

Kroger Co. (NYSE:[KR](#)) Annual Shareholder Meeting June 27, 2013 11:00 AM ET

Executives

David B. Dillon - Chairman, Chief Executive Officer and Member of Proxy Committee

Dennis Hackett

W. Rodney McMullen - President, Chief Operating Officer and Director

Scott M. Henderson - Vice President of Pension Investment and Strategy

David B. Dillon

So good morning, if you want to begin finding your seats and feel free to keep getting coffee and cookies, and we want to keep this relaxed so I'll let you find your seats before we start. I am serious about getting some coffee and cookies because those cookies are delish. In fact, somebody was nice enough to bring me one up here. I appreciate that. Okay, so why don't we begin.

Good morning, and welcome to the Kroger Co. Annual Shareholder Meeting. I'm Dave Dillon, Chairman of the Board and Chief Executive Officer. Thank you all for joining us today. So let's start. As a first order of business, I appoint Dennis Hackett, Vice President of Corporate Auditing, as Inspector of Elections. Dennis, do you have a report? Can we turn his mic on?

Dennis Hackett

Mr. Chairman, here we go. We find that on April 30, 2013, the record date of this meeting, there were 520,063,320 common shares par value of \$1 per share issued and outstanding, that each of such shares is entitled to one vote on each matter properly submitted to the shareholders for their vote at this meeting, that 447,306,833 common shares were represented by a proxy and in person at 11:00 a.m. on June 27, 2013, and that a quorum exists.

David B. Dillon

Dennis, thank you, and I declare a quorum exists and that this meeting is lawfully convened and ready to transact business. Before we begin the formal agenda though, it's my privilege to introduce the Board of Directors to you. I'd ask each board member, as introduced, to stand and remain standing, please. And after all the introductions, I'll invite the audience to recognize your important contributions to Kroger.

First is Reuben Anderson, a senior partner at the Jackson, Mississippi office of Phelps Dunbar, a New Orleans law firm; Robert Beyer, Bob Beyer, Chairman of Chaparral Investments and Kroger's new Lead Director after this meeting. He begins his term as Lead Director, so we appreciate that, Bob; Susan Kropf, former President and Chief Operating Officer of Avon Products; John LaMacchia, former Chairman of Tellme Networks and former President and CEO of Cincinnati Bell. John is currently the longest-serving Director. He has been a Director since 1990, and in December, he'll retire from the board and so I wanted to particularly note that. He's been a remarkable asset to our organization and has helped us in many years through many cycles, so we appreciate that, John; David Lewis, Director of Lewis & Munday; Rodney McMullen, your President and Chief Operating Officer at Kroger; Jorge Montoya, former President of Procter & Gamble's Global Snacks and Beverage division and former President of P&G Latin America; Clyde Moore, Chairman and CEO of First Service Networks; Dr. Susan Phillips, Professor Emeritus of Finance and former Dean at the George Washington University School of Business; Steven Rogel, former Chairman and CEO of Weyerhaeuser; James Runde, Jim Runde, Special Adviser and former Vice Chairman of Morgan Stanley; Ron Sargent, Chairman and CEO of Staples, and I forgot my button, but that was easy; and Bobby Shackouls, former Chairman and President and CEO of Burlington Resources. Bobby, as he stands, also served as our previously Director and of course, did a remarkable job for me, in particular. He was very helpful to me. So thank this board and join me in thanking them for the outstanding service to this company. Thank you.

Now I'd like to recognize the Kroger corporate officers and I invite each of you to stand and remain standing as I call your name. And after introductions, I'll invite the audience to recognize your dedicated service. First is Katy Barclay, Senior Vice President, Human Resources; Robert Clark, Group Vice President of Non-Perishables. This is Robert's first meeting as a senior officer. He is promoted to this role in February, joining us from our Fred Meyer division; Geoff Covert, Senior Vice President, and Jeff provides direction and guidance to 5 retail divisions; Mike Donnelly, Senior Vice President, Merchandising; Kevin Dougherty, Group Vice President and Chief Supply Chain Officer; Paul Heldman, Executive Vice President, Secretary and General Counsel; Chris Hjelm, Senior Vice President and Chief Information Officer; Lynn Marmer, Group Vice President of Corporate Affairs; Rodney McMullen, President, Chief Operating Officer and a board member; Marnette Perry, Senior Vice President, Strategic Initiatives and Operations. Marnette also provides direction and guidance to our Food 4 Less and Jay C divisions; Mike Schlotman, Senior Vice President and Chief Financial Officer; Erin Sharp, Group Vice President of Kroger's Manufacturing. This is Erin's first meeting as a senior officer. In fact, she was elected by the board this morning to this position and she replaces Calvin Kaufman, and Calvin, I'd also like you to stand. Calvin has been -- just been named as President of the new Louisville division, a role he assumes next week; Pete Williams, Senior Vice President, and Pete provides direction and guidance to 6 retail divisions and is actually on vacation this week and came back for our board meeting earlier and for this. So we appreciate that, Pete. And I'd also like to acknowledge Mike Ellis who could not be here today as a Senior Vice President, and Mike provides direction and guidance for 7 retail divisions. I'd also like to have stand, Scott Henderson, Vice President of Pension Investment and Strategy, who -- he had been our treasurer and assumes his new role important for many of you actually. Todd Foley, Vice President and Treasurer. He was elected Treasurer this morning by the board; Beth Van Ofen, Vice President and Controller; and Reuben Shaffer, our Chief Diversity officer. And keep standing, there's a few others. Sukanya Madlinger, who's President of Cincinnati division, could not be here today but I would like to

introduce her 2 Vice Presidents: Scott Hendricks and Richard Thompson. If you're here, stand up, please, if you would. So now please join me in recognizing the entire team for their leadership on behalf of our customers and associates.

