —        |
| Held for sale adjustment      | (14)     | —        |
| Balance end of year           |          |          |
| Goodwill                      | 5,567    | 5,563    |

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|                               |          |          |
|-------------------------------|----------|----------|
| Accumulated impairment losses | (2,642)  | (2,532)  |
|                               | \$ 2,925 | \$ 3,031 |

In 2017, certain assets and liabilities including goodwill totaling \$14, primarily those related to the Company's convenience store business, were classified as held for sale in the Consolidated Balance Sheet as a result of the exploration of strategic alternatives (see Note 17).

In 2016, the Company acquired all of the outstanding shares of ModernHEALTH (see Note 2) resulting in additional goodwill totaling \$285. In 2017, the Company finalized its ModernHEALTH purchase allocation resulting in a decrease in goodwill before impairment consideration of \$2 (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, in accordance with the newly adopted Accounting Standards Update ("ASU") 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The annual evaluations of goodwill and indefinite-lived intangible assets performed during the fourth quarter of 2016 and 2015 did not result in impairment.

Based on the results of the Company's impairment assessment in the fourth quarter of 2017, the Kroger Specialty Pharmacy reporting unit was the only reporting unit for which there was a potential impairment. In the fourth quarter of 2017, the operating performance of the Kroger Specialty Pharmacy reporting unit began to be affected by reduced margins as a result of compression in reimbursement by third party payers and a reduction of certain types of revenue. As a result of this decline, particularly in future expected cash flows, along with comparable fair value information, management concluded that the carrying value of goodwill for Kroger Specialty Pharmacy reporting unit exceeded its fair value, resulting in a pre-tax impairment charge of \$110 (\$74 after-tax). The pre-impairment goodwill balance for Kroger Specialty Pharmacy was \$353, as of the fourth quarter 2017. Based on current and future expected cash flows, the Company believes additional 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 recorded goodwill balance.

In 2016, the Company acquired definite and indefinite lived intangible assets totaling approximately \$136 as a result of the merger with ModernHEALTH (see Note 2).

The following table summarizes the Company's intangible assets balance through February 3, 2018.

|                                              | 2017                  |                             | 2016                  |                             |
|----------------------------------------------|-----------------------|-----------------------------|-----------------------|-----------------------------|
|                                              | Gross carrying amount | Accumulated amortization(1) | Gross carrying amount | Accumulated amortization(1) |
| Definite-lived favorable leasehold interests | \$ 174                | \$ (53)                     | \$ 167                | \$ (41)                     |
| Definite-lived pharmacy prescription files   | 238                   | (70)                        | 254                   | (56)                        |
| Definite-lived customer relationships        | 93                    | (67)                        | 93                    | (55)                        |
| Definite-lived other                         | 99                    | (44)                        | 97                    | (33)                        |
| Indefinite-lived trade name                  | 641                   | —                           | 641                   | —                           |
| Indefinite-lived liquor licenses             | 89                    | —                           | 86                    | —                           |
| Total                                        | \$ 1,334              | \$ (234)                    | \$ 1,338              | \$ (185)                    |

(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 \$59, \$63 and \$51, during fiscal years 2017, 2016 and 2015, respectively. Future amortization expense associated with the net carrying amount of definite-lived intangible assets for the years subsequent to 2017 is estimated to be approximately:

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|                                                                                      |        |
|--------------------------------------------------------------------------------------|--------|
| 2018                                                                                 | \$ 55  |
| 2019                                                                                 | 50     |
| 2020                                                                                 | 47     |
| 2021                                                                                 | 36     |
| 2022                                                                                 | 33     |
| Thereafter                                                                           | 149    |
| Total future estimated amortization associated with definite-lived intangible assets | \$ 370 |

## 4.PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of:

|                                                                | 2017      | 2016      |
|----------------------------------------------------------------|-----------|-----------|
| Land                                                           | \$ 3,201  | \$ 3,197  |
| Buildings and land improvements                                | 12,072    | 11,643    |
| Equipment                                                      | 13,635    | 13,495    |
| Leasehold improvements                                         | 9,773     | 9,342     |
| Construction-in-progress                                       | 2,050     | 1,979     |
| Leased property under capital leases and financing obligations | 1,000     | 932       |
| Total property, plant and equipment                            | 41,731    | 40,588    |
| Accumulated depreciation and amortization                      | (20,660)  | (19,572)  |
| Property, plant and equipment, net                             | \$ 21,071 | \$ 21,016 |

Accumulated depreciation and amortization for leased property under capital leases was \$354 at February 3, 2018 and \$330 at January 28, 2017.

Approximately \$177 and \$219, net book value, of property, plant and equipment collateralized certain mortgages at February 3, 2018 and January 28, 2017, respectively.

## 5.TAXES BASED ON INCOME

The provision for taxes based on income consists of:

|                  | 2017   | 2016   | 2015   |
|------------------|--------|--------|--------|
| Federal          |        |        |        |
| Current          | \$ 309 | \$ 721 | \$ 723 |
| Deferred         | (747)  | 158    | 266    |
| Subtotal federal | (438)  | 879    | 989    |



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|                          |          |        |          |
|--------------------------|----------|--------|----------|
| State and local          |          |        |          |
| Current                  | 15       | 51     | 37       |
| Deferred                 | 18       | 27     | 19       |
| Subtotal state and local | 33       | 78     | 56       |
| Total                    | \$ (405) | \$ 957 | \$ 1,045 |

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

|                                                | 2017   |   | 2016  |   | 2015  |   |
|------------------------------------------------|--------|---|-------|---|-------|---|
| Statutory rate                                 | 33.7   | % | 35.0  | % | 35.0  | % |
| State income taxes, net of federal tax benefit | 1.7    | % | 1.6   | % | 1.2   | % |
| Credits                                        | (2.5)  | % | (1.1) | % | (1.2) | % |
| Favorable resolution of issues                 | —      | % | (0.5) | % | (0.2) | % |
| Domestic manufacturing deduction               | (1.1)  | % | (0.7) | % | (0.7) | % |
| Excess tax benefits from share-based payments  | (0.4)  | % | (1.6) | % | —     | % |
| Effect of Tax Cuts and Jobs Act                | (60.8) | % | —     | % | —     | % |
| Impairment of Goodwill                         | 2.3    | % | —     |   | —     |   |
| Other changes, net                             | (0.2)  | % | 0.1   | % | (0.3) | % |
|                                                | (27.3) | % | 32.8  | % | 33.8  | % |

The 2017 tax rate differed from the federal statutory rate primarily as a result of re-measuring deferred taxes due to the Tax Cuts and Jobs Act, the Domestic Manufacturing Deduction and other changes, partially offset by non-deductible goodwill impairment charges and the effect of state income taxes. On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act which made changes to the tax code including, but not limited to, reducing the federal statutory corporate tax rate from 35% to 21% and eliminating the domestic manufacturing deduction. GAAP requires the recognition of the impact of tax laws in the period in which they are enacted. The benefit recognized in 2017 from the Tax Cuts and Jobs Act is \$922, primarily from the re-measurement of deferred taxes.

On December 22, 2017, Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to finalize the calculations for certain income tax effects of the Tax Cuts and Jobs Act. Under the guidance in SAB 118, the income tax effects, for which the accounting under GAAP is incomplete, are reported as a provisional amount based on a reasonable estimate. The reasonable estimate is subject to adjustment during a "measurement period", not to exceed one year, until the accounting is complete. In accordance with SAB 118, the Company has determined that the net tax benefit of \$922 recorded in connection with the Tax Cuts and Jobs Act includes provisional amounts related to depreciation and the application of provisions of the Tax Cuts and Jobs Act related to accelerated depreciation.

The 2015 rate for state income taxes is less than 2017 and 2016 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.

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

|                                             | 2017       | 2016       |
|---------------------------------------------|------------|------------|
| Current deferred tax assets:                |            |            |
| Net operating loss and credit carryforwards | \$ —       | \$ 23      |
| Compensation related costs                  | —          | 67         |
| Other                                       | —          | 50         |
| Subtotal                                    | —          | 140        |
| Valuation allowance                         | —          | (11)       |
| Total current deferred tax assets           | —          | 129        |
| Current deferred tax liabilities:           |            |            |
| Insurance related costs                     | —          | (52)       |
| Inventory related costs                     | —          | (328)      |
| Total current deferred tax liabilities      | —          | (380)      |
| Current deferred taxes                      | \$ —       | \$ (251)   |
| Long-term deferred tax assets:              |            |            |
| Compensation related costs                  | \$ 348     | \$ 783     |
| Lease accounting                            | 78         | 121        |
| Closed store reserves                       | 45         | 46         |
| Insurance related costs                     | —          | 7          |
| Net operating loss and credit carryforwards | 146        | 101        |
| Other                                       | 54         | 1          |
| Subtotal                                    | 671        | 1,059      |
| Valuation allowance                         | (62)       | (39)       |
| Total long-term deferred tax assets         | 609        | 1,020      |
| Long-term deferred tax liabilities:         |            |            |
| Depreciation and amortization               | (1,892)    | (2,947)    |
| Insurance related costs                     | (32)       | —          |
| Inventory related costs                     | (253)      | —          |
| Total long-term deferred tax liabilities    | (2,177)    | (2,947)    |
| Long-term deferred taxes                    | \$ (1,568) | \$ (1,927) |

The Company adopted ASU 2015-17, “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes,” which requires deferred tax liabilities and assets to be classified as noncurrent in a classified statement of financial

position. The Company adopted the standard in 2017 prospectively and as a result of the implementation the 2017, as compared to 2016, current deferred tax liabilities were reclassified as non-current.

At February 3, 2018, the Company had net operating loss carryforwards for state income tax purposes of \$1,578. These net operating loss carryforwards expire from 2018 through 2037. 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 February 3, 2018, the Company had state credit carryforwards of \$55, most of which expire from 2018 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 February 3, 2018, the Company had federal net operating loss carryforwards of \$20. These net operating loss carryforwards expire from 2034 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. As of February 3, 2018, January 28, 2017 and January 30, 2016, the total valuation allowance was \$62, \$50 and \$52, respectively.

