

Kroger

Annual Shareholder Meeting

June 28, 2018 at 11:00 AM Eastern

**CORPORATE PARTICIPANTS**

**Rodney McMullen** – *Chairman and Chief Executive Officer*

**Lee Cassiere** – *Vice President of Internal Audit*

## PRESENTATION

### Operator

Please welcome to the stage our Chairman and Chief Executive Officer, Rodney McMullen.

### Rodney McMullen

Good morning and welcome to Kroger's Annual Shareholders Meeting. Thank you for joining us today. Our first order of business, I appoint Lee Cassiere, Vice President of Internal Audits, as Inspector of Elections. Lee, do you have a report?

### Lee Cassiere

We find that on May 2, 2018, the record date of this meeting, there were 812,841,516 common shares, par value of \$1.00 per share, issued and outstanding. Each share is entitled to one vote on each matter submitted to the shareholders for vote at this meeting. 715,147,171 common shares were represented by proxy and in person at 11:00 AM on June 28, 2018. A quorum exists.

### Rodney McMullen

Thank you. I declare that a quorum exists and that this meeting is lawfully convened and ready to transact business. It is now my privilege to introduce your Board of Directors. Please stand and remain standing as I call your name. After the introductions I will invite our audience to recognize your important contributions to Kroger. Nora Aufreiter, Director Emeritus of McKinsie & Company; Robert Beyer, Chairman of Chaparral Investments and Kroger's Lead Director; Ann Gates, former President of MGA Entertainment, Inc.; Susan Kropf, former President and Chief Operating Officer of Avon Products, Inc. Regrettably, Susan could not join us in person today, but she is on the phone. Jorge Montoya, former President of Proctor & Gamble's Global Snacks and Beverage Division and former President of PNG's Latin America; Clyde Moore, former Chairman and CEO of First Service Networks; James Runde, Special Advisor and Former Vice Chairman of Morgan Stanley; Ron Sargent, Former Chairman and CEO of Staples, Inc.; Bobby Shackouls, former Chairman, President, and CEO of Burlington Resources; Mark Sutton, Chairman and CEO of International Paper.

Kroger is incredibly fortunate to have a highly engaged, incredibly high-quality Board of Directors, each who bring valuable experience and expertise to Kroger. Please join me in thanking our Board for their outstanding service and contributions.

One other item that I want to note. Every five years, Kroger rotates our lead director, and for the last five years, Bob Beyer has been our lead director and has been an incredible partner in terms of helping Kroger transform itself to the new digital age, and I would say a partner and a pusher and Kroger has been incredibly fortunate, and Bob, we really appreciate your five years of service.

The Board also appointed Ron Sargent as the new Lead Director. Ron, really looking forward to working with you in your new role and many of you already know Ron, so Ron, thanks so much.

Now I will introduce Kroger's Corporate Officers. I will invite each of you to please stand and remain standing as I call your name. After the introductions, I will invite the audience to recognize your dedicated service. Mary Ellen Adcock, Group Vice President of Retail Operations; Jessica Adelman, Group Vice President of Corporate Affairs; Stuart Aitken, Group Vice President and CEO of 84.51; Robert Clark, Senior Vice President of Merchandising; Yael Cosset, Group Vice President and Chief Digital Officer; Michael Donnelly, Executive Vice President of Merchandising and Chief Operating Officer; Chris Hjelm, Executive Vice President and Chief Information Officer; Calvin Kaufman, Senior Vice President. Calvin provides direction and guidance to eight retail

divisions. Timothy Massa, Senior Vice President of Human Resources & Labor Relations; Steve McKinney, Senior Vice President. Steve provides direction and guidance to seven retail divisions. This is Steve's first annual meeting as a corporate officer, having served previously as President of the Fry's Division for the last several years. Mike Schlotman, Executive Vice President and Chief Financial Officer. Mike also provides guidance to our Jewelry Store division. Erin Sharp, Group Vice President of Kroger Manufacturing; Alex Tosolini, Senior Vice President of New Business Development; Mark Tuffin, Senior Vice President. Mark provides assistance and guidance to seven retail divisions. Christine Wheatley, Group Vice President, Secretary, and General Counsel; Gary Millerchip, CEO of Kroger Personal Finance and Corporate Strategy Integration Lead. Gary also advises and works with our Lucky's and Ruler division.

I would also like to ask the following individuals to stand and be recognized as well: Carin Fike, Vice President and Treasurer; Todd Foley, Vice President and Corporate Controller; Tim Brown, President of Cincinnati-Dayton Division. Kroger is incredibly fortunate to have such a strong group of leaders across our Company. Our entire leadership team brings unmatched depth and experience to achieve our goals. Please join me in recognizing the entire team for their leadership on behalf of our customers and associates.

I'd also like to acknowledge several past leaders who are with us today, and as everyone knows, we all stand on the shoulders of those who went before us. Dave Dillon, Lyle Everingham, Kevin Dougherty, Dennis Hackett, Mike Stahl, and Ed Waldvogel. Thank you for your incredible advice, service, and leadership over the years. You guys have been amazing.

There are also several long-serving leaders who had an impact on your Company. I'd like to take a moment to thank several of these leaders who have retired in the past year. Dennis Hackett, Vice President, Internal Audit, 29 years. Scott Henderson, Vice President of Pension Investments, 36 years. Jayne Homco, President of the Michigan Division, 42 years. Beth Van Ofen, Vice President and Corporate Controller, 35 years. Katie Wolfram, President of the Central Division, 38 years. I'd also like to recognize one of the senior officers who has retired since last year's meeting, Fred Morgenthall, Executive Vice President of Retail Operations. Fred served Harris Teeter and Kroger for 31 years. We are a better company because of their leadership. Let's give them a round of applause.

