



Notice of 2020 Annual Meeting of Shareholders  
2020 Proxy Statement  
and  
2019 Annual Report on Form 10-K

# Kroger®

FAMILY OF COMPANIES

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## Supermarkets



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## Price-Impact Stores



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## Multi-Department Stores



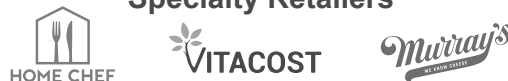
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## Jewelry Stores



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## Specialty Retailers



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## Services



Fellow Shareholders:

## **THE FOOD INDUSTRY IS SPECIAL.**

It is a sentiment I have expressed more times than I can count – often on the pages of this annual letter. It is something I deeply believe.

More importantly, it is a sentiment that has taken on new and magnified meaning as we confront the greatest health threat to our global community in 100 years.

As I write this letter, the pandemic curve in the U.S. has not yet hit its apex. We feel for those in America and around the world who have been affected by the disease and economic disruption. There is much we still do not know. *How long will it last? How many lives will be lost or irreversibly changed? What will be the economic impact?*

What we have learned in this uncertain time is that, now more than ever, purpose matters.

At Kroger, our purpose is To Feed the Human Spirit.

Purpose has been the guidepost for every decision we have made during this crisis. Our aim has been to focus on our most urgent priority, to provide a safe environment for associates and customers, with our responsibility and obligation to communities to provide open stores, comprehensive digital solutions and an efficiently-operating supply chain so that our customers always have access to fresh, affordable food and essentials.

Kroger has taken extensive measures across our businesses to safeguard associates and customers during the COVID-19 pandemic.

In addition to activating a coronavirus task force in February to prepare for the approaching pandemic, we have closely monitored the impact of the pandemic on food retail across global markets. I have been in regular contact with food retail CEOs in other countries, including Italy, Singapore, China and Australia – all of which are ahead of the U.S. in terms of the pandemic cycling through their countries.

I am grateful to this generous network of grocery leaders because our company has benefited from their earlier experiences, which helped us anticipate the steps we needed to take to provide a safe environment in our stores, distribution centers, food manufacturing plants and offices.

Of course, our associates are the true heroes of this story. In recognition of their incredible and selfless commitment to our customers while serving as essential personnel, we provided special bonuses, including \$2 premium pay for frontline associates; we established new paid emergency leave guidelines; and, as of early May, Kroger has hired more than 80,000 new associates to help share the load and serve our communities during the pandemic.

Safety is not only our priority in this crisis, it is one of our core values. We enhanced daily sanitation practices in all our facilities. In stores, this includes cleaning commonly used areas more often like cashier stations, self-checkouts, credit card terminals, food service counters, shelves and restrooms. We are providing protective masks and gloves, and we installed plexiglass partitions at check lanes, pharmacy and Starbucks registers across the enterprise. We added signs and floor decals to promote physical distancing at check lanes and other counters, and adjusted store operating hours to allow more time for our associates to rest, clean and replenish inventory.

Because of these steps, Kroger has remained a constant for our associates, customers and communities when they needed us most. And, many of the investments we are making to address today's urgent needs are also strengthening our foundation for the future.

Our vision is to serve America through food inspiration and uplift, and we will continue to serve, inspire and uplift America.

As an essential business operating nearly 2,800 grocery stores, 35 manufacturing plants and 44 distribution centers across the country, we have learned an incredible amount from keeping our stores, supply chain and food production plants operating safely during the pandemic. We are sharing our best practices and procedures with other retailers, restaurants, manufacturers and logistics companies as they take steps to responsibly reopen and get our economy working again. You can find these open-source materials at [KrogerBlueprint.com](https://www.krogerblueprint.com).

Kroger's response to the COVID-19 pandemic demonstrates that when a company is clear on its purpose, values, and vision, we can navigate through any challenge together. I am confident we will emerge from this crisis even stronger.

\* \* \*

## **Year Two of Restock Kroger – 2019 in Review**

We embarked on the *Restock Kroger* journey in 2018. We have been making strategic investments to both deliver more value for our customers today and to build long-term loyalty. This includes investments in quality products and freshness, talent, pricing, and personalized rewards that will expand our competitive moats versus our competitors. Fueling these investments are significant cost savings of over \$1 billion in each of the past two years.

*Restock Kroger* is repositioning our business in four main areas – Redefine the Grocery Customer Experience, Partner for Customer Value, Develop Talent and Live our Purpose. I'll outline our progress in each of these areas below. The outcome of our focus on these drivers is Shareholder Value Creation.

At Kroger we have an aspiration to deliver consistently strong and attractive total shareholder return, or TSR, year over year.