And now I won't ask these individuals to stand, or maybe I will, I will see. But I find this actually personally difficult but appropriate to thank people upon their retirement. And usually, we pick 2 or 3 and identify them at this meeting. It's important to me to make sure that they understand and that you all understand the genuine impact that these individuals have had on this organization. I plan really to recognize John Hackett. He's not here today, but John Hackett is our longest-serving division President. He became division President in 1990, same year that John LaMacchia joined the board. And he's retiring this week, I think, after 50 years of service, 50-plus years of service to Kroger. And Bob Moeder, our Central Division President with 42 years of service. But then, once I looked at the list of some of the key retirees in this past year, I decided to read the whole darn list to you. So I'm going to run through it real fast because I want to make sure you recognize the significant talent we have had in the past and imagine that we're already filling these jobs with talent that these folks have trained who are just as good and maybe even a smidgen better. So Jim Hodge retired last year as our Vice President of Real Estate after 42 years; Bill Platten, Vice President, Operations in Delta, after 39 years; Reggie Griffin, Vice President of Produce Merchandising, after 43 years; Tom Smith, Vice President of Corporate Tax, after 13; Bill Dankworth, Dank was Vice President of Grocery Merchandising with 34 years of Kroger work; Rich Manka, who is, I know, here today for sure, Vice President and Pension Investment Officer after 31 years of service; Ted Sarosy, Vice President of Loyalty, after 43, and he hasn't actually retired yet but it's coming up real soon; and Evan Anthony, same thing, coming up real soon, Vice President of Marketing and Advertising, with 31 years; Horace Hamilton, Vice President of Merchandising in Atlanta, with 43 years; and Quintin Frey, President of Turkey Hill Dairy, with 33 years. And Quintin, I had to comment, his family is the family that started Turkey

Hill Minit Markets and Turkey Hill Dairy. And when we bought that operation, his dad and uncle retired and Quintin stayed on, and he has run the dairy master fleet. He has taught us actually a lot about marketing our own brand products. Our company is better because of all of their service, so I really would like everybody to give them a round of applause.

And I can't introduce those people retiring currently without at least mentioning, I saw Lyle Everingham in the audience and Bill Sinkula. I'm not sure that I saw any of the others but they're right here in the center. So Lyle and Bill, we're glad you're here. Thank you.

And finally, you'll just have to bear with me because this is my opportunity. We have a point of -- I have a point of personal privilege. I'd like to take a moment to recognize our youngest shareholder, in fact, several of our youngest shareholders. My grandkids are in town: Lilly [ph], Hank, Brooks [ph], Lucy, Teddy and Ben. So if you guys want to stand up and wave, why don't you do that? Stand up and wave to everybody, yes, yes. Hi, Brooks. Hi, Lucy. Hi, Hank. Hi, Lilly. Hi, Teddy. Hi, Ben. Good, so they're actually here. We're having a family reunion this weekend, and I said, if you're going to be here, you might as well come for the meeting. And we thought what could be more fine really than sitting through our program and meeting for an hour. Well, and if you're wondering, yes, we did promise them ice cream later.

But more importantly, I have this theory that you're going to go lighter on me in the Q&A session if my grandkids are here. And if it works this year, they'll be back every year. So that's the plan. Thank you for being here, and I appreciate them being here. That's really super.

I'd now like to introduce Sue McPartlin, PricewaterhouseCoopers' independent auditor for Kroger. Sue, please stand. Where are you? Sue is right over here. Good. And Sue, along with Mike Schlotman and Paul Heldman, will assist me in answering questions about the 2012 annual report. So let's begin the formal agenda.

Well, the annual report, most of you would have gotten online but some of you have the actual hard copy. I've got one here that I'll show you, if I can get it out of my notebook. This is the hard copy of the annual report and it contains the Chairman's letter, complete financial information, auditor certificate and the proxy material for this meeting today. If you like to ask a question about the annual report, just the annual report, please make your way to the nearest microphone and identify yourself. But at this time, we want to limit questions to just to the matters here. Later, we will invite general questions, comments, and we will address later the shareholder proposals that are in here. So under Kroger's usual rules of conduct, each people will be limited to 3 minutes and I want to see if there's any questions about the annual report. Anyone? I'm looking from the mirror -- from the light here. Okay, seeing none, we'll ask that this be filed with the minutes of the meeting and we'll move on to the next item and that is the election of directors. All directors are to be elected to serve until the annual meeting in 2014 or until their successors have been elected and qualified. So do I hear a motion? Bruce?

Unknown Attendee

Mr. Chairman, I move to nominate the slate of director candidates set forth in the proxy material to serve until the annual meeting in 2014.

David B. Dillon

Good. Thank you. And is there a second?

Unknown Attendee

Mr. Chairman, I second the nomination.

David B. Dillon

Scott, thank you. Are there shareholders present who wish have to ballots to vote as opposed to by proxy? If so, Janet at the back, if you raise your hand, she will make sure that ballots are distributed. Doesn't look like I see any,

Janet, but keep an eye out. Okay. Thank you. While we're waiting for report on the -- from the election of directors, we'll take just a few minutes to review 2012 and our business performance.

So please note that today's presentation will include forward-looking statements as described in this slide. I'm not going to read it to you. The Kroger team delivered another outstanding year in 2012, not to mention the first quarter we just finished. Our well-established Customer 1st strategy continued to drive Kroger's performance and market share gains and while overcoming the challenges of an uncertain economy and a fragile customer confidence.

I'll touch on a few highlights from the year. You can find more details in the annual report. We reported year-over-year sales growth to 7.1%. Total sales were \$96.8 billion, including the extra week in fiscal 2012. Last year, at this meeting, we celebrated crossing \$90 billion in sales, and thanks to our continued growth, we are getting closer and closer to the next milestone of \$100 billion. Identical supermarket sales growth without fuel was a strong 3.5% in 2012. Thanks to our associates' hard work, we have now achieved an industry leading 38 consecutive quarters of 5 identical sales growth. That is a remarkable accomplishment.

We exceeded our expectations on the bottom line in 2012, even after raising our guidance several times throughout the year. We delivered net earnings of \$2.77 per diluted share. This represents growth of 16% over the prior year. And we increased our dividend 30%, so in total, our return -- we returned more than \$1.5 billion to shareholders through dividends and stock repurchases in 2012. Fueled by this exceptional performance in 2012, Kroger delivered a total return to shareholders of 18% on a comparable basis. It's clear that our Customer 1st strategy is working for shareholders, as well as our customers.

