



Kmart Corporation
International Headquarters
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To Kmart Shareholders:

As you know, fiscal 2001 was the most tumultuous and challenging year in Kmart's long, proud history. On January 22, 2002, following an extremely disappointing holiday season and the resulting rapid decline in its liquidity, Kmart Corporation and 37 of its U.S. subsidiaries filed voluntary petitions for reorganization under chapter 11 of the federal bankruptcy laws. Since then, with a new management team and a renewed sense of purpose, we have been moving aggressively to reorganize and reposition the Company.

The financial results described in the attached Annual Report on Form 10-K reconfirm the significant difficulties Kmart experienced in fiscal 2001, including unsuccessful sales and marketing initiatives, an erosion in supplier confidence, and below-plan sales and earnings performance in the fourth quarter — all of which were factors in the Company's decision to file for chapter 11 bankruptcy protection. Last year's financial performance was clearly unacceptable, and we are in the process of implementing a number of initiatives aimed at stabilizing Kmart's operations.

We already have made significant progress in our restructuring efforts. We are in the process of closing underperforming stores and have received court permission to reject the leases for previously closed stores, resulting in annual savings of hundreds of millions of dollars. We have installed a new management team consisting of seasoned executives with considerable turnaround and retail experience. And we have obtained a \$2 billion debtor-in-possession credit facility to provide additional liquidity.

At this time, it is not possible to predict the effect of the chapter 11 reorganization on our business, various creditors and security holders or when we will be able to exit chapter 11. Our future results are dependent upon our confirming and implementing, on a timely basis, a plan of reorganization.

Under the priority scheme established by the bankruptcy code, certain post-petition liabilities and pre-petition liabilities need to be satisfied before shareholders are entitled to receive any distribution. The ultimate recovery to creditors, trust convertible preferred securities holders and/or common shareholders, if any, will not be determined until confirmation of a plan or plans of reorganization. No assurance can be given as to what values, if any, will be ascribed in the bankruptcy proceedings to each of these constituencies. A plan of reorganization could also result in holders of Kmart common stock receiving no value for their interests. Because of such possibilities, the value of the common stock is highly speculative. Accordingly, Kmart urges that appropriate caution be exercised with respect to existing and future investments in any of these liabilities and/or securities.

Our objective is to emerge from bankruptcy protection as a strong and healthy competitor, with a clearly defined place in the discount retail sector. We are hard at work to achieve this goal. With the continued support of our vendors, customers and associates, we are firmly convinced we can succeed.



James B. Adamson
Chairman and Chief Executive Officer

May 2002