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

|                                                               | 2017   | 2016   | 2015   |
|---------------------------------------------------------------|--------|--------|--------|
| Beginning balance                                             | \$ 177 | \$ 204 | \$ 246 |
| Additions based on tax positions related to the current year  | 11     | 10     | 11     |
| Reductions based on tax positions related to the current year | (1)    | (1)    | (11)   |
| Additions for tax positions of prior years                    | 6      | 3      | 4      |
| Reductions for tax positions of prior years                   | (8)    | (30)   | (27)   |
| Settlements                                                   | —      | (2)    | (17)   |
| Lapse of statute                                              | (5)    | (7)    | (2)    |
| Ending balance                                                | \$ 180 | \$ 177 | \$ 204 |

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 February 3, 2018, January 28, 2017 and January 30, 2016, the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$88, \$73 and \$83 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 February 3, 2018, January 28, 2017 and January 30, 2016, the Company recognized approximately \$8, \$(1) and \$(5), respectively, in interest and penalties (recoveries). The Company had accrued approximately \$28, \$20 and \$25 for the payment of interest and penalties as of February 3, 2018, January 28, 2017 and January 30, 2016.

As of February 3, 2018, the Internal Revenue Service had concluded its examination of our 2012 and 2013 federal tax returns.

## 6. DEBT OBLIGATIONS

Long-term debt consists of:

|                                                                          | February<br>3,<br>2018 | January<br>28,<br>2017 |
|--------------------------------------------------------------------------|------------------------|------------------------|
| 1.50% to 8.00% Senior Notes due through 2048                             | \$ 12,201              | \$ 11,311              |
| 5.63% to 12.75% Mortgages due in varying amounts through 2027            | 22                     | 38                     |
| 0.91% to 1.68% Commercial paper borrowings due through February 2018     | 2,121                  | 1,425                  |
| Other                                                                    | 443                    | 541                    |
| Total debt, excluding capital leases and financing obligations           | 14,787                 | 13,315                 |
| Less current portion                                                     | (3,509)                | (2,197)                |
| Total long-term debt, excluding capital leases and financing obligations | \$ 11,278              | \$ 11,118              |

In 2017, the Company issued \$400 of senior notes due in fiscal year 2022 bearing an interest rate of 2.80%, \$600 of senior notes due in fiscal year 2027 bearing an interest rate of 3.70% and \$500 of senior notes due in fiscal year 2048 bearing an interest rate of 4.65%. In connection with the senior note issuances, the Company also terminated forward-starting interest rate swap agreements with an aggregate notional amount of \$600. 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 second quarter of 2017. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized loss of \$20, \$12 net of tax, has been deferred in Accumulated Other Comprehensive Loss, the Company will continue to amortize to earnings as the interest payments are made. The Company also repaid, upon maturity, \$600 of senior notes bearing an interest rate of 6.40%, with proceeds from the senior notes issuances.

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%.

On August 29, 2017, the Company entered into an amended, extended and restated its \$2,750 unsecured revolving credit facility (the "Credit Agreement"), with a termination date of August 29, 2022, unless extended as permitted under the Credit Agreement. This Credit Agreement amended the Company's \$2,750 credit facility that would otherwise have terminated on June 30, 2019. The Company has the ability to increase the size of the Credit Agreement by up to

an additional \$1,000, subject to certain conditions.

Borrowings under the Credit Agreement bear interest, at the Company's option, at either (i) LIBOR plus a market spread, based on the Company's Public Debt Rating 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 Public Debt Rating. The Company will also pay a Commitment Fee based on its Public Debt Rating and Letter of Credit fees equal to a market rate spread based on the Company's Public Debt Rating. "Public Debt Rating" means, as of any date, the rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Company.

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 February 3, 2018, the Company had \$2,121 of commercial paper borrowings, with a weighted average interest rate of 1.68% and no borrowings under the Credit Agreement. 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 February 3, 2018, the Company had outstanding letters of credit in the amount of \$222, of which \$6 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 2017, and for the years subsequent to 2017 are:

|            |           |
|------------|-----------|
| 2018       | \$ 3,509  |
| 2019       | 1,243     |
| 2020       | 721       |
| 2021       | 795       |
| 2022       | 897       |
| Thereafter | 7,622     |
| Total debt | \$ 14,787 |

## 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 February 3, 2018 and January 28, 2017.

|                       | 2017          |           | 2016          |           |
|-----------------------|---------------|-----------|---------------|-----------|
|                       | Pay Floating  | Pay Fixed | Pay Floating  | Pay Fixed |
| Notional amount       | \$ 100        | \$ —      | \$ 100        | \$ —      |
| Number of contracts   | 2             | —         | 2             | —         |
| Duration in years     | 0.88          | —         | 1.92          | —         |
| Average variable rate | 7.23          | % —       | 6.37          | % —       |
| 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 2017 and 2016 were as follows:

| Consolidated Statements of Operations Classification | Year-To-Date<br>February 3, 2018 |                           | January 28, 2017     |                           |
|------------------------------------------------------|----------------------------------|---------------------------|----------------------|---------------------------|
|                                                      | Gain/(Loss) on Swaps             | Gain/(Loss) on Borrowings | Gain/(Loss) on Swaps | Gain/(Loss) on Borrowings |
| Interest Expense                                     | \$ —                             | \$ —                      | \$ (2)               | \$ 2                      |

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

| Derivatives Designated as Fair Value Hedging Instruments | Asset Derivatives<br>Fair Value |                  | Balance Sheet Location      |
|----------------------------------------------------------|---------------------------------|------------------|-----------------------------|
|                                                          | February 3, 2018                | January 28, 2017 |                             |
| Interest Rate Hedges                                     | \$ (1)                          | \$ (1)           | Other long-term liabilities |

Cash Flow Forward-Starting Interest Rate Swaps

As of February 3, 2018, the Company had nine forward-starting interest rate swap agreements with a maturity date 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 January 2019 and January 2020. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of February 3, 2018, the fair value of the interest rate swaps was recorded in other assets for \$103 and accumulated other comprehensive income for \$73 net of tax.

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. 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.

During 2017, the Company terminated eleven forward-starting interest rate swaps with maturity dates of August 2017, with an aggregate notional amount totaling \$600. 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 2017. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized loss of \$20, \$12 net of tax, has been deferred in AOCI and will be amortized to earnings as the interest payments are made.

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 in 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.

The following table summarizes the effect of the Company's derivative instruments designated as cash flow hedges for 2017 and 2016:

| Derivatives in Cash Flow Hedging Relationships    | Year-To-Date Amount of Gain/(Loss) in AOCI on Derivatives |        |        |        |                                                                 |
|---------------------------------------------------|-----------------------------------------------------------|--------|--------|--------|-----------------------------------------------------------------|
|                                                   | 2017                                                      | 2016   | 2017   | 2016   | Reclassification of Gain/(Loss) into Income (Effective Portion) |
| Forward-Starting Interest Rate Swaps, net of tax* | \$ 24                                                     | \$ (2) | \$ (3) | \$ (2) | 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 2017 and 2016, 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 February 3, 2018 and January 28, 2017, 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 February 3, 2018 and January 28, 2017:

| February 3, 2018                               | Gross Amount Recognized | Gross Amounts in the Balance Sheet | Gross Amounts Not Offset in the Balance Sheet |                       |                 | Net Amount |
|------------------------------------------------|-------------------------|------------------------------------|-----------------------------------------------|-----------------------|-----------------|------------|
|                                                |                         |                                    | Offset in the Balance Sheet                   | Financial Instruments | Cash Collateral |            |
| <b>Assets</b>                                  |                         |                                    |                                               |                       |                 |            |
| Cash Flow Forward-Starting Interest Rate Swaps | \$ 103                  | \$ —                               | \$ 103                                        | \$ —                  | \$ —            | \$ 103     |
| <b>Liabilities</b>                             |                         |                                    |                                               |                       |                 |            |
| Fair Value Interest Rate Swaps                 | \$ 1                    | \$ —                               | \$ 1                                          | \$ —                  | \$ —            | \$ 1       |

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

## 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 February 3, 2018 and January 28, 2017:

February 3, 2018 Fair Value Measurements Using

|                               | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total  |
|-------------------------------|----------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|--------|
| Trading Securities            | \$ 64                                                                      | \$ —                                                | \$ —                                               | \$ 64  |
| Available-For-Sale Securities | 25                                                                         | —                                                   | —                                                  | 25     |
| Long-Lived Assets             | —                                                                          | —                                                   | 27                                                 | 27     |
| Interest Rate Hedges          | —                                                                          | 102                                                 | —                                                  | 102    |
| Total                         | \$ 89                                                                      | \$ 102                                              | \$ 27                                              | \$ 218 |

January 28, 2017 Fair Value Measurements Using

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

In 2017, unrealized gains on 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 2017, long-lived assets with a carrying amount of \$98 were written down to their fair value of \$27, resulting in an impairment charge of \$71. 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.

Mergers are accounted for using the acquisition method of accounting, which requires that the purchase price paid for a merger be allocated to the assets and liabilities acquired based on their estimated fair values as of the effective date of the merger, 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 February 3, 2018, the fair value of total debt was \$15,167 compared to a carrying value of \$14,787. At January 28, 2017, the fair value of total debt was \$13,905 compared to a carrying value of \$13,315.

### 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

In 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 February 3, 2018 and January 28, 2017, the carrying and fair value of long-term investments for which fair value is determinable was \$176 and \$151, respectively. At February 3, 2018 and January 28, 2017, the carrying value of notes receivable for

which fair value is determinable was \$170 and \$182, respectively.

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## 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table represents the changes in AOCI by component for the years ended February 3, 2018 and January 28, 2017:

|                                     | Cash Flow<br>Hedging<br>Activities(1) | Available for sale<br>Securities(1) | Pension and<br>Postretirement<br>Defined Benefit<br>Plans(1) | Total(1) |
|-------------------------------------|---------------------------------------|-------------------------------------|--------------------------------------------------------------|----------|
| 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) |
| Balance at January 28, 2017         | \$ (2)                                | \$ —                                | \$ (713)                                                     | \$ (715) |
| OCI before reclassifications(2)     | 23                                    | 4                                   | 165                                                          | 192      |
| Amounts reclassified out of AOCI(3) | 3                                     | —                                   | 49                                                           | 52       |
| Net current-period OCI              | 26                                    | 4                                   | 214                                                          | 244      |
| Balance at February 3, 2018         | \$ 24                                 | \$ 4                                | \$ (499)                                                     | \$ (471) |

(1) All amounts are net of tax.