Looking ahead, we've identified opportunities to accelerate Kroger's growth. In our investor meeting last fall, we announced a new growth strategy for

the company that will build on our strong momentum and deliver even higher returns for shareholders. We are confident that this strategy will be both resilient and sustainable for the long term.

Our plan for growth has several parts, which I'll briefly outline. We now have a new long-term earnings per share growth rate target of 8% to 11% rather than the 6% to 8% that we had previously been targeting. This increase in our long-term earnings growth rate, coupled with our dividend increase, will create strong total shareholder return and we remain committed to reviewing our dividend also every year. We are also investing to grow our business by increasing capital expenditures. We will target these increased investments in several ways: one is to grow market share in communities where we currently operate; and two, to carefully expand into new markets. Both of these exciting opportunities, I know you're curious about when and where and when will we take these steps, we're just formulating our plans. And while I cannot share more detail with you at this time, we will share more with our associates and investors in coming months. So our other areas of targeted growth aren't particularly bricks-and-mortar, so for instance, in the digital space. Most of you have one of these probably -- well, maybe not the Jayhawk on it but the phone in your pocket, as I do, and your grandkids' pictures on here, too. I didn't need to pull that out today because they're here. But the digital world is an exciting opportunity. Today, nearly half of Americans are using a smartphone, and it's no secret that digital is the fastest growing channel to connect with customers. So we're expanding our leadership in personalization through innovations such as our mobile app.

I wonder how many of you have your mobile apps on your phone, the Kroger app. Raise your hand if you're using the mobile app. Actually, quite a few of you have, that's great. Now not only can customers add digital coupons directly to their loyalty card, but today, you can sort those coupons by their relevance to you personally based on your shopping. In fact, more than 500 million digital coupons have been downloaded to date through our mobile app and at kroger.com. Our digital team is adding valuable updates

and features to the Kroger mobile app at a sprinter's pace, once about every 6 weeks. We encourage you to join up, as many of you already have done.

Our focus on the customer will continue to be the cornerstone of everything we do, and it guides our technology innovation. It is this focus on serving our customers that has been the mainstay of our culture for the past 130 years. That's right. 2013 marks the 130th year anniversary of the founding of the Kroger Co. It was right here in Cincinnati with Barney Kroger's first store in Pearl Street, and yet, 2 of our banners have been in business longer. The Ralphs division has been in business for 140 years, and Jay C Foods, who celebrates this year their 150th anniversary.

Our success is a story of people. People who are proud to work for our company, people who are inspired to make each customer's life a little better each time they visit one of our stores, people who are dedicated to understanding and meeting the ever-challenging needs of customers and their families, that's why many of us are grocers. Certainly, many things have changed over the past 130 years, but one thing has remained the same, it's Kroger's commitment to serving our communities. As America's leading food retailer, we partner with organizations that feed our hungry neighbors. Last year alone, we contributed food and funds equal to 400 -- not 400, that comes up in a minute, 4 million meals per week or 200 million meals in total for the year, with more than 80 food banks around the country. We also support one organization that has helped our military and their families for more than 70 years, the USO.

In 2012, our customers, associates and suppliers work together to raise \$3.3 million for the USO, the largest single contribution in the organization's history. Here's a video message from USO President, Sloan Gibson.

[Presentation]

David B. Dillon

With more members of the military coming home, we have extended our commitment to our service members by joining the 100,000 jobs mission. This is a promise by businesses to collectively hire 100,000 transitioning military veterans by 2020. We're especially proud that more than 17,000 veterans have joined Kroger's ranks since 2009. We look forward to welcoming many more. These are great examples of the vital role that we play in the communities we call home. We just finished the accounting summary for our total community investment in 2012. This includes our cash, food contributions from our company, the Kroger Foundation, customers, associates and supplier partners. And I'm pleased to announce that in 2012, all of us together invested more than \$250 million to support the communities where our customers and associates live and work. Wow.

Well, this concludes the annual business review. I'll now turn back to our formal agenda. We are ready for the report on the director of elections. Dennis?

Dennis Hackett

Mr. Chairman, we find that the nominees for the Board of Directors have been duly elected as directors of the Kroger Co., with over 96% of the votes cast in favor of the nominees.

David B. Dillon

Thank you, Dennis. I therefore declare that all the directors have been elected to serve until the annual shareholder meeting in 2014. Item number 2 on the agenda. The next item is an advisory resolution to approve the compensation of Kroger's named executive officers. Do I hear a motion? Kathy [ph]?

Unknown Attendee

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

David B. Dillon

And is there a second? John?

Unknown Attendee

I second the motion.

David B. Dillon

Okay. Thank you. Is there a report on this proposal, Dennis?

Dennis Hackett

Mr. Chairman, we find that the holders of common share adopted the resolution to approve the compensation of the company's named executive officers, a majority of the shares having voted for adoption thereof.

David B. Dillon

Thank you. I declare the advisory resolution is approved. The next item, Item 3, is the resolution to ratify the selection of PricewaterhouseCoopers as the auditor for the company in 2013. Do I hear a motion? Lisa [ph]?

Unknown Attendee

I move the ratification of PricewaterhouseCoopers as auditors of the company in 2013.

David B. Dillon

Thank you. And is there a second?

Unknown Attendee

I second the motion.

David B. Dillon

Scott, thank you. And is there a report on that proposal, Dennis?

Dennis Hackett

Mr. Chairman, we find that the holders of common shares approved the resolution ratifying the selection of PricewaterhouseCoopers as the company's auditors for the year 2013, a majority of the votes cast having them voted for adoption thereof.

David B. Dillon

Thank you. I therefore declare the selection of PricewaterhouseCoopers has been ratified. And I'll just take a moment to comment, while I don't normally comment on ratification of the auditor selection. Every 5 years, you have to rotate partners and this next year, we'll be rotating Sue, who's introduced earlier, off our accountant. She and her whole team have done a terrific job. I think they have done a good service for all the shareholders and have worked well to make sure that our books are fairly stated. So thank you, Sue, and to the whole team. We originally received 4 shareholder proposals and I will start with this. They are representatives here to present proposals, that's Item #4, regarding the publication of a report examining supply chain labor risks. So we'll first recognize that person. Okay, you want to go ahead and make your comments?