I will now introduce Dave Sharp of PricewaterhouseCoopers, the independent auditors for Kroger. Dave, please stand. Dave, along with Mike Schlotman and Christine Wheatley will assist us on answering questions about the 2017 annual report. Here is a copy of Kroger's 2017 annual report. If you would like to ask a question about the annual report, please stand and make your way to the end of the aisle and we'll bring a microphone to you.

At this time, please limit your questions to matters contained in the annual report. Later in the meeting, we will address the shareholder proposals and invite general questions and comments. Under Kroger's usual rules of conduct, each speaker will be limited to three minutes per question.

Any questions on the annual report? Seeing none, I will direct that it be filed with the minutes of this meeting. Our next item of business is the election of directors. All directors are to be elected to serve until the annual meeting in 2019 or until their successors have been elected and qualified. Do I hear a motion?

**Rebecca**  
(Not heard)

**Rodney McMullen**

Thanks, Rebecca. Is there a second?

**Dawn**

(Not heard)

**Rodney McMullen**

Thanks Dawn. Are there shareholders present who wish to have ballots to vote at this meeting? If there is, April Pence can help you.

While we wait for the report of the results of the vote, I'd like to share a few words about our vision and how Restock Kroger positions Kroger to create value for our customers, associates, and shareholders both today and in the future. Please note that today's presentation will include forward-looking statements as described on this slide.

At Kroger, our vision is to serve America through food inspiration and uplift. And when people ask me about our vision, I've been telling them to pay attention to every single word of the vision. And it starts with serving. To serve means to put others first. Everything we do at Kroger starts and ends with service to our customers, our communities, and each other. Serving America. We are proud to be America's grocer. Today we operate stores in 35 states plus Washington, DC. We are working to expand our anything, anytime, anywhere model to serve all of America through food inspiration.

For 135 years in the grocery business has obviously taught us a lot about people and a lot about food, and we love food. We are meal experts. We want to share our passion by offering personalized service for food inspiration to every single customer and uplift. Each time a customer shops with us, regardless of how they shop, we aim to make great on our promise. Everyone friendly and caring, everything fresh, uplift in every way, and improve every day. Our vision is rooted in Kroger's heritage of innovation. Let's take a look at the few ways we've transformed the grocery industry through the years.

**VIDEO PRESENTATION****Rodney McMullen**

We see where our customers are going, and we will always be there for them. The best way to remain relevant is to create your own future. We are actively doing this through Restock Kroger, our three-year plan to redefine how America eats, and we are doing this in a variety of ways.

First of all, by bringing together the best digital and physical shopping to create a seamless experience for our customers; by using data and insight to offer personalized food inspiration, making it special for you; making it easier than ever before for you to be your family's hero at meal time; partnering with innovators to redefine your shopping experience and therefore create customer value; enhancing our associate experience in ways that transcends our culture; and by living our purpose, we feed the human spirit, especially through Zero Hunger, Zero Waste. It's our ambitious commitment to end hunger in the places we call home and eliminate waste by 2025 as a Company. Restock Kroger is built on the foundation of operational excellence and everyday productivity improvements that have long defined Kroger. All of this together will create long-term shareholder value.

Today, more than ever, I am optimistic and confident about Kroger's future because we are creating the future of retail. We are focused on creating a seamless experience to offer our

customers anything, anytime, anywhere. Here is one amazing, exciting opportunity – customers who engage with us digitally spend more at our stores. And I always think that comment is worth repeating. Customers that engage with us digitally spend more in our bricks and mortar locations. We firmly believe that the future includes both online and physical stores. Kroger is positioned to win. Just last week, for an example, we announced our merger closed with Home Chef. Joining forces will significantly accelerate the availability of meal kits to our customers. Kroger will revolutionize how families shop for, prep, and cook their meals. And I'd like to personally welcome the Home Chef team to the Kroger family of companies.

In May, we announced an innovative and exciting new partnership with UK-based Ocado, the world's largest online supermarket. Our exclusive alliance brings the incredible technology of Ocado's smart platform to the United States. So what does it mean to the US? Fresher food, faster delivery to more customers. Ocado's process creates efficiencies that make online ordering, product picking, and home delivery faster and easier than ever, which means even more convenience and lower prices for customers. Ocado's unmatched technology will help Kroger to enter new markets to serve even more customers, and when you see this video, this video is real. This is a real facility in London, outside of London, that is actually picking grocery orders every single day. This isn't a hope and a dream; this is something that's actually being done.

Kroger is always willing to disrupt ourselves to remain America's grocer. As we walked in, I hope you got a chance to see the Nuro robot. Hello, Nuro.

### **Robot**

Hello, Rodney.

### **Rodney McMullen**

This fully autonomous, on-road vehicle uses robotics and machine learning to transport goods safely, quickly, and affordably. Yeah, isn't it pretty cool? If you didn't get a chance to look at it, please do. Nuro is a startup venture founded by two former Google executives. One is with us here today, Dave Ferguson. Dave, would you please stand and be recognized?

This morning, Kroger and Nuro announced an exciting, innovative new partnership. This fall, we will pilot America's first application and deployment of Nuro's hardware and software. Check out this video - you're going to love it.

### **VIDEO PRESENTATION**

### **Rodney McMullen**

Yeah, I just think that is so cool. Obviously, it's not your parent's grocery store anymore. I can't wait for us to announce the first market that we're going to go with Nuro in, but they told me I'm not allowed to tell you yet, so unfortunately I can't. But it's really cool.