(2) 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. Net of tax of \$0, \$1 and \$63 for cash flow hedging activities, available for sale securities and pension and postretirement defined benefit plans, respectively, as of February 3, 2018.

(3) 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. Net of tax of \$20 and \$3 for pension and postretirement defined benefit plans and cash flow hedging activities, respectively, as of February 3, 2018.

The following table represents the items reclassified out of AOCI and the related tax effects for the years ended February 3, 2018, January 28, 2017 and January 30, 2016:

| For the<br>year<br>ended | For the<br>year<br>ended | For the<br>year<br>ended |
|--------------------------|--------------------------|--------------------------|
| February<br>3, 2018      | January<br>28,<br>2017   | January<br>30,<br>2016   |

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|                                                                      |       |       |       |
|----------------------------------------------------------------------|-------|-------|-------|
| Cash flow hedging activity items                                     |       |       |       |
| Amortization of gains and losses on cash flow hedging activities (1) | \$ 6  | \$ 2  | \$ 1  |
| Tax expense                                                          | (3)   | —     | —     |
| Net of tax                                                           | 3     | 2     | 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) | 69    | 53    | 85    |
| Tax expense                                                          | (20)  | (20)  | (32)  |
| Net of tax                                                           | 49    | 33    | 53    |
| Total reclassifications, net of tax                                  | \$ 52 | \$ 21 | \$ 54 |

- 
- (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:

|                     | 2017     | 2016   | 2015   |
|---------------------|----------|--------|--------|
| Minimum rentals     | \$ 1,005 | \$ 973 | \$ 807 |
| Contingent payments | 19       | 16     | 18     |
| Tenant income       | (113)    | (108)  | (102)  |
| Total rent expense  | \$ 911   | \$ 881 | \$ 723 |

Minimum annual rentals and payments under capital leases and lease-financed transactions for the five years subsequent to 2017 and in the aggregate are:

|                                                           | Capital<br>Leases | Operating<br>Leases | Lease-<br>Financed<br>Transactions |
|-----------------------------------------------------------|-------------------|---------------------|------------------------------------|
| 2018                                                      | \$ 88             | \$ 992              | \$ 8                               |
| 2019                                                      | 78                | 936                 | 8                                  |
| 2020                                                      | 74                | 838                 | 9                                  |
| 2021                                                      | 71                | 736                 | 9                                  |
| 2022                                                      | 68                | 606                 | 9                                  |
| Thereafter                                                | 692               | 3,664               | 43                                 |
| Total                                                     | \$ 1,071          | \$ 7,772            | \$ 86                              |
| Less estimated executory costs included in capital leases | —                 |                     |                                    |
| Net minimum lease payments under capital leases           | 1,071             |                     |                                    |
| Less amount representing interest                         | 355               |                     |                                    |

Present value of net minimum lease payments under capital leases      \$ 716

Total future minimum rentals under noncancellable subleases at February 3, 2018 were \$213.



## 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<br>February 3, 2018 |                         | Per<br>Share<br>Amount | For the year ended<br>January 28, 2017 |                         | Per<br>Share<br>Amount | For the year ended<br>January 30, 2016 |                         |
|-----------------------------------------------------------------|----------------------------------------|-------------------------|------------------------|----------------------------------------|-------------------------|------------------------|----------------------------------------|-------------------------|
|                                                                 | Earnings<br>(Numerator)                | Shares<br>(Denominator) |                        | Earnings<br>(Numerator)                | Shares<br>(Denominator) |                        | Earnings<br>(Numerator)                | Shares<br>(Denominator) |
| Net earnings, except per share amounts)                         |                                        |                         |                        |                                        |                         |                        |                                        |                         |
| Net earnings attributable to The Kroger<br>basic common share   | \$ 1,890                               | 895                     | \$ 2.11                | \$ 1,959                               | 942                     | \$ 2.08                | \$ 2,021                               | 966                     |
| Effect of stock options                                         |                                        | 9                       |                        |                                        | 16                      |                        |                                        | 14                      |
| Net earnings attributable to The Kroger<br>diluted common share | \$ 1,890                               | 904                     | \$ 2.09                | \$ 1,959                               | 958                     | \$ 2.05                | \$ 2,021                               | 980                     |

The Company had combined undistributed and distributed earnings to participating securities totaling \$17, \$16 and \$18 in 2017, 2016 and 2015, respectively.

The Company had options outstanding for approximately 15.6 million, 7.1 million and 1.9 million shares, respectively, for the years ended February 3, 2018, January 28, 2017 and January 30, 2016, 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.

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 February 3, 2018, approximately 27 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 February 3, 2018, approximately 12 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.

Equity awards granted are based on the aggregate value of the award on grant date. This can affect the number of shares granted in a given year as equity awards. Excess tax benefits related to equity awards are recognized in the provision for income taxes. Equity awards may be approved at one of four meetings of its Board of Directors occurring shortly after the Company's release of quarterly earnings. The 2017 primary grant was made in conjunction with the June meeting of the Company's Board of Directors.

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<br>subject<br>to option<br>(in millions) | Weighted-<br>average<br>exercise<br>price |
|----------------------------|-------------------------------------------------|-------------------------------------------|
| 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                                  |
| Granted                    | 7.0                                             | \$ 23.00                                  |
| Exercised                  | (3.8)                                           | \$ 14.08                                  |
| Canceled or Expired        | (0.8)                                           | \$ 28.29                                  |
| Outstanding, year-end 2017 | 36.7                                            | \$ 22.23                                  |

A summary of options outstanding, exercisable and expected to vest at February 3, 2018 follows:

|                          | Number of shares<br>(in millions) | Weighted-average<br>remaining<br>contractual life<br>(in years) | Weighted-average<br>exercise price | Aggregate<br>intrinsic<br>value<br>(in millions) |
|--------------------------|-----------------------------------|-----------------------------------------------------------------|------------------------------------|--------------------------------------------------|
| Options Outstanding      | 36.7                              | 6.09                                                            | \$ 22.23                           | 324                                              |
| Options Exercisable      | 22.5                              | 4.66                                                            | \$ 18.50                           | 265                                              |
| Options Expected to Vest | 13.8                              | 8.37                                                            | \$ 28.18                           | 57                                               |



## Restricted stock

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

|                            | Restricted<br>shares<br>outstanding<br>(in millions) | Weighted-average<br>grant-date<br>fair value |
|----------------------------|------------------------------------------------------|----------------------------------------------|
| 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                                     |
| Granted                    | 5.8                                                  | \$ 23.04                                     |
| Lapsed                     | (3.6)                                                | \$ 31.05                                     |
| Canceled or Expired        | (0.4)                                                | \$ 29.26                                     |
| Outstanding, year-end 2017 | 9.2                                                  | \$ 26.78                                     |

The weighted-average grant date fair value of stock options granted during 2017, 2016 and 2015 was \$4.71, \$7.48 and \$9.78, 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 2017, compared to 2016, resulted primarily from a decrease in the Company's share price, which increased the expected dividend yield, partially offset by an increase in the weighted average expected volatility and the weighted average risk-free interest rate. The decrease in the fair value of the stock options granted during 2016, compared to 2015, resulted primarily from a decrease in the market price per share of the Company's common shares, which increased the expected dividend yield, and decreases in the weighted average expected volatility and the weighted average risk free discount rate.

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

|                                             | 2017  |       | 2016  |       | 2015  |       |
|---------------------------------------------|-------|-------|-------|-------|-------|-------|
| Weighted average expected volatility        | 22.78 | %     | 21.40 | %     | 24.07 | %     |
| Weighted average risk-free interest rate    | 2.21  | %     | 1.29  | %     | 2.12  | %     |
| Expected dividend yield                     | 2.20  | %     | 1.40  | %     | 1.20  | %     |
| Expected term (based on historical results) | 7.2   | years | 7.2   | years | 7.2   | 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 2017, 2016 and 2015 was \$151, \$141 and \$165, respectively. Stock option compensation recognized in 2017, 2016, and 2015 was \$32, \$28 and \$31, respectively. Restricted shares compensation recognized in 2017, 2016 and 2015 was \$119, \$113 and \$134, respectively.

The total intrinsic value of stock options exercised was \$55, \$105 and \$217 in 2017, 2016 and 2015, respectively. The total amount of cash received in 2017 by the Company from the exercise of stock options granted under share-based payment arrangements was \$51. As of February 3, 2018, there was \$214 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 \$29, \$28 and \$33 in 2017, 2016 and 2015, 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 2017, the Company repurchased approximately two 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 February 3, 2018. 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 \$1,567, \$1,661 and \$500 under these repurchase programs in 2017, 2016 and 2015, 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 \$66, \$105 and \$203 under the stock option program during 2017, 2016 and 2015, 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.