Thomas McCaney

Good morning, Mr. Dylan, members of the board and fellow shareholders. My name is Tom McCaney, and I'm here representing the Sisters of St. Francis of Philadelphia, along with 3 other religious, socially responsible investors, all members of the Interfaith Center on Corporate Responsibility. I hereby move Item #4, requesting a report on the human rights risk throughout the -- our company's supply chain. As stated in Kroger's vendor standards, our code of conduct follows the U.S. Department of Labor regulations and the Fair Labor Standards Act. Compliance with insufficient laws is not sufficient. The Florida agricultural industry has been plagued for generations with sub-poverty wages and exploitative working conditions, including cases of modern slavery, despite these U.S. regulations and laws.

Kroger should follow International Labor Organization's principles, which add additional protections and rights for workers, recognizing that neither government law nor corporate efforts alone are sufficient to combat endemic problems. The Coalition of Immokalee Workers' Fair Food Program, through which farmworkers, growers and corporate food buyers are successfully ensuring the human rights of tomato workers and improving the conditions under which they labor is a prime example of the ILO principles in action. 11 leading restaurant, food service and supermarket companies that have already committed to the Fair Food Program agreed to a strict code of conduct, a cooperative complaint resolution system, a participatory health and safety program and worker-to-worker education process. The Fair Food Program was singled out in an April 2013 report of recommendations to the President as one of the most successful and innovative programs in the world today in the fight to uncover and prevent modern day slavery. We urge Kroger to join the Fair Food Program to address real human rights risk in our supply chain and ensure the highest levels of accountability and real change because of independent monitoring through the Fair Food Standards Council. Kroger has earned the well -- has a well-earned reputation for treating its employees fairly. Farmworkers in our supply chain deserve the same treatment. We ask all shareholders to support this resolution and ask our board and management team to make the human rights and dignity of our entire workforce a priority. Thank you.

David B. Dillon

Thank you. And is there a second to that motion?

Unknown Attendee

Yes, there is.

David B. Dillon

Okay, there's a second here. And I just wanted to add a couple of observations. We actually share many of the objectives that you've

described and so I don't think you'd see much disagreement in some of the issues that you've tried to describe of what we hope for the world around us. We believe though at Kroger that our code of conduct reflects our values of safety and respect in a very meaningful way. We've laid down a hard line with suppliers that fail to adhere to our code of conduct, we won't do business with them. We conduct social responsibility supplier audits, particularly in the Immokalee region, and we are -- we did not find any evidence of violating our code of conduct. And we also sent a team of our own auditors and compliance professionals to the region to survey working conditions and meet with suppliers. So with that in mind, I'll ask Dennis for a report on this resolution.

Dennis Hackett

Mr. Chairman, we find that the holders of common shares cast 293,951,989 votes against the resolution to urge the Board of Directors to publish a report assessing the human rights risk throughout the supply chain and 47,999,340 votes for said resolution, and that said resolution has been defeated, a majority of the votes cast having voted against that resolution.

David B. Dillon

Thank you, Dennis. I therefore declare this proposal has been defeated. Item #5, is there a representative here to present the shareholder proposal #5, which is the adoption of independent board share. Yes?

Unknown Attendee

Good morning. I'm here on behalf of the International Brotherhood of Electrical Workers, and our proposal urges the Board of Directors to adopt a policy that the Chairman be an independent Director. It is the responsibility of the board to protect shareholders' long-term interest by providing independent oversight of management. By setting agendas, priorities and procedures, the position of Chairman is critical to shaping the work of the board. In our opinion, a Board of Directors is less likely to provide a rigorous

independent oversight of management, it's the Chairman as the CEO, as is the case with our company. We believe that having a Board Chairman who is independent of the company and its management is a governance practice that will promote greater management accountability to shareholders and lead to a more objective evaluation of management. A lead independent Director is not the same as an independent Chairman. According to the Millstein Center for Corporate Governance and Performance at the Yale School of Management, the independent share curbs conflict of interest, promotes oversight of risk, manages the relationship between the board and the CEO, serves as a conduit for regular communication with shareholders and is the logical next step in the development of an independent board. A number of institutional investors believe that a strong objective board leader can provide the necessary oversight of management. Thus, the California Public Employees' Retirement System's Global Principle of Accountable Corporate Governance recommends that a company's board should generally be chaired by an independent Director. The Council of Institutional Investors agreed. We believe an independent Director serving as Chairman can help ensure the functioning of an effective board. We urge you to vote for our proposal. Thank you.

David B. Dillon

So the proposal has been made. Is there a second to that proposal? Okay. Thank you. There's a second. And I would just add one comment, is that I think our view is that there are occasions when it is helpful to have a separation between the Chairman and the CEO and there are occasions when it's better to combine them. And we think it's really ought to be based on the circumstances, which suggests it ought to be a board decision, which it is today. So Dennis, would you give us your report?

Dennis Hackett

Mr. Chairman, we find that the holders of common shares cast 322,254,119 votes against the resolution to urge the Board of Directors to adopt the

policy that the board's Chairman be an independent Director and 88,216,243 vote for said resolution. And as such resolution has been defeated, a majority of the votes cast having voted against that resolution.

David B. Dillon

Thank you, Dennis. I therefore this proposal has been defeated. Is there a representative here to present their proposal for Item #6 regarding Extended Producer Responsibility? Over here. Thank you.

Unknown Attendee

Good morning.

David B. Dillon

Good morning.