We also continue to execute our strategy and innovate in our core business with our in-house digital and technology teams. Just last week we were named one of America's best places to work in IT by Computer World. Congratulations to Chris, Tim, and our whole IT team. To me, that's just incredible for a supermarket company to be named one of the top 100 technology companies to work in. It really does show the change that's going on. And just yesterday, we announced that Kroger is establishing a new digital headquarter in downtown Cincinnati. Obviously, there's many cities that we could have chosen. But it's our love of Kroger, or our love of Cincinnati, obviously Kroger too, but our love of Cincinnati, being here since 1883 that was a driving force behind that decision. In a few weeks, we'll begin moving 500 associates to the

Atrium II building. I'd like to thank Mayor Cranley and the City of Cincinnati for supporting our project. We expect the digital team to grow to over 1000 by 2020, and to me, if you think about the impact on our region and our community, there is no bigger decision. We believe that this will be a huge help for the whole region in terms of positioning the greater Cincinnati area, Cincinnati, and Kroger as a destination for digital and tech talent. To me, it's one of the more important decisions we've ever made in benefitting the region, a region that we live in and call home.

The heart of our Company is nearly 500,000 associates who serve our customers every day. We truly have the best associates. That is why we're investing more than ever before in our associate experience. It all starts with \$500,000 investment in wages for many store associates that we announced as part of Restock Kroger. We've increased the Company's 401K match to help associates retire with more money in their pockets, plus we expanded associate discounts to keep more money in their pockets today. And the one that I'm personally most excited about is our new offer of up to \$3500 in annual tuition assistance to any associate who wants to further their education and create a better future, and I always tell people whether you're interested in completing your GED or your PhD, we're there to help. If you want a professional certification, we're there to help. Our associates can take advantage of up to \$21,000 in total assistance and they only have to be employed by us for 6 months and it applies to all associates, whether you're full time or part time. And to me, this is just incredible.

Many of you know, as someone who started out stocking shelves on the night shift in Lexington, Kentucky in 1978, I can personally attest to education's life-changing power. I was fortunate to work my way through college and then accepted a full time job with Kroger, and obviously I've been here ever since. Kroger is a place where you can come for a job and make it a career. Over 70% of our store directors started out as part-time associates. We believe that making the educational benefits available to more associates and at more generous levels than ever before is the best way to support future career and personal growth. And as part of Restock Kroger, we fully expect these investments to have an ROI that will create shareholder value.

Kroger's amazing associates are also the foodies behind Our Brands, and everybody is increasingly becoming foodies. Our Brands achieved its highest ever share in 2017, and we reached total sales of \$20.9 billion, in total. And the number continues to climb in 2018. And just last week we announced Our Brands most successful quarter ever. The data is clear. And this is one where last year we did a lot of research and we were even surprised by the research in a good way. Customers love Our Brands better than the national brands and better than other private label offerings. We are especially focused on our top brands of Kroger, Private Selection, and Simple Truth.

Being a socially conscious company is part of our DNA. From Barney Kroger donating day-old bread to feed hungry residents and neighbors until today, we've been living our purpose to feed the human spirit. Stakeholders will decide which business to support based on shared values and clarity of purpose. Last year, Kroger donated more than 325 million meals to feed hungry families through our partnership with local Feeding America foodbanks.

For me, it's easy to just say 325 million meals, and obviously it's a huge number, but if I put it into context, we could feed every single human being in Iceland for the whole year and still have food left over, and to me that's just amazing. And when you look at the US, I think it's an absurdity, is that 40% of food produced is thrown away. So when you think about all the food that's produced, 40% is thrown away. One in eight Americans struggle with hunger. In fact, one in six children go to bed hungry every day. It just doesn't make sense.

This is something we felt like we just had to do something. We believe we can do something to address this absurdity, perhaps better than anyone else, given our experience in food. Our plan is called Zero Hunger, Zero Waste. And our aim is to end hunger in communities we call home. That's right, end hunger in communities we call home and eliminate waste across the Company by 2025. And obviously, we can't do this alone. So we're inviting everyone to join us on our moonshot mission. Obviously, this is a moonshot. It will take all of us working together. But it's something that will transform Kroger communities. You can learn more about our Zero Hunger, Zero Waste activities and our broader sustainability commitments on the Krogerco.com. Be part of our moonshot. We would love to have you as a partner.

We expect Restock Kroger to generate \$6.5 billion of free cash flow before dividends and \$400 million in incremental FIFO operating profit over the next three years. We are aggressively managing operating costs while implementing new programs to reduce our cost of goods, and a big focus is on store productivity and waste. Since 2011, Kroger has delivered a cumulative total shareholder return of 179%. That's above the S&P 500 average of 141% and exceeded our peer group average as well. As part of that, we returned more than \$2.1 billion to shareholders in 2017 through share buybacks and dividends combined. We also have delivered an annual increase in our dividend since it was reinstated in 2006.

By the way, in 2006 when we started the dividend it was just \$0.13 for the whole year. Today, I am pleased to announce that our Board of Directors has approved a dividend increase to \$0.14 per quarter, or from \$0.50 on an annual basis to \$0.56 per year. It is Kroger's 12<sup>th</sup> consecutive year of increasing our dividend since it was reinstated.