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Amounts recognized in AOCI as of February 3, 2018 and January 28, 2017 consists of the following (pre-tax):

|                           | Pension Benefits |          | Other Benefits |          | Total  |          |
|---------------------------|------------------|----------|----------------|----------|--------|----------|
|                           | 2017             | 2016     | 2017           | 2016     | 2017   | 2016     |
| Net actuarial loss (gain) | \$ 1,040         | \$ 1,308 | \$ (130)       | \$ (120) | \$ 910 | \$ 1,188 |
| Prior service credit      | —                | —        | (77)           | (58)     | (77)   | (58)     |
| Total                     | \$ 1,040         | \$ 1,308 | \$ (207)       | \$ (178) | \$ 833 | \$ 1,130 |

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 |
|---------------------------|------------------|----------------|-------|
|                           | 2018             | 2018           | 2018  |
| Net actuarial loss (gain) | \$ 82            | \$ (10)        | \$ 72 |
| Prior service credit      | —                | (11)           | (11)  |
| Total                     | \$ 82            | \$ (21)        | \$ 61 |

Other changes recognized in other comprehensive income in 2017, 2016 and 2015 were as follows (pre-tax):

|                                              | Pension Benefits |        |         | Other Benefits |        |         | Total  |        |          |
|----------------------------------------------|------------------|--------|---------|----------------|--------|---------|--------|--------|----------|
|                                              | 2017             | 2016   | 2015    | 2017           | 2016   | 2015    | 2017   | 2016   | 2015     |
| Incurred net actuarial loss (gain)           | \$ 322           | \$ 165 | \$ (83) | \$ (20)        | \$ (9) | \$ (39) | \$ 302 | \$ 156 | \$ (122) |
| Amortization of prior service credit         | —                | —      | —       | 8              | 8      | 11      | 8      | 8      | 11       |
| Amortization of net actuarial gain (loss)    | (88)             | (71)   | (102)   | 11             | 10     | 7       | (77)   | (61)   | (95)     |
| Settlement recognition of net actuarial loss | (502)            | —      | —       | —              | —      | —       | (502)  | —      | —        |
| Other                                        | —                | —      | —       | (28)           | —      | (2)     | (28)   | —      | (2)      |
|                                              | (268)            | 94     | (185)   | (29)           | 9      | (23)    | (297)  | 103    | (208)    |

Total  
 recognized in  
 other  
 comprehensive  
 income (loss)

Total  
 recognized in  
 net periodic  
 benefit cost and  
 other  
 comprehensive  
 income

|        |        |         |         |       |         |        |        |          |
|--------|--------|---------|---------|-------|---------|--------|--------|----------|
| \$ 323 | \$ 188 | \$ (82) | \$ (30) | \$ 10 | \$ (22) | \$ 293 | \$ 198 | \$ (104) |
|--------|--------|---------|---------|-------|---------|--------|--------|----------|

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 |          |
|                                                                  | 2017             | 2016       | 2017                | 2016     | 2017           | 2016     |
| Change in benefit obligation:                                    |                  |            |                     |          |                |          |
| Benefit obligation at beginning of fiscal year                   | \$ 4,140         | \$ 3,922   | \$ 316              | \$ 290   | \$ 243         | \$ 244   |
| Service cost                                                     | 53               | 68         | 2                   | 2        | 8              | 9        |
| Interest cost                                                    | 163              | 177        | 13                  | 14       | 9              | 10       |
| Plan participants' contributions                                 | —                | —          | —                   | —        | 12             | 12       |
| Actuarial (gain) loss                                            | 126              | 186        | 15                  | 29       | (20)           | (9)      |
| Plan settlements                                                 | (1,040)          | —          | —                   | —        | —              | —        |
| Benefits paid                                                    | (202)            | (211)      | (21)                | (19)     | (23)           | (23)     |
| Other                                                            | (5)              | (2)        | 3                   | —        | (27)           | —        |
| Benefit obligation at end of fiscal year                         | \$ 3,235         | \$ 4,140   | \$ 328              | \$ 316   | \$ 202         | \$ 243   |
| Change in plan assets:                                           |                  |            |                     |          |                |          |
| Fair value of plan assets at beginning of fiscal year            | \$ 3,138         | \$ 3,045   | \$ —                | \$ —     | \$ —           | \$ —     |
| Actual return on plan assets                                     | 210              | 302        | —                   | —        | —              | —        |
| Employer contributions                                           | 1,000            | 3          | 21                  | 19       | 11             | 11       |
| Plan participants' contributions                                 | —                | —          | —                   | —        | 12             | 12       |
| Plan settlements                                                 | (1,198)          | —          | —                   | —        | —              | —        |
| Benefits paid                                                    | (202)            | (211)      | (21)                | (19)     | (23)           | (23)     |
| Other                                                            | (5)              | (1)        | —                   | —        | —              | —        |
| Fair value of plan assets at end of fiscal year                  | \$ 2,943         | \$ 3,138   | \$ —                | \$ —     | \$ —           | \$ —     |
| Funded status and net liability recognized at end of fiscal year | \$ (292)         | \$ (1,002) | \$ (328)            | \$ (316) | \$ (202)       | \$ (243) |

As of February 3, 2018 and January 28, 2017, other current liabilities include \$30 and \$37, respectively, of net liability recognized for the above benefit plans.

In 2017, the Company settled certain company-sponsored pension plan obligations using existing assets of the plan and a \$1,000 contribution made to the plan in the third quarter of 2017. The Company recognized a settlement charge of approximately \$502, \$335 net of tax, associated with the settlement of the Company's obligations for the eligible participants' pension balances that were distributed out of the plan via a transfer to other qualified retirement plan

options, a lump sum payout, or the purchase of an annuity contract, based on each participant's election.

As of February 3, 2018 and January 28, 2017, pension plan assets do not include common shares of The Kroger Co.

| Weighted average assumptions                              | Pension Benefits |        |        | Other Benefits |        |        |
|-----------------------------------------------------------|------------------|--------|--------|----------------|--------|--------|
|                                                           | 2017             | 2016   | 2015   | 2017           | 2016   | 2015   |
| Discount rate — Benefit obligation                        | 4.00 %           | 4.25 % | 4.62 % | 3.93 %         | 4.18 % | 4.44 % |
| Discount rate — Net periodic benefit cost                 | 4.25 %           | 4.62 % | 3.87 % | 4.18 %         | 4.44 % | 3.74 % |
| Expected long-term rate of return on plan assets          | 7.50 %           | 7.40 % | 7.44 % |                |        |        |
| Rate of compensation increase — Net periodic benefit cost | 3.07 %           | 2.71 % | 2.85 % |                |        |        |
| Rate of compensation increase — Benefit obligation        | 3.03 %           | 3.07 % | 2.71 % |                |        |        |

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 4.00% and 3.93% discount rates as of year-end 2017 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 February 3, 2018, by approximately \$426.

The Company's 2017 assumed pension plan investment return rate was 7.50% compared to 7.40% in 2016 and 7.44% in 2015. The value of all investments in the company-sponsored defined benefit pension plans during the calendar year ending December 31, 2017, net of investment management fees and expenses, increased 8.7%. Historically, the Company's pension plans' average rate of return was 5.7% for the 10 calendar years ended December 31, 2017, net of all investment management fees and expenses. For the past 20 years, the Company's pension plans' average annual rate of return has been 7.10%. At the beginning of 2017, to determine the expected rate of return on pension plan assets held by the Company for 2017, the Company considered current and forecasted plan asset allocations as well as historical and forecasted rates of return on various asset categories. Based on this information and forward looking assumptions for investments made in a manner consistent with its target allocations, which contemplates the Company's transition to a liability driven investment ("LDI") strategy, the Company believed a 7.50% rate of return assumption was reasonable for 2017.

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 increased in 2017, compared to 2016, due primarily to the \$1,000 in contributions made in 2017 to the qualified plans, partially offset by the decrease in discount rates from 2016 to 2017.

The following table provides the components of the Company's net periodic benefit costs for 2017, 2016 and 2015:

|                                          | Pension Benefits |       |       | Non-Qualified Plans |       |       | Other Benefits |      |       |
|------------------------------------------|------------------|-------|-------|---------------------|-------|-------|----------------|------|-------|
|                                          | Qualified Plans  |       |       |                     |       |       |                |      |       |
|                                          | 2017             | 2016  | 2015  | 2017                | 2016  | 2015  | 2017           | 2016 | 2015  |
| Components of net periodic benefit cost: |                  |       |       |                     |       |       |                |      |       |
| Service cost                             | \$ 53            | \$ 68 | \$ 62 | \$ 2                | \$ 2  | \$ 3  | \$ 8           | \$ 9 | \$ 10 |
| Interest cost                            | 163              | 177   | 154   | 13                  | 14    | 12    | 9              | 10   | 9     |
| Expected return on plan assets           | (233)            | (238) | (230) | —                   | —     | —     | —              | —    | —     |
| Amortization of:                         |                  |       |       |                     |       |       |                |      |       |
| Prior service credit                     | —                | —     | —     | —                   | —     | —     | (8)            | (8)  | (11)  |
| Actuarial (gain) loss                    | 79               | 60    | 93    | 9                   | 8     | 9     | (11)           | (10) | (7)   |
| Settlement loss recognized               | 502              | —     | —     | —                   | —     | —     | —              | —    | —     |
| Other                                    | —                | 3     | —     | 3                   | —     | —     | 1              | —    | —     |
| Net periodic benefit cost                | \$ 564           | \$ 70 | \$ 79 | \$ 27               | \$ 24 | \$ 24 | \$ (1)         | \$ 1 | \$ 1  |



The following table provides the projected benefit obligation (“PBO”), accumulated benefit obligation (“ABO”) and the fair value of plan assets for the company-sponsored pension plans with accumulated benefit obligations in excess of plan assets.

3

|                                          | Qualified Plans |          | Non-Qualified Plans |        |
|------------------------------------------|-----------------|----------|---------------------|--------|
|                                          | 2017            | 2016     | 2017                | 2016   |
| PBO at end of fiscal year                | \$ 3,051        | \$ 4,140 | \$ 328              | \$ 316 |
| ABO at end of fiscal year                | \$ 2,916        | \$ 3,997 | \$ 313              | \$ 297 |
| Fair value of plan assets at end of year | \$ 2,755        | \$ 3,138 | \$ —                | \$ —   |

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

|            | Pension Benefits | Other Benefits |
|------------|------------------|----------------|
| 2018       | \$ 187           | \$ 12          |
| 2019       | \$ 199           | \$ 14          |
| 2020       | \$ 210           | \$ 15          |
| 2021       | \$ 206           | \$ 15          |
| 2022       | \$ 218           | \$ 16          |
| 2023 —2027 | \$ 1,217         | \$ 83          |

The following table provides information about the target and actual pension plan asset allocations as of February 3, 2018.

| Pension plan asset allocation     | Target allocations |   | Actual Allocations |       |   |   |
|-----------------------------------|--------------------|---|--------------------|-------|---|---|
|                                   | 2017               |   | 2017               | 2016  |   |   |
| Global equity securities          | 8.0                | % | 2.2                | 14.3  | % |   |
| Emerging market equity securities | 3.0                |   | 1.7                | 6.5   |   |   |
| Investment grade debt securities  | 55.0               |   | 53.3               | 12.0  |   |   |
| High yield debt securities        | —                  |   | 3.7                | 14.2  |   |   |
| Private equity                    | 6.0                |   | 9.6                | 7.5   |   |   |
| Hedge funds                       | 17.0               |   | 17.4               | 35.2  |   |   |
| Real estate                       | 3.0                |   | 3.2                | 2.8   |   |   |
| Other                             | 8.0                |   | 8.9                | 7.5   |   |   |
| 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 target allocations shown for 2017 were established in 2017 in conjunction with the start of the Company’s transition to a LDI strategy. A LDI strategy focuses on maintaining a close to fully-funded status over the long-term with minimal funded status risk. This is achieved by investing more of the plan assets in fixed income instruments to more closely match the duration of the plan liability. This LDI strategy will be phased in over time as the Company is able to transition out of illiquid investments. During this transition, the Company’s target allocation will change by increasing the Company’s fixed income instruments. Cash flow from employer contributions and redemption of plan assets to fund 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.