Unknown Attendee

I'm here representing As You Sow, filer of proposal Item #6 on the proxy statement. The proposal asked the company to report on the feasibility of adopting a policy to take responsibility for its post-consumer products packaging through a policy known as Extended Producer Responsibility, or EPR. EPR is a policy that shifts accountability for collection and recycling from consumers and taxpayers to producers. In many of the other country, grocers and consumer packaged goods companies are already responsible for financing the recycling of those consumer packaging. EPR programs in Austria, Belgium and Germany recover far higher rates of packaging than the voluntary recycling programs of the U.S. We believe the time has come for companies to pay their fair share to recycle their packaging. Major brands like Coca-Cola and Nestle Waters have endorsed an EPR for packaging policy for the U.S. The nation's packaging-recycling rate is about 48%. Plastic is rapidly becoming the material of choice for packaging, yet only about 12% is recycled. 1/4 of our population still does not have access to curbside recycling. More than 40 billion from aluminum cans,

[indiscernible] beverage container material are still dumped annually into landfills in the U.S. That is enough material to make 25,000 jetliners according to aluminum maker, Alcoa. We calculate that the plastic glass, paper and aluminum landfill today have a market value in excess of \$11.4 billion. It is simply bad business to throw these materials away. We appreciate that the company had made progress in reducing plastic bag use and increasing use of reusable shopping bags. However, our proposal is about something different, not what happens at the shore but about taking responsibility, proposed consumer packaging. It's about who pays for collecting and recycling packaging once the consumer is done with it. Other than collecting plastic bags, the company's statement and our position doesn't cite any achievements or provide any perspective on the faith of post-consumer packaging ways. Producers like Kroger, who market their own private label products, control packaging design decision and so our best position to reduce the overall environmental impact of product packaging and internalized costs. The company's statement would have us belief that this is just about taking a position on pending legislation. It's about far more than that. The company needs to develop a policy and responsibility for post-consumer packaging and provide evidence of active and thoughtful engagement in an ongoing public policy debate on how to increase recycling and packaging. As the largest U.S. grocery chain, the company is responsible for putting huge amounts of grocery and packaged goods into commerce. Please send a message to management by supporting our proposal. It will signal the need for our company to have a comprehensive strategy for dealing with the consumer packaging waste it generates, the majority of which is not now recovered. Thank you for your attention.

David B. Dillon

Thank you for your proposal. Is there a second to the proposal?

[Voting]

David B. Dillon

I'll add a second from the podium here, so we might properly consider the matter. And for the reasons we described in our proxy, I won't go back through those. We recommend a vote against this. Dennis, do you have a report?

Dennis Hackett

Mr. Chairman, we find that the holders of common shares cast 306,477,702 votes against the resolution to have the Board of Directors issue a report assessing the feasibility of adopting a policy relating to house brand post-consumer product packaging, and 43,821,543 votes for such resolution, and as said resolution has been defeated, a majority of the votes cast having voted against that resolution.

David B. Dillon

Thank you, Dennis. I therefore declare this proposal has been defeated. The shareholder proposal for item number 7 regarding the adoption of sustainable palm oil policy has been withdrawn by the sponsor. Some organizations have raised concern about palm oil and that it can contribute to deforestation in parts of the world if it's not sourced responsibly. We recently made a public commitment to purchase 100% of the palm oil that we purchase from certified sustainable sources by the end of 2015. In future years, we will disclose our progress toward this goal in our annual sustainability report. This year's report was published yesterday and can be found on our website at kroger.com. So this concludes the formal portion of today's agenda. I'll now invite your general questions. I may refer appropriate questions to some of the officers in the audience. I would also like to bring up my other secret weapon in addition to grandkids and have Rodney McMullen join me as our President and Chief Operating Officer on the stage to help answer a few questions. So under Kroger's usual rules of conduct, each speaker will be limited to 3 minutes. Please make your way to

the nearest microphone and identify yourself if you have questions. It looks like the first question's right over here.

Question-and-Answer Session

Lucas Benitez

[Spanish] I'm going to do this in Spanish because my English is not very good. [Spanish] My name is Lucas Benitez and I am from the Coalition of Immokalee Workers in Florida. [Spanish] It's an internationally recognized farmworker organization addressing the long-standing history of abuse in the field. [Spanish] For the last 4 years, we have come to this meeting [Spanish] to ask how Kroger could justify refusing to meet higher ethical standards in our U.S.-grown tomato supply chain. [Spanish] When 11 other major corporate buyers, such as McDonald's and Subway, are already participating in our Fair Food Program. [Spanish] Kroger's empty references to its own self-monitoring of its supply chain stand in stark contrast to the Fair Food Program, [Spanish] a proven established solution to decades of farm labor uses such as sexual harassment and modern-day slavery. [Spanish] The Fair Food Program has been lauded by United Nations' human rights experts for its "independent and robust important mechanism." [Spanish] And has been praised by the White House for its unique effectiveness in the prevention of forced labor. [Spanish] If Kroger professes a commitment to upholding the rights of those who makes possible its profits, [Spanish] why haven't you listened to the thousands of Kroger customers calling on Kroger to participate in the Fair Food Program through letters, protests and marches? [Spanish] Mr. Dillon, why wouldn't Kroger join this existing solution to abuse in the field?

David B. Dillon

[Spanish] So I appreciate your willingness to explain his words to me and it's very helpful. We actually welcome you here. We appreciate the issues that you are raising with us today and we've appreciated it each of the previous years that you've come. We believe that it is important for us to

have a solid working relationship with our suppliers and find it more than awkward, in fact, difficult to do a business arrangement where we would have to negotiate both with our suppliers and with the labor groups that are working with those suppliers. So instead, we've tried to approach this from, I think, a very responsible way to assure ourselves that the issues are being handled in an appropriate way and consistent with our code of conduct and have chosen, and we believe it's important to choose this way, to not get involved in the labor discussions between the supplier and your group. Nonetheless, we respect your right to be here, we respect the voice that you are giving to this cause and at the issues that you raised, so thank you for being here. Okay, are there other questions? Yes.

Unknown Attendee

I was just acting as a translator but I'd like to ask a question now.

David B. Dillon

Of course, that's fine.