Restock Kroger is off to a fabulous start. Our leadership team and associates are lined behind the effort, which is further enhanced and reinforced by our annual incentive plan. Customers are letting us know they see, feel, and appreciate our efforts to redefine the customer grocery experience. They continue to reward us with their growing loyalty. Together, this is a cycle that creates value for our shareholders. We are confident that we will grow identical supermarket sales and market share in 2018 and we will create shareholder value by generating incremental operating margin dollars and free cash flow over the next three years. At Kroger, we have a heritage and a tradition of delivering both for the customer and delivering to our customers. Our history shows us that we can go from this to this. This is innovation based on knowing where your customers are headed and the only difference is today we're using it with a whole different kind of horsepower than what happened when Barney had Dan originally.

And when you look beyond Restock Kroger, well after 2020, I see a very clear picture of Kroger's future; a future where America will have a seamless access to anything, anytime, anywhere from Kroger. Using data, we'll provide convenient and personalized food inspiration to help customers to be a hero. A hero to their families at mealtime every time. Our expansive network of innovative partnerships will create new customer value. Alternative revenue streams will expand and enhance our strong core business and increase profitability. Our assets, generosity, and passion for Zero Hunger, Zero Waste will make the world a better place. Kroger will, I'll repeat that. Kroger will play a vital role in people's lives because it's the simple truth. When families break bread together, people live better lives. They have better relationships, whether that's with their kids, their significant others, or their friends. When you break bread together, people have a better life, and we will do everything we can to support that. And whether it's three years from now, ten years from now, or beyond, Kroger will be there feeding families, feeding the future, and feeding the human spirit.

VIDEO PRESENTATION

**Rodney McMullen**

Obviously, we all love that video. That is why we do what we do. Every day we get to serve others and serve customers. That concludes our annual business review, and now we'll return to our formal agenda.

The first item is the report of the election of directors. Lee, please report.

**Lee Cassiere**

We find that the nominees for the Board of Directors have been duly elected as directors of The Kroger Co, with over 91% of the votes cast in favor of the nominees.

**Rodney McMullen**

Thanks, Lee. I therefore declare that all directors have been elected to serve until the annual meeting in 2019. The next item is an advisory vote to approve the compensation of Kroger's named executive officers. Do I hear a motion?

**Ann**

I move that shareholders approve the compensation of our executive officers.

**Rodney McMullen**

Thanks, Ann. Do I hear a second?

**Jesse**

I second the motion.

**Rodney McMullen**

Thanks, Jesse. Is there a report on the proposal?

**Lee Cassiere**

We find that the resolution approving the compensation of the Company's named executive officers was adopted, with over 91% of the votes cast in favor of the resolution.

**Rodney McMullen**

I therefore declare the advisory resolution is approved. The next item is a vote to approve an amendment to the regulations to permit proxy access. Do I hear a motion?

**Carrie**

I move that shareholders adopt the amendment.

**Rodney McMullen**

Thanks, Carrie. Do I hear a second?

**Dawn**

I second the motion.

**Rodney McMullen**

Thanks, Dawn. Lee, is there a report on the proposal?

**Lee Cassiere**

We find that the resolution to approve the amendment to regulations to permit proxy access was

adopted with over 72% of outstanding shares voted in favor of the resolution.

**Rodney McMullen**

I therefore declare the amendment is approved.

The next item is a vote to approve an amendment to the regulations to permit board amendments in accordance to Ohio law. Do I hear a motion?

**Ann**

I move that shareholders approve the amendment.

**Rodney McMullen**

Thanks, Ann. Do I hear a second?

**Denise**

I second the motion.

**Rodney McMullen**

Thanks, Denise. Lee, is there a report on the proposal?

**Lee Cassiere**

We find that the resolution to amend the regulations to permit board amendments in accordance with Ohio law which required the affirmative vote of 75% of outstanding shares was defeated, with only 73% of outstanding shares voting in favor of the resolution. 2% of outstanding shares voted against the resolution.

**Rodney McMullen**

Okay. Thanks, Lee. I therefore declare the amendment has been defeated. As a result, this change will not be made in our regulations and they will remain status quo. We knew that there was a very high threshold that requires this type of amendment because we had to have 75% of all outstanding votes, so all extending shares, not just those voted. So we appreciate all the support we did receive.

The next item is to ratify the appointment of Kroger's independent auditors, PricewaterhouseCoopers, LLP. Do I hear a motion?

**Carrie**

I move that shareholders approve the motion.

**Rodney McMullen**

Thanks, Carrie. Do I hear a second?

**Jesse**

I second the motion.

**Rodney McMullen**

Thanks, Jesse. Is there a report on the proposal?

**Lee Cassiere**

We find that the resolution ratifying the selection of PricewaterhouseCoopers LLP as the Company's auditors for the year 2018 was adopted with over 97% of the votes cast in favor of the

resolution.

**Rodney McMullen**

I therefore declare that the selection of PricewaterhouseCoopers LLP has been ratified.

There are three shareholder proposals. Is there a representative here to present the proposal for item #6 regarding the publication of a report assessing the environmental impact of using unrecyclable packaging for Our Brands product?

**Unidentified Female**

Good morning, Mr. Chairman.

**Rodney McMullen**

Good morning.

**Unidentified Female**

I am representing As You Sow, a nonprofit group promoting corporate social responsibility, which filed item #6 on the proxy. This proposal asks the Company to assess the environmental impacts of continuing to use non-recyclable brand packaging. We are concerned that the Company uses a significant amount of packaging that is not recyclable, especially plastic packaging. Dried fruits, frozen meat, cheese, and pet food are some of the Kroger house brand items packaged in unrecyclable plastic pouches or flexible packaging. Using unrecyclable packing when recyclable alternatives are available wastes valuable resources that could be recycled many times over.