In 2017, the Company contributed \$1,000 to the company-sponsored defined benefit plans and the Company is not required to make any contributions to these plans in 2018. If the Company does make any contributions in 2018, 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 2018 expense for company-sponsored pension plans to be approximately \$94.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The Company used a 5.90% 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<br>Increase | 1% Point<br>Decrease |
|---------------------------------------------------------|----------------------|----------------------|
| Effect on total of service and interest cost components | \$ 2                 | \$ (2)               |
| Effect on postretirement benefit obligation             | \$ 19                | \$ (16)              |

The following tables, which both reflect the adoption of ASU 2015-07 (see Note 19), set forth by level, within the fair value hierarchy, the Qualified Plans' assets at fair value as of February 3, 2018 and January 28, 2017:

Assets at Fair Value as of February 3, 2018

|                                   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Assets<br>Measured<br>at NAV | Total    |
|-----------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|------------------------------|----------|
| Cash and cash equivalents         | \$ 414                                                                  | \$ —                                                | \$ —                                               | \$ —                         | \$ 414   |
| Corporate Stocks                  | 61                                                                      | —                                                   | —                                                  | —                            | 61       |
| Corporate Bonds                   | —                                                                       | 900                                                 | —                                                  | —                            | 900      |
| U.S. Government Securities        | —                                                                       | 222                                                 | —                                                  | —                            | 222      |
| Mutual Funds/Collective<br>Trusts | 1                                                                       | —                                                   | —                                                  | —                            | 1        |
| Partnerships/Joint Ventures       | —                                                                       | —                                                   | —                                                  | 271                          | 271      |
| Hedge Funds                       | —                                                                       | —                                                   | 56                                                 | 545                          | 601      |
| Private Equity                    | —                                                                       | —                                                   | —                                                  | 278                          | 278      |
| Real Estate                       | —                                                                       | —                                                   | 68                                                 | 22                           | 90       |
| Other                             | —                                                                       | —                                                   | —                                                  | 105                          | 105      |
| Total                             | \$ 476                                                                  | \$ 1,122                                            | \$ 124                                             | \$ 1,221                     | \$ 2,943 |

## Assets at Fair Value as of January 28, 2017

|                                   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Assets<br>Measured<br>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<br>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 |

The fair value of asset groupings changed significantly in 2017, as compared to 2016, due to the LDI transition that began in 2017 as described above.

For measurements using significant unobservable inputs (Level 3) during 2017 and 2016, a reconciliation of the beginning and ending balances is as follows:

|                                  | Hedge Funds | Real Estate |
|----------------------------------|-------------|-------------|
| 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          |
| Contributions into Fund          | 13          | 11          |
| Realized gains                   | 1           | 3           |
| Unrealized gains                 | 5           | 8           |
| Distributions                    | (30)        | (19)        |
| Ending balance, February 3, 2018 | \$ 56       | \$ 68       |

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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 \$219, \$215 and \$196 to employee 401(k) retirement savings accounts in 2017, 2016 and 2015, 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 \$954 in 2017, \$289 in 2016 and \$426 in 2015. The increase in 2017, compared to 2016, is primarily due to the \$467 pre-tax payment to satisfy withdrawal obligations to the Central States Pension Fund and the 2017 UFCW Contribution.



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 Company's debt profile as it relates to its credit rating since these off balance sheet commitments are typically considered in the Company's investment grade debt rating.

The Company is currently designated as the named fiduciary of the UFCW Consolidated Pension Plan and the International Brotherhood of Teamsters ("IBT") Consolidated Pension Fund and has sole investment authority over these assets. The Company became the fiduciary of the IBT Consolidated Pension Fund in 2017 due to the ratification of a new labor contract with IBT that provided the Company's withdrawal from the Central States Pension Fund. Significant effects of these restructuring agreements recorded in our Consolidated Financial Statements are:

- In 2017, the Company incurred a \$550 charge, \$360 net of tax, for obligations related to withdrawals from and settlements of withdrawal liabilities for certain multi-employer pension plan funds, of which \$467 was contributed to the Central States Pension Plan in 2017.
- In 2017, the Company contributed \$111, \$71 net of tax, to the UFCW Consolidated Pension Plan.
- In 2016, the Company incurred a charge of \$111, \$71 net of 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.

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 2017 and 2016 is for the plan's year-end at December 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015. The multi-employer contributions listed in the table below are the Company's multi-employer contributions made in fiscal years 2017, 2016 and 2015.

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

| Pension Fund<br>SO CA UFCW<br>Unions &<br>Food<br>Employers<br>Joint Pension<br>Trust<br>Fund(1) (2)<br>Desert States<br>Employers &<br>UFCW Unions<br>Pension<br>Plan(1)<br>Sound<br>Retirement<br>Trust<br>(formerly<br>Retail Clerks<br>Pension<br>Plan)(1) (3)<br>Rocky<br>Mountain<br>UFCW Unions<br>and Employers<br>Pension<br>Plan(1)(5)<br>Oregon Retail<br>Employees<br>Pension<br>Plan(1)<br>Bakery and<br>Confectionary<br>Union &<br>Industry<br>International<br>Pension<br>Fund(1)<br>Retail Food<br>Employers &<br>UFCW Local<br>711 | EIN / Pension<br>Plan Number | Pension Protection<br>Act Zone Status |       | FIP/RP<br>Status        | Multi-Employer Contributions |       |       | Surcharge<br>Imposed (6) |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|---------------------------------------|-------|-------------------------|------------------------------|-------|-------|--------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                              | 2017                                  | 2016  | Pending/<br>Implemented | 2017                         | 2016  | 2015  |                          |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 95-1939092 -<br>001          | Yellow                                | Red   | Implemented             | \$ 66                        | \$ 60 | \$ 55 | No                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 84-6277982 -<br>001          | Green                                 | Green | No                      | 18                           | 18    | 18    | No                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 91-6069306 -<br>001          | Green                                 | Red   | Implemented             | 20                           | 18    | 17    | No                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 84-6045986 -<br>001          | Green                                 | Green | No                      | 19                           | 16    | 17    | No                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 93-6074377 -<br>001          | Green                                 | Green | No                      | 9                            | 8     | 9     | No                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 52-6118572 -<br>001          | Red                                   | Red   | Implemented             | 11                           | 10    | 11    | No                       |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | 51-6031512 -<br>001          | Yellow                                | Red   | Implemented             | 10                           | 9     | 9     | No                       |

|                                                                                                                                  |                     |       |       |             |           |          |           |    |
|----------------------------------------------------------------------------------------------------------------------------------|---------------------|-------|-------|-------------|-----------|----------|-----------|----|
| Pension(1)<br>Denver Area<br>Meat Cutters<br>and Employers<br>Pension<br>Plan(1)                                                 | 84-6097461 -<br>001 | Green | Green | No          | —         | 3        | 7         | No |
| United Food &<br>Commercial<br>Workers Intl<br>Union —<br>Industry<br>Pension<br>Fund(1) (4)                                     | 51-6055922 -<br>001 | Green | Green | No          | 33        | 37       | 35        | No |
| Western<br>Conference of<br>Teamsters<br>Pension Plan<br>Central States,<br>Southeast &<br>Southwest<br>Areas Pension<br>Plan(8) | 91-6145047 -<br>001 | Green | Green | No          | 34        | 33       | 31        | No |
| UFCW<br>Consolidated<br>Pension<br>Plan(1)<br>Other(7)                                                                           | 36-6044243 -<br>001 | Red   | Red   | Implemented | 492       | 23       | 16        | No |
| Total<br>Contributions                                                                                                           | 58-6101602 -<br>001 | Green | Green | No          | 201<br>41 | 34<br>20 | 190<br>11 | No |
|                                                                                                                                  |                     |       |       |             | \$ 954    | \$ 289   | \$ 426    |    |

- (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, 2017 and March 31, 2016.
- (3) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at September 30, 2016 and September 30, 2015.
- (4) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at June 30, 2016 and June 30, 2015.
- (5) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at April 30, 2017 and April 30, 2016.
- (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 February 3, 2018, the collective bargaining agreements under which the Company was making contributions were in compliance with rehabilitation plans adopted by the applicable pension fund.
- (7) The increase in the "Other" funds in 2017, compared to 2016 and 2015, is due primarily to withdrawal settlement payments for certain multi-employer funds.
- (8) In 2017, the Company ratified a new contract with the IBT that provided the company to withdrawal from this pension fund and form the IBT consolidated pension fund. The company did not have any contributions in 2017 to the IBT consolidated 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)<br>(not in millions) |                              |
|----------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------------------------|------------------------------|
|                                                                      |                                                     | Count                                                                     | Expiration                   |
| SO CA UFCW Unions & Food Employers Joint Pension Trust Fund          | March 2019 to June 2020                             | 2                                                                         | March 2019 to June 2020      |
| UFCW Consolidated Pension Plan                                       | June 2018 to August 2021                            | 8                                                                         | February 2019 to August 2021 |
| Desert States Employers & UFCW Unions Pension Plan                   | June 2018 to October 2020                           | 1                                                                         | October 2020                 |
| Sound Retirement Trust (formerly Retail Clerks Pension Plan)         | April 2019 to January 2020                          | 2                                                                         | May 2019 to August 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 April 2022                           | 3                                                                         | August 2018 to June 2019     |
| Bakery and Confectionary Union & Industry International Pension Fund | June 2018 to July 2022                              | 4                                                                         | July 2018 to May 2020        |
| Retail Food Employers & UFCW Local 711 Pension                       | April 2017 (2) to March 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  | June 2018 to June 2021                              | 2                                                                         | April 2019 to March 2021     |
| Western Conference of Teamsters Pension Plan                         | April 2018 to July 2021                             | 5                                                                         | April 2019 to July 2021      |
| International Brotherhood of Teamsters Consolidated Pension Fund     | September 2022                                      | 2                                                                         | September 2022               |

(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 \$1,247 in 2017, \$1,143 in 2016 and \$1,192 in 2015.