Unknown Attendee

My name is Elena Stein and I'm a representative of Interfaith Action, a network of thousands of people of faith across the country who've been calling on Kroger's to uphold rights of farmworkers in the supply chain. So in response to your comments just now, I want to make it clear that joining the Fair Food Program does not imply doing business with labor groups. And more importantly, in response to your comment that Kroger contains its own code of conduct and has conducted investigations in the tomato field, it is effectively impossible for Kroger to conduct an impartial, transparent and rigorous investigation into potential human rights violations in Florida tomato field. But with participation in the Fair Food Program, that is precisely what a third-party monitoring and investigative body does. In the past 2 seasons alone, this body, the Fair Food Standards Council, has fielded over 250 complaints from workers on participating farms, managed 24-hour complaint

line, investigated complaints to trim the facts and resolve the complaints. There is no way that Kroger could do all of that for tomato workers. If Kroger continues to cling to this idea that it can itself monitor its supply chain, far more people will suffer. Workers will suffer abuse as violations will go uninvestigated and back actors will continue with no consequence, as they have in the past. Growers seeking to do the right thing will not be rewarded for their investment in improving conditions and consumers will continue to be sold food tainted with the abuse into the past from sexual harassment to slavery. When approving established programs, like the Fair Food Program, exist and Kroger professes to be committed to real investigation of the supply chain, why not join the Fair Food Program?

David B. Dillon

Thank you for your comments. We actually genuinely do appreciate it. I respectfully disagree with the assumptions and conclusions that you draw, but I've already described that, so thank you for being here. We have the next question.

Unknown Attendee

My name is Helga Schwab [ph] from Columbus, Ohio. I have the pleasure of being here last year, enjoyed it tremendously. Thank you very much, first of all, for giving us all the opportunity to be here in this nice facility. Also, I'd like to thank you and the board for tremendous results. However, I do have a question.

David B. Dillon

Sure.

Unknown Attendee

Recent Investor's Business Daily showed that you had great results, however, they were talking about debt-to-shareholder equity ratio of 146%,

which seems rather high. Can you tell us a little bit about that and how are you planning on bringing this on?

David B. Dillon

Sure. I'd be happy to. What we discovered about 20 years ago in our industry, because we're such a predictable cash flow industry, that this kind of business can take on more debt, easily can take on more debt, than we previously believed. And that by doing so, we actually give shareholders a better return because the cost of debt is less than the cost of the equity. So we've been very intentional about the amount of debt we've taken on and the relationship between that debt, and usually we think a bit more in terms of the cash flow that the business produces. We look at ratios of that relationship and we also look at what our credit rating is with the various agencies. And as you know, we are investment grade, in fact, we're a notch above the bottom of the investment grade. We think that gives us the best combination of good access to the capital markets and also everything you would want from the combination of debt and equity in a company and gives us a good interest rate as well. So we are actually about -- from a debt-to-equity or a debt-to-EBITDA position, we're about in the kind of position we want to be in, maybe even a little conservative at the moment in the last quarter we just released. But I appreciate your raising the question and assure that we've looked at that very carefully and continue to do so, so thank you. Have a question back here.

Unknown Attendee

Yes. First of all, I would like to -- well, I'm Ruth Ravena [ph] and I'm from Cincinnati, I'm from here in town. This is my first shareholder meeting ever attending.

David B. Dillon

Well, welcome.

Unknown Attendee

First of all, I would like to, congratulate Kroger on their charitable organization contribution to the USO and other large nonprofits. You are very generous in that way. Where you fall short is your small nonprofit contribution. Here at Cincinnati, there are a number of very small nonprofits that barely make it from year-to-year. And Kroger is very ungenerous to those folks. And I'm just asking that you would consider hometown Cincinnati but also other small nonprofits throughout the country who really do a wonderful amount of work in the poor -- with the poor and underprivileged throughout the country and that you might consider being a little more generous to them in their requests.

David B. Dillon

I appreciate your making that statement and we do take that quite seriously. We have looked at our charitable giving practice from several perspectives. One is we're very targeted at certain things that our customers have said are really important generally to them. And so that's where the feeding the hungry has become very important, that's where the military has become very important, many women's issues similarly. And we actually have prided ourselves on supporting lots of organizations at smaller amounts instead of just 1 or 2 organizations at big amounts. And just to add some additional coverage, we have been fairly focused in most divisions to contribute to United Way campaigns, which have a process to look at all of the -- many of the nonprofit organizations throughout the community to support them. I would invite -- Lynn is probably -- Lynn Marmer, if you're back there somewhere -- okay, back here. If you would meet maybe after the meeting, I'd like us to learn about your group and make sure that we're conscious of that to make sure we haven't overlooked something. So I really appreciate your comment. There's a question over here.

Unknown Attendee

Rich Cagney [ph], an individual investor. I noticed that in the presentation prior to the shareholder meeting, there was a slide showing that Kroger's

was numbered 1 or numbered 2 grocery chain in 30 out of the 41 major part markets that they participate in. That means 3 of the markets, they either are a marginal or a minor participant and, if so, what is the strategy to increase the presence in those markets? And also, that means there are also -- would be some minor markets like Kroger participates into. And is there a percentage of where Kroger is with respect to that? And one comment also after the...

David B. Dillon

I'm going to phone a friend on that and ask Rodney to answer that.

W. Rodney McMullen

First of all, thanks for the question. In one of the slides that Dave talked about in terms of our focus on growth is fill-in market. One example that we've recently talked about is Fort Wayne, Indiana. And if you go back 5 years ago, our market share, it would have been one of those markets that the market share would have been really low and we would have probably been the #4 player in that market. That market is the market where we were able to do an acquisition. We built a couple of stores from the ground up, marketplace stores. We've remodeled almost all of their stores in that market. And today, that market -- our market share there is over twice what it was 5 years ago. That's an example of what we've had success on that gave us comfort in terms of making one of our growth initiatives, additional fill-in markets. You can be assured that every one of those markets, where we have a strategy and we're being a little more aggressive in terms of filling that in, in terms of growing our share with the capital that we've allocated, we haven't specifically talked about those and we won't until after the fact because we assume the second we talked about it, our competitors will react to that. And it's a lot better for them to react in arrears rather than for obvious reasons.

Unknown Attendee

Okay, so the minor markets then. I would imagine those would not necessarily be Kroger stores but some of the smaller subsidiaries of Kroger's or...

W. Rodney McMullen

It's really all across the whole company. If you look at like Fort Wayne, those were Kroger stores. In some places, it would be a Kroger market, other places, it would be one of our banners.