Our proposal has appeared for three straight years on the proxy statement and each time received impressive support of between 24% and 31%. Still, the Company has taken no substantive actions in this regard, lagging peers like Walmart and Unilever, who have agreed to a timeline for phase-out of non-recyclable packaging. Plastic packaging is a prime component of ocean water pollution, which threatens marine animals and human health. Recent studies estimate that eight to 12 million tons of plastics are dumped in oceans annually and project that oceans may contain more plastic than fish by weight by 2050.

This issue has exploded in recent months. The European Commission has released a plastics policy strategy to require all packaging in the EC marketplace to be recyclable by 2030. UK retailer Iceland went even further, pledging to stop using all plastic packaging by 2023. Nearly 200 countries called for an end to plastic pollution at a UN environment assembly in Nairobi, making all packaging recyclable is the first step to reduce the threat posed by ocean debris. Association of Kroger brand products with littered packaging and ocean pollution could put the Company's brands at risk. The Company should evaluate the environmental, reputational, and financial risks of continuing to use non-recyclable packaging and report to shareholders on when and how it will phase out non-recyclable packaging. We respectfully ask for your support on proposal #6. Thank you.

**Rodney McMullen**

Thank you. Is there a second? I'll second it. Obviously, we appreciate the dialogue, and we share your concerns on packaging recycling. I would like to take just a couple of minutes to share some of the things that we have done and the things that we will do by 2020. Two years ago, we set a public goal to make Our Brands more recyclable. With the help of our customers last year, Kroger collected more than 40 million pounds of plastic through our in-store recycling programs. We've reduced the amount of plastic resin used in Our Brands packaging by 9.8 million pounds. This means that we've almost reached our 10 million pound goal by 2020 already. A key

contributor to this has been our lighter plastic jugs, which performs just as well as it's available here in Cincinnati, by the way, and it uses 10% less plastic. In order to learn more from and work better with the overall supply chain, we've also joined a sustainability packaging coalition last year and we've continued to add Please Recycle language to many products on Our Brand assortment. What we're going to do by 2020 is we'll be able to recycle more Our Brands packaging and we'll continue to use less plastic resin as well. Lee, your report please.

### **Lee Cassiere**

We find that the resolution that the Board of Directors issue a report assessing the environmental effects of using unrecyclable brand packaging was defeated with over 71% of the votes cast voting against said resolution.

### **Rodney McMullen**

I therefore declare this proposal has been defeated.

Is there a representative here to present the proposal for item #7 regarding the publication of a report assessing the benefits of increasing renewable energy sourcing?

### **Unidentified Female**

Thank you. I am now presenting shareholder resolution item #7 on your proxy card on behalf of As You Sow. This resolution requests that Kroger produce a report assessing the feasibility of adopting enterprise-wide, quantitative, time-bound targets for increasing its renewable energy sources. Such a study will provide Management with the opportunity to establish a plan to address Kroger's increasing carbon risk and evaluate various pathways to reduce them economically using achievable renewable energy targets. Impacts from climate change pose significant physical and financial risks to companies like Kroger. As investors, we are concerned about the increasing intensity and frequency of catastrophic events like hurricanes, floods, and fires and the impact these events have on our Company and the supply chain upon which it relies. On the global stage, the Paris Climate Agreement of 2015 has shown strong consensus for the goal of limiting global temperature increase to well below 2 degrees Celsius to avoid the most catastrophic effects of climate change. Regional and local regulations across the United States and the globe are increasingly aligning with this goal. Companies must prepare to take responsibility for their role in meeting this critical goal or risk becoming laggards in this space.

Kroger is one of the world's largest retailers with incredible market power. Despite its size and prominence, Kroger has adopted minimal levels of renewable energy, especially compared to peer companies like Walmart and Target. Walmart, for instance, has joined a growing list of over 100 companies in the RE100 Initiative committed to 100% renewable electricity.

Kroger is leagues away from its peers in this group on renewable energy adoption. Despite some efforts to improve energy efficiency, Kroger's greenhouse gas emission tests continue to increase. Adopting a comprehensive plan to move toward renewable sources of energy would help mitigate the climate and reputational risks associated with this alarming trend. Currently, Kroger only reports its individual, sporadic renewable energy projects but has not provided a cohesive, enterprise-wide renewable energy adoption program or goal and has no greenhouse gas-related targets beyond 2020.

Kroger must recognize that its environmental underperformance poses serious risks to the Company's reputation, branding, supply chain, regulatory compliance, relevance, and ongoing competitiveness with more efficient, environmentally conscious peers. Shareholders want this Company to be successful moving forward. We must invest in a sustainable future. Thank you

for your time today and please vote yes on this resolution, which will push our Company to take the first steps towards renewable energy adoption.

**Rodney McMullen**

Thank you. Is there a second? I'll second it. We obviously share your concern for climate impacts and protecting our environment.

First, to begin with, we are very proud of the fact that Kroger's overall carbon emissions last year went down in 2017. Several years ago, we decided the best bet was to focus first and foremost on the energy usage we had and our overall energy consumption and what are the things that we could do to reduce that energy. Last year, our electricity savings continued to increase, and we're very close to achieving our goal of 40% energy savings in our supermarket stores by 2020. And obviously, with that said, there's much more we can do. And that's why we've continued to reduce our refrigerant emissions. We've installed solar panels at three Fry's locations last year. We've placed an order for ten zero emissions Tesla trucks. And we are diverting even more food waste from landfill through our Zero Hunger, Zero Waste commitment. We will continue to evaluate opportunities to further reduce our climate impact going forward. Lee, your report please.

**Lee Cassiere**

We find that the resolution that the Company produce a report assessing the climate change risk reduction benefits of adopting targets for increasing renewable energy sourcing was defeated with over 69% of the votes cast voting against said resolution.