#### 17.HELD FOR SALE

In the third quarter of 2017, the Company announced that as a result of a review of its assets, the Company had decided to explore strategic alternatives, including a potential sale, of its convenience store business. On February 5, 2018, the Company announced a definitive agreement for the sale of the Company's convenience store business for \$2,150.

As of February 3, 2018, certain assets and liabilities, primarily those related to the Company's convenience store business, were classified as held for sale in the Consolidated Balance Sheet. The Company expects to complete the sale of these disposal groups within the next year. The businesses classified as held for sale will not be reported as discontinued operations as the dispositions do not represent a strategic shift that will have a major effect on the Company's operations and financial results.

The following table presents information related to the major classes of assets and liabilities that were classified as assets and liabilities held for sale in the Consolidated Balance Sheet as of February 3, 2018:

| (In millions)                       | February<br>3,<br>2018 |
|-------------------------------------|------------------------|
| Assets held for sale:               |                        |
| Cash and temporary cash investments | \$ 1                   |
| Store deposits in-transit           | 15                     |
| Receivables                         | 49                     |
| FIFO inventory                      | 95                     |
| LIFO reserve                        | (36)                   |
| Prepaid and other current assets    | 13                     |
| Property, plant and equipment, net  | 441                    |
| Intangibles, net                    | 11                     |
| Goodwill                            | 14                     |
| Other assets                        | 1                      |
| Total assets held for sale          | \$ 604                 |
| Liabilities held for sale:          |                        |
| Trade accounts payable              | \$ 119                 |
| Accrued salaries and wages          | 14                     |
| Other current liabilities           | 85                     |
| Other long-term liabilities         | 41                     |
| Total liabilities held for sale     | \$ 259                 |

#### 18.VOLUNTARY RETIREMENT OFFERING

In 2016, the Company announced a Voluntary Retirement Offering (“VRO”) for certain non-store associates. Approximately 1,300 associates irrevocably accepted the VRO in the first quarter of 2017. Due to the employee acceptances, the Company recognized a VRO charge of \$184, \$117 net of tax, in the first quarter of 2017, which was comprised of \$165 for severance and other benefits, as well as \$19 of other non-cash charges. This charge was recorded in the OG&A caption within the Consolidated Statements of Operations for 2017. The Company paid \$162 of the severance and other benefits in 2017.

#### 19.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 a material effect on the 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 the Company’s 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 and \$84 for 2015. 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 the Company 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 affect the 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 the Company values 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 the Company values using net asset value as a practical expedient.

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 to be classified as noncurrent in a classified statement of financial position. This amendment became effective for the Company beginning January 29, 2017, and was adopted prospectively in accordance with the standard. The implementation of this amendment resulted in the reclassification of current deferred tax liabilities as non-current and had no effect on the Consolidated Statements of Operations.

During the fourth quarter of 2017, the Company adopted ASU 2017-04 "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating the second step from the goodwill impairment test. ASU 2017-04 requires applying a one-step quantitative test and recording the amount of goodwill impairment as the excess of the reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. ASU 2017-04 does not amend the optional qualitative assessment of goodwill impairment. The Company performed its annual evaluation of goodwill in accordance with this standard, which resulted in a goodwill impairment charge of \$110, \$74 net of tax, related to the Company's Kroger Specialty Pharmacy reporting unit.

## 20.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 overarching principle is that revenue must be recognized when goods and services are transferred to the customer in an amount that is proportionate to what has been delivered at that point and that reflects the consideration to which the company expects to be entitled 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 fiscal year ending February 2, 2019. The Company formed a project team to assess and document the accounting policies related to the new revenue guidance. As of the end of 2017, the

Company has completed this assessment and documentation. Based on this project, the Company does not expect that the implementation of the new standard will have a material effect on the Consolidated Statements of Operations, Consolidated Balance Sheets or Consolidated Statements of Cash Flows. The Company intends to adopt the new standard on a modified retrospective basis and will be addressing new disclosures regarding revenue recognition policies as required by the new standard at adoption. During the assessment, the Company identified and will be implementing changes, at the beginning of the first quarter of 2018, to the Company's accounting policies and practices, business processes, systems and controls to support the new revenue recognition and disclosure requirements.

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 Consolidated Financial Statements. This evaluation process includes reviewing all forms of leases, performing a completeness assessment over the lease population, analyzing the practical expedients and assessing opportunities to make certain changes to the Company's lease accounting information technology system in order to determine the best implementation strategy. The Company believes the current off-balance sheet leasing commitments are reflected in the investment grade debt rating.

In March 2017, the FASB issued ASU 2017-07, “Compensation – Retirement Benefits (Topic 715 ): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” ASU 2017-07 requires an employer to report the service cost component of retiree benefits in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit costs are required to be presented separately from the service cost component and outside a subtotal of income from operations. ASU 2017-07 is effective for years, and interim periods within those years, beginning after December 15, 2017, and requires retrospective application to all periods presented. This ASU will impact the Company’s Operating Profit subtotal as reported in its Consolidated Statement of Operations by excluding interest expense, investment returns, settlements and other non-service cost components of retiree benefit expenses. Information about interest expense, investment returns and other components of retiree benefit expenses can be found in Note 15 of the Consolidated Financial Statements.

In February 2018, the FASB issued ASU 2018-02, “Reclassification of Certain Tax Effects From Accumulated Other Comprehensive Income.” ASU 2018-02 amends ASC 220, “Income Statement - Reporting Comprehensive Income,” to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Act. In addition, under the ASU 2018-02, the Company may be required to provide certain disclosures regarding stranded tax effects. ASU 2018-02 is effective for years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the effect of the standard on its Consolidated Financial Statements.

## 21. QUARTERLY DATA (UNAUDITED)

The two tables that follow reflect the unaudited results of operations for 2017 and 2016.

|                                                                                                                                  | Quarter             |                      |                     |                      | Total Year |
|----------------------------------------------------------------------------------------------------------------------------------|---------------------|----------------------|---------------------|----------------------|------------|
|                                                                                                                                  | First<br>(16 Weeks) | Second<br>(12 Weeks) | Third<br>(12 Weeks) | Fourth<br>(13 Weeks) | (53 Weeks) |
| 2017                                                                                                                             |                     |                      |                     |                      |            |
| Sales                                                                                                                            | \$ 36,285           | \$ 27,597            | \$ 27,749           | \$ 31,031            | \$ 122,662 |
| Merchandise costs,<br>including advertising,<br>warehousing, and<br>transportation, excluding<br>items shown separately<br>below | 28,281              | 21,609               | 21,532              | 24,240               | 95,662     |
| Operating, general and<br>administrative                                                                                         | 6,376               | 4,523                | 4,708               | 5,962                | 21,568     |
| Rent                                                                                                                             | 270                 | 225                  | 196                 | 220                  | 911        |
| Depreciation and<br>amortization                                                                                                 | 736                 | 562                  | 573                 | 565                  | 2,436      |
| Operating profit                                                                                                                 | 622                 | 678                  | 740                 | 44                   | 2,085      |
| Interest expense                                                                                                                 | 177                 | 138                  | 136                 | 148                  | 601        |
| Earnings (loss) before<br>income tax expense                                                                                     | 445                 | 540                  | 604                 | (104)                | 1,484      |
| Income tax expense (benefit)                                                                                                     | 148                 | 189                  | 215                 | (957)                | (405)      |
| Net earnings including<br>noncontrolling interests                                                                               | 297                 | 351                  | 389                 | 853                  | 1,889      |
| Net loss attributable to<br>noncontrolling interests                                                                             | (6)                 | (2)                  | (8)                 | (1)                  | (18)       |
| Net earnings attributable to<br>The Kroger Co.                                                                                   | \$ 303              | \$ 353               | \$ 397              | \$ 854               | \$ 1,907   |
| Net earnings attributable to<br>The Kroger Co. per basic<br>common share                                                         | \$ 0.33             | \$ 0.39              | \$ 0.44             | \$ 0.97              | \$ 2.11    |
| Average number of shares<br>used in basic calculation                                                                            | 914                 | 897                  | 887                 | 875                  | 895        |
| Net earnings attributable to<br>The Kroger Co. per diluted                                                                       | \$ 0.32             | \$ 0.39              | \$ 0.44             | \$ 0.96              | \$ 2.09    |

common share

|                                                      |          |          |          |          |          |
|------------------------------------------------------|----------|----------|----------|----------|----------|
| Average number of shares used in diluted calculation | 925      | 905      | 893      | 884      | 904      |
| Dividends declared per common share                  | \$ 0.120 | \$ 0.125 | \$ 0.125 | \$ 0.125 | \$ 0.495 |

Annual amounts may not sum due to rounding.

Net earnings for the first quarter of 2017 include \$199, \$126 net of tax, related to the withdrawal liability for certain multi-employer pension funds and \$184, \$117 net of tax, related to the voluntary retirement offering.

Net earnings for the fourth quarter of 2017 include charges to operating, general and administrative expenses of \$351, \$234 net of tax, related to obligations from withdrawing from and settlements of withdrawal liabilities for certain multi-employer pension funds, \$110, \$74 net of tax, related to the Kroger Specialty Pharmacy goodwill impairment and \$502, \$335 net of tax, related to a company-sponsored pension plan termination.