Unknown Attendee

Okay. And then the comment I would have and then maybe if they can answer the question, it feels like every shareholder meeting, when there are shareholder proposals and the results of the shareholder proposals are made known to the shareholders, 2 or 3 always seem to have just the majority of the shares voted in favor of -- whereas -- with no actual figures. Again, today that was the same thing, 2 of the 7 proposals just had a majority statement whereas the others had hard figures and percentages for or against to analyze that so certainly, those numbers are available to the individuals who are presenting these results. I think the shareholders should have the figures so they know exactly how those things came out.

David B. Dillon

Actually, we would agree with that view. I believe I'd have to check -- I'm looking at Dennis and Paul -- but I believe it gets filed. I'm not sure if it's in the Q or the K. And so when we file the 10-K, which is actually all the way to next spring -- or was it in the Q? 8-K? Okay. We file an 8-K -- and when is it filed? Okay, so within 4 days, there'll be a public filing on the SEC website, it's called an 8-K, which is more of an informational filing that we make and we give the actual numbers. The reason we don't give the numbers in the earlier group is that actually because there's still some that come in after the cut off we had before we came over to the meeting. I'm not actually sure why we've added the numbers for the others, but those will end up being

approximate, I'm sure, because once we finish up with the actual final numbers, there could be some variation that gets posted. But you raised a really good question, and either we ought to -- I've been to some annual meetings where they give no numbers at all, and I'd actually prefer having more numbers than less, so I think you raised a good point.

Unknown Attendee

Well, certainly, I should have some raw figures though, especially if they already know that they're a majority who have voted in favor of or against the proposal, and that it should be able to be disseminated to the shareholders today.

David B. Dillon

Yes, that's -- you raised a really good point. Dennis, it looks like you have a comment you want to make on that.

Dennis Hackett

I do have all the numbers. So if you or anybody else would like to have them, just come and see me, I'll be in the back.

Unknown Attendee

Well, we shouldn't have to come and see you in the back.

David B. Dillon

Yes, you raised a good point. We'll discuss that for next year. That's a -- you are raising a really good point and I appreciate that. Thank you. Are there more questions, looks like there's one more over here.

Mike Telford

Thank you, Chairman Dillon. My name is Mike Telford, I'm from near Des Moines, Iowa, and I'm here today on behalf of the nation's pig farmers in the National Pork Producers Council which is also a shareholder. We want to

thank the staff, the management, the Board of Directors for Kroger for their continued efforts in supporting our family of pork producers through your strong marketing efforts which you do so well. For many years, our organization has worked with yours on pork product promotions. And today, we want to thank Kroger for your gorilla -- with our gorilla, like, steak promotion, which is a massive promotion supported by in-store materials that features educating shoppers on the pork's new nomenclature, with things like the New York chop, ribeye chop, et cetera, and we know it will undoubtedly drive significant sales of pork for Kroger and it means a lot to our family of pork producers, too. We specifically want to thank Alison Pordash, Director of Meat and Seafood; Tom Sargent, senior coordinator for commodity procurement; Mark Danks, category manager for pork and poultry; Keith Dailey, corporate communications; and Suzanne Lindsay with corporate sustainability. They're all doing a great job, we've been in communication with them, and we appreciate their continued cooperation and support. I just want all the shareholders here to know that the nation's family of pig farmers have made many improvements in animal care and production practices. And like Kroger, they are committed to continuous improvement. And I hope everyone will join me in thanking the staff, the management for Kroger for their continued marketing efforts and your outstanding achievements.

David B. Dillon

We appreciate those comments. Thank you very much, Mike. And I don't know -- well, thank you. I don't know if you want to add anything to our promotions, it's been actually pretty outstanding.

W. Rodney McMullen

Yes, just appreciate the comments. It's been very exciting. Obviously, the opportunity is huge and we continue to grow the business together and produce jobs in the heartland as well.

David B. Dillon

It's another example though of where we'd work with suppliers to try to -- for them to improve and for us to improve at the same time. There's a question over here.

Josh Balk

My name is Josh Balk, I'm with the Humane Society of United States. We're the nation's largest animal protection organization. I'm here today to thank Kroger for your wonderful work on cruelty to animal issues. Cruelty to animals is an issue that resonates throughout the country to so many consumers. I think so many of us have dogs and cats at home and perhaps the people on stage do as well. You do, I see a nod up here. We hear about dogs and cats and we also care about farm animals, and you guys have done a great work in improving the welfare of farm animals throughout the supply chain. Kroger is one of the first companies to announce that it's working with its pork suppliers to move away from gestation crates. These are cages so small, the pigs can't even turn around their whole life. You guys are one of the leaders. You guys deserve so much applause for that because after you guys made an announcement, well, almost every single major player in this industry followed you guys. And I think that's why Kroger is where you are in the realm of social responsibility. You guys are leaders, you're not just followers. And you guys deserve such a big round of applause for improving the lives of millions upon millions of animals, including the pigs in their supply chain. Thank you so much, Kroger.

David B. Dillon

So thank you for being here, and I realized we haven't always agreed but we have agreed on lots of the objectives and I really appreciate you being here today. Thanks. Question over here.

Unknown Shareholder

A local investor and living in Northern Kentucky and I'm very, very happy with the increased dividend, and I'm a very satisfied stockholder. I shop at

the Bellevue Kroger's and I want to thank you for the renovations there, it's very pleasant now. It's just a beautiful news, well, bringing that renovated store. I don't hear of a question though about the turnaround time for photography. If you go in at 1:00 on Monday, you don't get them for 2 weeks. And I wondered if that could be expedited because if I go to the Newport Kroger's, I can get it in a day. In local target and whatever, the turnaround is 1 to 2 days, I wondered if that could be improved?

David B. Dillon

So I'm going to phone a friend and he may want to phone a friend in the division. That's your call, I mean...

W. Rodney McMullen

Yes, I will phone a friend. And I don't know if -- Scott or Richard [ph], if you want to answer that?

Scott M. Henderson

Yes.

David B. Dillon

Yes, Scott's going to.