**Rodney McMullen**

Thanks, Lee. I therefore declare this proposal has been defeated.

Is there a representative here to present the proposal for item #8 regarding the adoption of a policy to require the Chair of the Board to be an independent member of the Board?

**Lisa Lindsley**

Thank you, Mr. Chairman. Oh, and thank you also, Mr. CEO. My name is Lisa Lindsley and I am presenting proposal #8, the shareholder proposal for an independent board chair, a chair who is not also the CEO. I represent SumOfUs, a Kroger shareholder, and our 14 million members, many of whom are Kroger shareholders and Kroger shoppers. An independent Chair of the Board is a common-sense governance missing at Kroger. Except for brief "apprenticeship" periods at the onset of their CEO service, Kroger CEOs have also held the role of board chair for many decades. You, Mr. McMullen, are both the CEO and Board Chair. The Board of Directors is supposed to represent us, the shareholders, and oversee management, so it does not make sense to have the top manager, the CEO, also chair the board. If you separate the CEO and board chair roles, it eliminates the conflict of interest that inevitably occurs when the CEO is responsible for self-oversight. 51% of S&P 500 companies have separated these roles. We don't think you should be your own boss, Mr. McMullen, and we're not alone. Over 2000 investors have contacted their investment managers, their pensions, and mutual funds requesting that they vote in favor of this proposal.

Having a CEO who is not his own boss is especially important as Kroger struggles with important sustainability issues that bring competitive, supply chain, reputational, and legal risks. Kroger's failure to eliminate toxic pesticides in its supply chain is one example of the lack of competitive perspective that can occur when there is not independent board oversight of management. We congratulate Kroger on its commitment to phase out bee-killing neonic pesticides on outdoor garden plants; however, our Company is still behind competitors such as Costco, Aldi, and Whole

Foods in eliminating pesticides in the Company's food supply chain. Half a billion people have signed petitions asking Kroger's to eliminate bee-killing pesticides and those numbers include tens of thousands of Kroger shoppers and thousands of shareholders. Sustainability and competitive risks would be better addressed and long-term shareholder value preserved by a board chaired by an independent director. We urge shareholders to vote for the proposal that the Board be chaired by an independent director, and we urge the Board to adopt this policy. Thank you.

### **Rodney McMullen**

Thank you. Is there a second? I'll second it. There's really several matters here. The first is the proposal to establish a separate Chairman and your concerns about pesticides, and I'd like to address both of them separately, briefly. First, Kroger's Board is structured to provide the best governance on behalf of shareholders. Our Board is led by a strong independent director who provides safeguards to ensure effective management. The Board continually reviews our structure to ensure the structure best addresses Kroger's evolving and dynamic business.

Next, on the topic of neonics, first of all I'd like to thank you for the ongoing dialogue over the last year. We have listened closely to all of our stakeholders and recently, as you mentioned, announced a new commitment to work with suppliers to phase out neonics on outdoor plants by 2020. As we noted in our announcement earlier this week, Kroger offers one of the largest organic produce departments in America. Customers who are looking to buy organic have abundant choices when they shop at Kroger. As always, we remain open to the continued engagement and dialogue with our stakeholders. Lee, your report please.

### **Lee Cassiere**

We find that the holders of common shares defeated the resolution to have the Board of Directors adopt a policy to require the Chair of the Board to be an independent member of the Board, with 73% of the votes cast voting against said resolution.

### **Rodney McMullen**

Thanks, Lee. I therefore declare this proposal has been defeated.

That concludes the formal portion of today's agenda. Now I will invite your questions. Each speaker will have three minutes to ask a question. At the end of three minutes, you'll hear a sound, and we will ask you to conclude your comments. There will be a limit of two speakers per subject, and we ask that you address only topics that have not already been addressed and discussed to allow for a wide variety of voices to be heard. I may refer some of your appropriate questions to some of the officers in the audience as well. Please raise your hand, and we'll bring a microphone to you at the end of your aisle. In the interest of time, we've allocated 20 minutes for this portion of the meeting. First question please?

### **Jane Garcia**

Good morning, Mr. Chairman. My name is Jane Garcia and I'm from the comeback city called Detroit. Thank you to the Board of Directors and my fellow shareholders. I come here personally from Detroit this morning to thank you for all that you have done, for the idea that you're giving back to providing a quality of life to a lot of people. The Zero Hunger, Zero Waste is amazing. I just wanted you to know when we come from a city like Detroit that has been having some real hard times and struggling and are on the way to coming back, that it is so important to have a partnership like Kroger's. Someone like Angel Colon who has reached out to some of our small business people and brings Sophia's homemade tortillas, by the way, you know, given an opportunity that educational goes a long way. You know, I come from a city of Ford Motor

Company that actually created the middle class. You, along, also have helped in that middle class, educating, giving back, and providing food to the hungry.

I just can't begin to tell you how overwhelmed I am and how much I wanted to thank you for the people, for the poor people of Puerto Rico, the great people of Puerto Rico and their struggles, and what you've given back to them. Water is a way of life, and they need it. So, I thank you for that as well. I just wanted to make sure that I came personally, so I got up at 4:00 a.m. to catch a plane here, so I just want you to know I cared that much and I'm a proud, I have a Price card and a Kroger's card, so I just want you to know. They call that double dipping, but it isn't. But I'd just like you to know that I wanted to make sure that I personally just came here. Muchas gracias, Mr. Chairman and everyone here.