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Net earnings for the fourth quarter of 2017 include a reduction to depreciation and amortization expenses of \$19, \$13 net of tax, related to held for sale assets. Net earnings for the fourth quarter 2017 include a reduction to income tax expense of \$922 primarily due to the re-measurement of deferred tax liabilities and the reduction of the statutory rate for the last five weeks of the fiscal year from the Tax Cuts and Jobs Act. In addition, net earnings include \$119, \$79 net of tax, due to a 53rd week in fiscal year 2017.

|                                                                                                                            | Quarter             |                      |                     |                      |                          |
|----------------------------------------------------------------------------------------------------------------------------|---------------------|----------------------|---------------------|----------------------|--------------------------|
|                                                                                                                            | First<br>(16 Weeks) | Second<br>(12 Weeks) | Third<br>(12 Weeks) | Fourth<br>(12 Weeks) | Total Year<br>(52 Weeks) |
| 2016                                                                                                                       |                     |                      |                     |                      |                          |
| Sales                                                                                                                      | \$ 34,604           | \$ 26,565            | \$ 26,557           | \$ 27,611            | \$ 115,337               |
| Merchandise costs, including<br>advertising, warehousing, and<br>transportation, excluding items shown<br>separately below | 26,669              | 20,697               | 20,653              | 21,483               | 89,502                   |
| Operating, general and administrative<br>Rent                                                                              | 5,779               | 4,473                | 4,443               | 4,483                | 19,178                   |
| Depreciation and amortization                                                                                              | 262                 | 205                  | 199                 | 215                  | 881                      |
|                                                                                                                            | 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<br>interests                                                                         | 695                 | 378                  | 383                 | 502                  | 1,957                    |
| Net loss attributable to noncontrolling<br>interests                                                                       | (1)                 | (5)                  | (8)                 | (4)                  | (18)                     |
| Net earnings attributable to The Kroger<br>Co.                                                                             | \$ 696              | \$ 383               | \$ 391              | \$ 506               | \$ 1,975                 |
| Net earnings attributable to The Kroger<br>Co. per basic common share                                                      | \$ 0.72             | \$ 0.40              | \$ 0.41             | \$ 0.54              | \$ 2.08                  |
| Average number of shares used in basic<br>calculation                                                                      | 954                 | 943                  | 940                 | 929                  | 942                      |
| Net earnings attributable to The Kroger<br>Co. per diluted common share                                                    | \$ 0.71             | \$ 0.40              | \$ 0.41             | \$ 0.53              | \$ 2.05                  |
| Average number of shares used in<br>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.

## 22.SUBSEQUENT EVENTS

### Sale of Convenience Store Business

On February 5, 2018, the Company announced that it has entered into a definitive agreement to sell its convenience store business for \$2,150.

### Debt

On March 16, 2018, the Company obtained a \$1,000 term loan facility with a maturity date of March 16, 2019. The funds were drawn on March 26, 2018 and were used to reduce outstanding commercial paper borrowings. Under the terms of the agreement, interest rates are adjusted monthly based on the Company's Public Debt Rating and prevailing LIBOR rates. At the Company's current Public Debt Rating, as of March 26, 2018, the term loan bears a variable interest rate of 2.72%.



ITEM 9.CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A.CONTROLS AND PROCEDURES.

As of February 3, 2018, our Chief Executive Officer and Chief Financial Officer, together with a disclosure review committee appointed by the Chief Executive Officer, evaluated the Company's disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of February 3, 2018.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting during the fiscal quarter ended February 3, 2018 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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. Based on the evaluation, management has concluded that the Company's internal control over financial reporting was effective as of February 3, 2018.

The effectiveness of the Company's internal control over financial reporting as of February 3, 2018, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which can be found in Item 8 of this Form 10-K.

ITEM 9B.OTHER INFORMATION.

None.

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## PART III

## ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item not otherwise set forth below is set forth under the headings Election of Directors, Information Concerning the Board of Directors — Committees of the Board, Information Concerning the Board of Directors — Audit Committee, Information Concerning the Board of Directors — Code of Ethics and Section 16(a) Beneficial Ownership Reporting Compliance in the definitive proxy statement to be filed by the Company with the Securities and Exchange Commission before within 120 days after the end of the fiscal year 2017 (the “2018 proxy statement”) and is hereby incorporated by reference into this Form 10-K.

## EXECUTIVE OFFICERS OF THE COMPANY

The following is a list of the names and ages of the executive officers and the positions held by each such person. Except as otherwise noted, each person has held office for at least five years. Each officer will hold office at the discretion of the Board for the ensuing year until removed or replaced.

| Name               | Age | Recent Employment History                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------|-----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mary E. Adcock     | 42  | Ms. Adcock was elected Group Vice President of Retail Operations, effective June 2016. Prior to this, she served as Vice President of Operations for Kroger’s Columbus Division from November 2015 to May 2016 and as Vice President of Merchandising for the Columbus Division from March 2014 to November 2015. From February 2012 to March 2014, Ms. Adcock served as Vice President of Natural Foods Merchandising and from October 2009 to February 2012, she served as Vice President of Deli/Bakery Manufacturing. Prior to that, Ms. Adcock held several leadership positions in the manufacturing department, including human resources manager, general manager and division operations manager. Ms. Adcock joined Kroger in 1999 as human resources assistant manager at the Country Oven Bakery in Bowling Green, Kentucky. |
| Jessica C. Adelman | 42  | Ms. Adelman joined Kroger in November 2015 as Group Vice President of Corporate Affairs. Prior to joining Kroger, she served as senior vice president of corporate affairs for Syngenta North America, a leading agriculture company, since 2008. Prior to that, Ms. Adelman held several strategic leadership roles with other companies, including director of Cargill Government Solutions. Ms. Adelman has 20 years of experience as a public affairs executive in the food industry.                                                                                                                                                                                                                                                                                                                                               |

Stuart W.  
Aitken

Mr. Aitken was elected Group Vice President in June 2015 and is responsible for leading Kroger's data analytics subsidiary, 84.51° LLC. Prior to joining Kroger, he served as the chief executive officer of dunhumby USA, LLC from July 2010 to June 2015. Mr. Aitken has over 15 years of marketing, academic and technical experience across a variety of industries, and held various leadership roles with other companies, including Michaels Stores and Safeway, Inc.

- Robert W. Clark 52 Mr. Clark was elected Senior Vice President of Merchandising in March 2016. Prior to this, he served as Group Vice President of Non-Perishables from March 2013 to March 2016. Prior to that, he served as Vice President of Merchandising for Kroger's Fred Meyer division from October 2011 to March 2013. From August 2010 to October 2011 he served as Vice President of Operations for Kroger's Columbus division. Prior to that, from May 2002 to August 2010, he served as Vice President of Merchandising for Kroger's Fry's division. From 1985 to 2002, Mr. Clark held various leadership positions in store and district management, as well as grocery merchandising. Mr. Clark began his career with Kroger in 1985 as a courtesy clerk at Fry's.
- Yael Cosset 45 Mr. Cosset was elected Group Vice President and Chief Digital Officer in January 2017 and is responsible for leading Kroger's digital strategy, focused on building Kroger's presence in the marketplace in digital channels, personalization and e-commerce. Prior to this, he served as Chief Commercial Officer and Chief Information Officer of 84.51° LLC from April 2015 to December 2016. Prior to joining Kroger, Mr. Cosset served in several leadership roles at dunnhumby USA, LLC from 2009 to 2015, including Executive Vice President of Consumer Markets and Global Chief Information Officer.
- Michael J. Donnelly 59 Mr. Donnelly was elected Executive Vice President and Chief Operating Officer in December 2017. Prior to this, he was Executive Vice President of Merchandising from September 2015 to December 2017, and Senior Vice President of Merchandising from July 2011 to September 2015. Prior to that, Mr. Donnelly held a variety of key management positions with Kroger, including President of Ralphs Grocery Company, President of Fry's Food Stores, and Senior Vice President, Drug/GM Merchandising and Procurement. Mr. Donnelly joined Kroger in 1978 as a clerk.
- Carin L. Fike 50 Ms. Fike was elected Vice President and Treasurer effective June 2017. Prior to this, she served as Assistant Treasurer from March 2011 to June 2017. Prior to that, Ms. Fike served as Director of Investor Relations from December 2003 to March 2011. Ms. Fike began her career with Kroger in 1999 as a manager in the Financial Reporting department after working with PricewaterhouseCoopers from 1995 to 1999, where most recently she was an audit manager.
- Todd A. Foley 48 Mr. Foley was elected Vice President and Corporate Controller effective June 2017. Before that, he served as Vice President and Treasurer from June 2013 to June 2017. Prior to this, Mr. Foley served as Assistant Corporate Controller from March 2006 to June 2013, and Controller of Kroger's Cincinnati/Dayton division from October 2003 to March 2006. Mr. Foley began his career with Kroger in 2001 as an audit manager in the Internal Audit Department after working for PricewaterhouseCoopers from 1991 to 2001, where most recently he was a senior audit manager.

- Christopher T. Hjelm 56 Mr. Hjelm was elected Executive Vice President and Chief Information Officer in September 2015. Prior to this, he served as Senior Vice President and Chief Information Officer from August 2005 to September 2015. From February 2005 to July 2005, he was Chief Information Officer of Travel Distribution Services for Cendant Corporation. From July 2003 to November 2004, Mr. Hjelm served as Chief Technology Officer for Orbitz LLC, which was acquired by Cendant Corporation in November 2004. Mr. Hjelm served as Senior Vice President for Technology at eBay Inc. from March 2002 to June 2003, and served as Executive Vice President for Broadband Network Services for Excite@Home from June 2001 to February 2002. From January 2000 to June 2001, Mr. Hjelm served as Chairman, President and Chief Executive Officer of ZOHO Corporation. Prior to that, he held various key roles for 14 years with Federal Express Corporation, including that of Senior Vice President and Chief Information Officer.
- Calvin J. Kaufman 55 Mr. Kaufman was elected Senior Vice President in June 2017, and is responsible for the oversight of several Kroger retail divisions. Prior to this, he served as President of the Louisville division from July 2013 to June 2017. Prior to that, he served as President of Kroger Manufacturing and Our Brands from June 2008 to June 2013, and Group Vice President of Fred Meyer Logistics from September 2005 to May 2008. Mr. Kaufman held various positions in Logistics after joining Kroger in the Fred Meyer division in September 1994.
- Timothy A. Massa 51 Mr. Massa was elected Group Vice President of Human Resources and Labor Relations in June 2014. He joined Kroger in October 2010 as Vice President, Corporate Human Resources and Talent Development. Prior to joining Kroger, he served in various Human Resources leadership roles for 21 years at Procter & Gamble, most recently serving as Global Human Resources Director of Customer Business Development.
- Stephen M. McKinney 61 Mr. McKinney was elected Senior Vice President in March 2018, and is responsible for the oversight of several Kroger retail divisions. Prior to this, he served as President of Kroger's Fry's Food Stores division from October 2013 to March 2018. Prior to that, he served as Vice President of Operations for the Ralphs division from October 2007 to September 2013, and Vice President of Operations for the Southwest division from October 2006 to September 2007. From 1988 to 1998, Mr. McKinney served in various leadership positions in the Fry's Food Stores division, including store manager, deli director, and executive director of operations. From 1981 to 1998, Mr. McKinney held several roles with Florida Choice Supermarkets, a former Kroger banner, including store manager, buyer, and field representative. He started his career with Kroger in 1981 as a clerk with Florida Choice.
- W. Rodney McMullen 57 Mr. McMullen was elected Chairman of the Board effective January 1, 2015, and Chief Executive Officer effective January 1, 2014. Prior to this, he served as President and Chief Operating Officer from August 2009 to December 2013. Prior to that he was elected Vice Chairman in June 2003, Executive Vice President, Strategy, Planning and Finance in January 2000, Executive Vice President and Chief Financial Officer in May 1999, Senior Vice President in October 1997, and Group Vice President and Chief Financial Officer in June 1995. Before that he was appointed Vice President, Control and Financial Services in March 1993, and Vice President, Planning and

Capital Management in December 1989. Mr. McMullen joined Kroger in 1978 as a part-time stock clerk.