Scott M. Henderson

Yes. Thank you for question and thank you for your comments to our store, we're very proud of the Bellevue team and the facilities that we've ended up with more customers. Now the photography business is one of the businesses that we're looking at very seriously throughout the entire division as well as through the corporation. We'll be glad to take your feedback and go back and look to see if we can improve upon that because our theory is, if we're going to be in the business, we need to deliver the best customer service we can consistently among all the stores and we'll be glad to take a look at that. So thank you for your feedback and I'll be glad to talk to your

father afterwards, so I could get your name and phone number, so I can get back to you with a response to your questions. Thank you.

David B. Dillon

And Scott, I'm going to agree with her on both points. The Bellevue store is a terrific store. I've shopped in there as recently as 2 weeks ago. And 2 weeks is too long, so let's see what we can do.

Scott M. Henderson

I would agree.

David B. Dillon

Thank you. Are there additional questions? The ones over here, yes? Yes.

Unknown Shareholder

I want to congratulate you on doing that excellent job, you and the board and everybody who runs this company. Okay, I bragged on my Kroger's store last year. I may get a little emotional, forgive me, but there's a lot of good people that work at Kroger, at the Mariemont store. And I'm a shareholder and a loyal Kroger customer.

David B. Dillon

And it's a terrific store.

Unknown Shareholder

Yes. The manager, he does continues to do good, Emmanuel [ph], but I want to recognize Ron Stewart, who runs the meat department, and he does excellent. And if you ask him a question, he tells you how to prepare the food -- I'm sorry, excuse me. He's very good when you ask him questions to how to fix seafood or if it's meat. And then, Robert Woody [ph], who does the frozen food section, he's an outstanding man, always happy, cheerful. Another person who works the bistro is Amy, let's see, Marler [ph]. She does

an excellent job. Don't get rid of this girl, like, young lady. No matter where you put her, if it's dip and chocolate, working at the bistro or working outside cooking hotdogs or hamburgers, which I go every weekend, to get hamburgers and hotdogs. And I stand for them, the store -- excuse me, it's -- she's such a lovely person and I sit out in front of the store to draw business when I eat my hamburger. And then another person who's very good is Patty Gillen [ph]. She works in the pharmacy and she's an outstanding employee. I've watched her interact with the other customers. She knows you by your name. Every time she sees me, she'll say, "Hi, Mr. Zachelow [ph], how are you doing?" I'll say, "Fine, Patty, how are you doing?" And she does this with all the customers, and she's a tech, and she's a very good woman, no matter where I see her in the store, she's always polite to me and I just want to acknowledge her. And another person is Joyce Radkly [ph]. She's one of the ladies who does the checkouts and she's a very nice lady and she happens to be a friend now of mine because I go in there all the time. Sometimes in the weekends, people joke and say, "Do you work here?" because I'm always...

David B. Dillon

I was going to ask you the same thing. It got too late.

Unknown Shareholder

Yes. I know, but I made a shirt here that says, "I love Kroger" and I go around sometimes shopping with my wife and people would say, "Where is this at? Where is that?" so I point it out to them. And since you did redid the aisles, which I think is excellent, how you put things in certain spots, so people don't go on, have to run around and looking for everything, you did an excellent job in relocating all of the merchandise. But people still ask me, so when they do, I'd say, "Yes, ma'am. Over here in this aisle here, you'll find the soup or you'll find the water." So I'm like a volunteer for Kroger and they don't even know it.

David B. Dillon

That's great. Thank you.

Unknown Shareholder

One more thing I want to add before I -- this meeting is over. I'd like to talk to somebody about a little issue that doesn't have to do with the Kroger inside or employees but something about customers on the outside. If I could speak to somebody, I'd like to do it in private, if you'll let me do it.

W. Rodney McMullen

Yes. I'd be happy to. And, Richard, if you could stop by as well.

Unknown Shareholder

Okay. By I do love Kroger, I get emotional, and I do love the people in that store. I just bond with everybody. But being a stockholder, not just getting the dividends and owning the stock, I look -- I care about people. They're like my family, like I said last year, because I just love the people. They take care of me and I'm very proud to be a stockholder in this company. I just want to let you know, Mr. Dillon.

David B. Dillon

Thank you.

Unknown Shareholder

And I got to shake your hand just before the meeting started. That was a big thrill for me.

David B. Dillon

Me, too. Easily thrilled.

Unknown Shareholder

Can I jeez with you a little? All the years I've been coming, I've always wanted to call you Matt Dillon from Gunsmoke because you are the man,

you are the head guy the company, but I always wanted to call you, Mr. Dylan.

David B. Dillon

I will tell you that my great, great grandfather's first name was Matt. True story. True story. He was not a marshall.

W. Rodney McMullen

That's very interesting.

Unknown Shareholder

But you are the headman, and that's all what I want to say.

David B. Dillon

Thank you, thank you. I know Rodney had made notes to some of the names and he'll be sure to make sure they get appropriate thanks, so thank you. And I want to thank all of you really who joined us today either in person or on the web, but I want to especially thank all the Kroger retirees who are here with us this morning, it's always a pleasure to have you with us. And I want to recognize everyone who helped us organized today's meeting. The list is way too long to read but thank you to each of you, you've done a great job. We welcome you to enjoy the special 130th anniversary cookies like I have up here. And please don't leave without you taking a pack of the coupons. These are for Simple Truth products. We have one last thing here. We would like to close with a short video about an act of kindness towards one of the customers -- just perfectly fitting after our last speaker -- towards one of the customers in Cincinnati division, associate Raquel Gonzalez -- who I think is here in a minute, I'll introduce her -- from store 811 in Dayton, so let's watch.

[Presentation]

David B. Dillon

I love this story because it's a great reminder that we're in the business of touching people's lives everyday. Raquel is here with us today, and I would like you to stand up and be recognized, Raquel -- she's back here somewhere, here we go, right here. Please stand up. Thank you, Raquel. And I want to add just a personal note. We're all in this business for a lot of reasons, but I think the primary motivation for most of us and certainly it is for me is the way in which we can touch lives across this country. And Raquel, that story, that example, is a really good illustration of why I love this business and we really deeply appreciate it, thank you. And thanks to all of you, our associates and shareholders, for all that you do to make stories like this possible. We're truly excited about all that lies ahead for Kroger this year and beyond. 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. Thank you.