### **Rodney McMullen**

Obviously, a huge thank you for your comments, and I will definitely pass them along to our Michigan team, as well. Detroit is an incredibly important city to our future and it has been for over 100 years and it will continue to be so. And Angel, I'm looking forward to trying some of those homemade tortillas. It's making me very hungry. The next question please.

### **Unidentified Male**

Good afternoon. I'm a shareholder. I want to commend Kroger for its incredible social responsibility regarding hunger, as you've described earlier in the meeting. I think that's wonderful. I also think that Kroger has outstanding digital resources. I'm very impressed with that and to the people here who are responsible, they do a great job. They always send me the right coupons and they always alert me to the things that I want. It's truly incredible. And what that shows me is that Kroger is a well-capitalized, thoughtful company that has the ability to step up and do a better job in terms of getting people into its stores. You said that the physical shopping experience is very important, and as I look at the pictures on the video, I see stores that don't look anything like the Kroger stores that I shop in. They're well stocked, they're beautifully laid out, and I don't find that to be the case as often as it should be. You also said you want people to spend more money in your stores, and these are all noble and worthwhile goals, but I think as I said last year to you, you need to have a compelling reason to go into a Kroger's store. It's all about sales. If I can go buy a box of cereal at a competitor, a German competitor or any other competitor for less than I can buy it at a Kroger, I will. But if I am compelled to shop at Kroger because it provides me with an experience like Wegmans, and I know that you know Danny Wegman and I know you know what they do and I know you know what they can do. If I can go to a store like that, I will spend more money, I will buy more product, and it will inure to the benefit to the Company.

I think that Kroger has the intellectual capacity, it has the capital, it has the Board, it has the officers to really step up the game and to make a Kroger's store more like a Wegmans store or perhaps like Harris Teeter, which I know is now part of the organization. I just think that after 35 years of living in Cincinnati, I would like to see a Kroger that compels me to want to go shop. The technology, the vehicles that deliver groceries, that's all fine. But I think that people still would rather select their own produce, their own perishables, their own cheese, their own meat. I'm not sure that people are necessarily ready to have that kind of delivery option to have other people pull the perishables that they want. Yeah, it's okay for a loaf of bread. But I'm not sure it's okay for most people who want to pick out their own box of strawberries. But getting back to the compelling reasons to shop, I think in those neighborhoods, in those areas where there is greater purchasing power, here in Cincinnati and perhaps in the area where you shop or in the Indian Hill/Madeira area or in the Blue Ash area, those stores have the opportunity to be a compelling, magnificent shopping experience and they're not. And I don't know why they're not. And I don't

know if you send your executives to your competitors to see how it should be done or how it can be done. But you know that when you go through a Wegmans grocery store for example there's an enormous number of European and Asian [unintelligible] I would like Kroger to step up its game plan and make its stores more enticing and more welcoming and more encouraging for people to shop at and spend money in. Thanks.

### **Rodney McMullen**

Thank you for the feedback, as always. And I will ask Tim Brown to spend some time afterwards to talk through some of the specifics. It's one of the things where we are incredibly proud of the progress we're making, but don't think that we're satisfied with where we are. And we will never be satisfied with where we are from a customer experience standpoint on a daily basis. So first of all, we really appreciate you taking the time to come and share. We appreciate the feedback as always. And we do routinely go out to competitors, look at what competitors are doing. As you know from our conversation last year, we have a tremendous amount of respect for Wegmans and what Danny and Colleen are accomplishing. And we always go to those stores and we have, we learn a lot. And if you look at some of the changes at Newport and Harper's Point and some of those stores where we're expanding what the food experience is, it's those learnings from our internal stuff and others, so as always, please keep the feedback coming. We appreciate it. And we appreciate it when it's good and when it's places where we can get better, as well. Next question in the back.

### **John Sherman**

Good morning, Mr. McMullen. John Sherman of Dayton, Ohio. Proud 30-year shareholder, lifelong customer, and sometime vendor. I just wanted to tell you on a positive note that it has been a very difficult market for yourself and the entire industry the past year, and so I want to compliment you for hanging tough. That's very easy to say. Things are still going along pretty good. But I did want to mention something. Unfortunately, this leads into the gentleman before me, and I think this is particularly a very lousy article and I don't know if it is very significant or not, but yesterday of all days, the day before the Kroger shareholder meeting in the Dayton paper, there was an article from Market Force Information that said Kroger didn't fare very well against its competitors recently in customer loyalty, receiving a 58% grade against Wegmans, at 17 points higher, and others, Trader Joe's, Costco. So I distrust the validity of this because I know very well that the Kroger Plus card and everything, that all the benefits produce better results than that. But I don't know if you could comment on this article from Market Force Information. Maybe Tim Brown could. And then as I say, I want to keep this positive, and the only thing I look back on in the past year when Amazon grabbed Whole Foods for \$13.5 billion, which I know was a ridiculous price, can you at any point in time think about whether or not you second guess that and whether you should have grabbed them? Thank you.

### **Rodney McMullen**

Okay, thank you. On the Market Force report, I have not seen it so I can't talk to that one specifically. In terms of overall, we get several million customer feedbacks every year. I think last year was about 2.5 [million] or 3 million individual customers giving us feedback. And that feedback is given at a store level, at a market level, and we also have research based on what our competitors are doing. Overall, we continue to make progress and improve. But as I said before, don't, please don't take those comments to mean that we're satisfied. In terms of the specifics on Dayton, I will ask Tim afterwards to get some additional insights from you.