- J. Michael Schlotman 60 Mr. Schlotman was elected Executive Vice President and Chief Financial Officer in September 2015. Prior to this, he was elected Senior Vice President and Chief Financial Officer in June 2003, and Group Vice President and Chief Financial Officer in January 2000. Prior to that he was elected Vice President and Corporate Controller in 1995, and served in various positions in corporate accounting since joining Kroger in 1985.
- Erin S. Sharp 60 Ms. Sharp has served as Group Vice President of Manufacturing since June 2013. She joined Kroger in 2011 as Vice President of Operations for Kroger's Manufacturing division. Before joining Kroger, Ms. Sharp served as Vice President of Manufacturing for the Sara Lee Corporation. In that role, she led the manufacturing and logistics operations for the central region of their U.S. Fresh Bakery Division. Ms. Sharp has over 30 years of experience supporting food manufacturing operations.
- Alessandro Tosolini 51 Mr. Tosolini was elected Senior Vice President of New Business Development in December 2014. Before joining Kroger, he held numerous leadership positions with Procter & Gamble for 24 years, in the U.S. and internationally, most recently serving as senior vice president of Global e Business and vice president of Global eCommerce.
- Mark C. Tuffin 58 Mr. Tuffin has served as Senior Vice President since January 2014, and is responsible for the oversight of several of Kroger's retail divisions. Prior to this, he served as President of Kroger's Smith's division from July 2011 to January 2014. From September 2009 to July 2011, Mr. Tuffin served as Vice President of Transition, where he was responsible for implementing an organizational restructuring initiative for Kroger's retail divisions. He joined Kroger's Smith's division in 1996 and served in a series of leadership roles, including Vice President of Merchandising from September 1999 to September 2009. Mr. Tuffin held various positions with other supermarket retailers before joining Smith's in 1996.
- Christine S. Wheatley 47 Ms. Wheatley was elected Group Vice President, Secretary and General Counsel in May 2014. She joined Kroger in February 2008 as Corporate Counsel, and became Senior Attorney in 2010, Senior Counsel in 2011, and Vice President in 2012. Before joining Kroger, Ms. Wheatley was engaged in the private practice of law for 11 years, most recently as a partner at Porter Wright Morris & Arthur in Cincinnati.

ITEM 11.EXECUTIVE COMPENSATION.

The information required by this Item is set forth in the sections entitled Compensation Discussion and Analysis, Compensation Committee Report, and Compensation Tables in the 2018 proxy statement and is hereby incorporated by reference into this Form 10-K.





ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table provides information regarding shares outstanding and available for issuance under our existing equity compensation plans.

Equity Compensation Plan Information

| Plan Category                                              | (a)<br>Number of securities to be issued upon exercise of outstanding options, warrants and rights (1) | (b)<br>Weighted-average exercise price of outstanding options, warrants and rights (1) | (c)<br>Number of securities remaining for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders     | 38,340,512                                                                                             | \$ 22.23                                                                               | 38,226,331                                                                                                                               |
| Equity compensation plans not approved by security holders | —                                                                                                      | \$ —                                                                                   | —                                                                                                                                        |
| Total                                                      | 38,340,512                                                                                             | \$ 22.23                                                                               | 38,226,331                                                                                                                               |

(1) The total number of securities reported includes the maximum number of common shares, 1,655,455, that may be issued under performance units granted under our long-term incentive plans. The nature of the awards is more particularly described in the Compensation Discussion and Analysis section of the definitive 2018 proxy statement and is hereby incorporated by reference into this Form 10-K. The weighted-average exercise price in column (b) does not take these performance unit awards into account. Based on historical data, or in the case of the award made in 2015 and earned in 2017 the actual payout percentage, our best estimate of the number of common shares that will be issued under the performance unit grants is approximately 560,353.

The remainder of the information required by this Item is set forth in the section entitled Beneficial Ownership of Common Stock in the 2018 proxy statement and is hereby incorporated by reference into this Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

This information required by this Item is set forth in the sections entitled Related Person Transactions and Information Concerning the Board of Directors-Independence in the 2018 proxy statement and is hereby incorporated by reference

into this Form 10-K.

ITEM 14.PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is set forth in the section entitled Ratification of the Appointment of Kroger's Independent Auditor in the 2018 proxy statement and is hereby incorporated by reference into this Form 10-K.

PART IV

ITEM 15.EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- (a)1. Financial Statements:  
Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of February 3, 2018 and January 28, 2017  
Consolidated Statements of Operations for the years ended February 3, 2018, January 28, 2017 and January 30, 2016  
Consolidated Statements of Comprehensive Income for the years ended February 3, 2018, January 28, 2017 and January 30, 2016  
  
Consolidated Statements of Cash Flows for the years ended February 3, 2018, January 28, 2017 and January 30, 2016  
Consolidated Statement of Changes in Shareholders' Equity for the years ended February 3, 2018, January 28, 2017 and January 30, 2016  
Notes to Consolidated Financial Statements
- (a)2. Financial Statement Schedules:  
There are no Financial Statement Schedules included with this filing for the reason that they are not applicable or are not required or the information is included in the financial statements or notes thereto.
- (a)3.(b) Exhibits
- 3.1 Amended Articles of Incorporation are hereby incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 22, 2010, as amended by the Amendment to Amended Articles of Incorporation, which is hereby incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 23, 2015.
- 3.2 The Company's Regulations are hereby incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 26, 2007.
- 4.1 Instruments defining the rights of holders of long-term debt of the Company and its subsidiaries are not filed as Exhibits because the amount of debt under each instrument is less than 10% of the consolidated assets of the Company. The Company undertakes to file these instruments with the SEC upon request.
- 10.1\* The Kroger Co. Deferred Compensation Plan for Independent Directors. Incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.
- 10.2\* The Kroger Co. Executive Deferred Compensation Plan. Incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.
- 10.3\* The Kroger Co. 401(k) Retirement Savings Account Restoration Plan. Incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.

- 10.4\* The Kroger Co. Supplemental Retirement Plans for Certain Retirement Benefit Plan Participants. Incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.
- 10.5\* The Kroger Co. Employee Protection Plan dated January 13, 2017. Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017.
- 10.6 Amended and Restated Credit Agreement dated August 29, 2017, among The Kroger Co., the initial lenders named therein, and Bank of America, N.A. and Wells Fargo Bank National Association, as co-administrative agents, Citibank, N.A., as syndication agent, and Mizuho Bank, Ltd. and U.S. Bank National Association, as co-documentation agents, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on August 29, 2017.
- 10.7\* The Kroger Co. 2008 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company's Form S-8 filed with the SEC on June 26, 2008.

- 10.8\* The Kroger Co. 2011 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company's Form S-8 filed with the SEC on June 23, 2011.
- 10.9\* The Kroger Co. 2014 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company's Form S-8 filed with the SEC on July 29, 2014.
- 10.10\* Form of Restricted Stock Grant Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.
- 10.11\* Form of Non-Qualified Stock Option Grant Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 24, 2008.
- 10.12\* Form of Performance Unit Award Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended August 12, 2017.
- 10.13\* The Kroger Co. 2015 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 23, 2015.
- 10.14\* The Kroger Co. 2016 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.
- 10.15\* The Kroger Co. 2017 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 20, 2017.
- 12.1 Schedule of Computation of Ratio of Earnings to Fixed Charges.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 24.1 Powers of Attorney.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification.
- 32.1 Section 1350 Certifications.
- 101.INS XBRL Instance Document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

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\*Management contract or compensatory plan or arrangement.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE KROGER CO.

Dated: April 3, 2018 /s/ W. Rodney McMullen  
W. Rodney McMullen  
Chairman of the Board and Chief Executive Officer  
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated on the 3rd April 2018.

|                                                  |                                                                                       |
|--------------------------------------------------|---------------------------------------------------------------------------------------|
| /s/ J. Michael Schlotman<br>J. Michael Schlotman | Executive Vice President and Chief Financial Officer<br>(principal financial officer) |
| /s/ Todd A. Foley<br>Todd A Foley                | Vice President & Corporate Controller<br>(principal accounting officer)               |
| *<br>Nora A. Aufreiter                           | Director                                                                              |
| *<br>Robert D. Beyer                             | Director                                                                              |
| *<br>Anne Gates                                  | Director                                                                              |
| *<br>Susan J. Kropf                              | Director                                                                              |
| *<br>W. Rodney McMullen                          | Chairman of the Board and Chief Executive Officer                                     |
| *<br>Jorge P. Montoya                            | Director                                                                              |
| *<br>Clyde R. Moore                              | Director                                                                              |
| *<br>James A. Runde                              | Director                                                                              |
| *<br>Ronald L. Sargent                           | Director                                                                              |
| *<br>                                            | Director                                                                              |



Bobby S. Shackouls

\*

Mark S. Sutton

Director

\* By: /s/ Christine S. Wheatley  
Christine S. Wheatley  
Attorney-in-fact