In terms of, I won't talk about Whole Foods specifically, but I will talk about mergers broader. Any time when we merge with somebody, we're looking for somebody that brings something to us and we bring something to them. So if you think about Home Chef that we announced the completion

last week. Home Chef is incredibly, one, they cover the whole United States. They do an incredible job on meal kits and they continue to keep those meal kits fresh every single week, offering variety for vegans to somebody that likes something that's more traditional. That, they use data in different ways and that's a huge value that we'll bring to them. The thing that we will, that they will bring to us. The thing that we'll bring to them is access to a lot of stores and a supply chain and data that can help them scale even faster. So whenever we're looking for something, we're looking for somebody that brings as much to us as we do to them and making sure culturally that it's somebody that aligns with our values and culture, because what we find is when the culture, culture of companies aren't aligned it's an incredibly painful merger and we don't create shareholder value by doing that over time. So, next question over here on the right.

### **Unidentified Male**

Hello. First of all, thank you for the opportunity to be here. I'm going to be interpreting for Sylvia today.

### **Sylvia**

(Spanish) So first of all, thank you for the opportunity. My name is Sylvia and I am a farm worker member of the Coalition of Immokalee workers. (Spanish) For nine years, we have been coming to the Kroger Shareholder Meeting, inviting Kroger to join the Fair Food Program, something that is revolutionizing the protections for farm workers in the supply chain. (Spanish) So, it's very easy to talk in general terms about revolutionizing something without getting to the specifics. So, I want to share a story about a farm worker and her experience in the supply chain. She came to the United States to work in the fields at age 14 and experienced a case of sexual violence from a supervisor who invited her to a more secluded place in the fields. (Spanish) Luckily for this person, there was another farm worker who heard her struggling when this incident was going on but the next day both of them were fired from that grower and were unfortunately unable to go to work. This isn't a story that's rare. This happens very often. Studies show that about 80% of farm worker women experience sexual violence in the agricultural industry.

(Spanish) Today there exists a solution for ending instances or cases like this. More than 50,000 farm worker women and men are now protected under the Fair Food Program. Under this program, workers have a zero-tolerance policy towards gender-based violence and other sorts of abuses and are protected from filing a complaint without fear of retaliation, something that is endemic in the agricultural industry. (Spanish) And today the Fair Food Program has been highlighted by the United Nations, has won the Presidential Medal Award, was, most recently won the McArthur Genius Award for the best protection for farm workers in the agricultural industry, and two years ago we were here speaking about the same issue. One of the growers who was supplying Kroger had an instance of labor abuses that were happening in that supply chain and that grower was fined \$1.4 million for holding wages against workers. These are the sorts of realities that are commonplace in growers that are outside of the Fair Food Program, but there is a way to change that by joining the Fair Food Program. (Spanish) And we want to be friends with Kroger. This is an opportunity for Kroger to be a hero for those farm workers in the supply chain and so we extend an invitation to both yourself and all of the members of the Board of Directors to join us in Immokalee to see firsthand the realities and how the agricultural industry is being transformed in our own small farm worker town.

### **Rodney McMullen**

Thank you, as always, for coming. As always, we appreciate the ongoing dialogue and interaction. As everyone knows, we always think it's important for us to have negotiations with our suppliers directly and not have a third party in between, because that's how we make sure that our customers are getting the appropriate quality of product and all the other pieces. We

regularly audit all suppliers across the whole supply chain, including those in the Immokalee region, to ensure that they are following our strict social compliance standards. And to date, we have not found any severe issues on violation of our code. When we do find a supplier that's not following our requirements, we stop doing business with them point blank. We stop doing business. We've done it in the past and we'll do it in the future when we find it again. Any, yes?

### **Toni Preston**

Yes, Mr. Chairman. Toni Preston with SumOfUs. I have a question about the Company's ongoing plans to eliminate toxic bee-killing pesticides, and just to prove how important of an issue this is, I'd like to deliver this letter that over 100 consumer groups like ours have signed that care about this issue. Thank you very much. My question is as such. What are the Company's plans to eliminate bee-killing pesticides in its food supply chain to be more aligned with Costco, Whole Foods, and Aldi's?

### **Rodney McMullen**

As I talked, as I mentioned before on the resolution, we really appreciate the conversation and dialogue, and the dialogue is one of the pieces that caused us to make the change that we made earlier this week. We all understand the importance of bees. I grew up on a farm. I understand that bees are what pollinates and incredibly critical, and we'll continue to work with our suppliers and other partners to improve the life of bees and improve where they're going. So thanks for coming and thanks for the feedback.

As always, I want to thank everyone who joined us today, either in person or online. I also would like to recognize everyone who helped organize today's meeting – a huge thank you. And I know Dave knows this and my fellow coworkers, this is a standing O. Really appreciate it. You guys are amazing. As you exit today, please don't forget your package of coupons for products we know that you're just going to love in our stores. Plus be sure that you grab a Home Chef coupon as well and try out a meal kit or two, or as I like to say, or three.

Also, it's something that's become part of our tradition and it's, we always offer ice cream for you after the meeting, and it's in honor of Dave being here and it being such a warm day. And if you know Dave, Dave is a diehard lover of ice cream. So, you're going to love the new flavor out there, and we really want you to try it. Our Springdale Dairy team brought it fresh, so when you pick up your ice cream, talk to one of our Springdale members, and as always, I really appreciate them coming down to serve you and thank them for coming and sharing their ice cream.

Like many others, we are excited about our Restock Kroger plans to redefine the grocery customer experience, partner for customer value, develop talent, and live our purpose. We have the human connection, the physical assets, and the expertise plus a transformational digital platform to deliver values for our customers and our shareholders. We look forward to sharing our success with all of you. Thank you again for joining us today. Ladies and gentlemen, the meeting is adjourned.