“TSR” isn't language we've traditionally used. Our focus for the last two years, and in 2020, is on *Restock Kroger* and transforming our business model. Moving forward you will hear us increasingly talk about TSR – which is a combination of business growth, free cash flow and dividend. At the heart of Kroger's TSR is our strategic capital deployment.

Our model for a strong and durable retail supermarket business begins with the customer and our obsession with increasing customer loyalty. We continue to generate strong and durable free cash flow as reflected by the fact that the company reduced debt by \$1.1 billion in fiscal 2019 and continued to increase the dividend to create value for shareholders. In total, we returned \$951 million to shareholders in 2019. Our confidence that we can deliver even stronger TSR in the future is guided by our strong free cash flow as well as sustainable net earnings growth.

### ***Redefine the Grocery Customer Experience***

Our disciplined focus on execution and continued improvements in the value and experience we deliver for customers will drive identical sales growth across our store and digital ecosystem.

We are enhancing the customer connection by making investments to widen and deepen our competitive moats of today – which are product freshness and quality, *Our Brands*, and personalized rewards – and our competitive moat of tomorrow, the seamless ecosystem we are building.

#### *Competitive Moats – Fresh*

Fresh is a sales driver for Kroger. Our Fresh departments drive trips, loyalty and gross margin. Our product standards, selection criteria and supply chain are core strengths and are built to deliver first to market and best of the season fresh products across the United States. We want to be known by our customers for providing fresh, affordable food that tastes amazing.

We debuted Kroger's brand transformation campaign, Fresh for Everyone, celebrating our food-first culture and exciting history as America's favorite grocer. The campaign has been well received and is driving significant improvements in marketing effectiveness. It is also driving more trips to our seamless ecosystem in-store and online.

#### *Our Brands*

One of many ways we demonstrate our passion for food is through Kroger's best in class *Our Brands* portfolio. While many grocers offer private-label products, *Our Brands* is a real differentiator for Kroger. Customers tell us through blind taste tests that *Our Brands* quality is better than not only competitor private label products, but many leading national brands as well. 2019 was *Our Brands*' best year ever, exceeding \$23.1 billion in sales. We also introduced 758 new *Our Brands* items in 2019, which helped drive strong year-over-year sales lift across our portfolio of brands. Since its launch in 2013, Simple Truth has become the leading natural and organic brand in the country, with annual sales exceeding \$2.5 billion in 2019.

The Private Selection brand eclipsed \$2 billion in sales for the first time. The Kroger brand exceeded \$13.7 billion in sales, capitalizing on product development around key consumer trends like global and regional flavors.

#### *Personalization*

Data and personalization are competitive moats for Kroger. Many retailers have transactional data, but none have the customer data and the insights to make meaningful suggestions to their customers, like Kroger.

Data has long been a differentiator for The Kroger Co., through our loyalty proposition, which covers over 90% of all transactions. We have rich customer data, and knowledge of their aggregated shopping history allows us to

improve the efficiency and effectiveness of how we operate our stores. It also ensures that the experience is as local and personal as possible. Data and personalization permeate all aspects of the business, from ensuring we carry the most relevant products in stores, to personalizing 'start my cart' through the seamless digital experience, to powering our alternative profit businesses.

### *Seamless Ecosystem*

Kroger continues to invest in digital as we build a seamless ecosystem that combines the best of the physical store experience with the digital customer experience for our customers. We know our customers value the greater convenience and personalization this provides, and our data shows it is an essential component of growing overall loyalty as customers continue to turn to Kroger's seamless experience to meet their needs. Seamless has been a huge help in the current environment, enabling customers to shop in the way they prefer and feel most comfortable.

We will continue to invest to make a world-class seamless experience available to our customers. We are well-positioned because several of our grocery competitors are not taking these steps today.

### **Partner for Customer Value**

We continue to collaborate with icons like Microsoft and Walgreens, and innovators like Ocado, in order to enhance the customer experience and do things together that neither of us can do alone.

We continued to roll out Ocado facilities in the U.S., designing a flexible distribution network that combines store locations with both medium- and large-sized facilities. We know Ocado's value is not just its current capabilities, but also in how quickly they innovate to serve a rapidly developing online consumer market. What is really exciting about Ocado is that their model to deliver to customers is significantly less costly than our existing model. Not only will facilities accelerate our ability to provide customers with a seamless, more convenient experience, they will also help us do it in a much more cost-effective way.

Additionally, Kroger's asset light, margin rich alternative profit streams are delivering as expected and have ample runway ahead. Our diversified portfolio of alternative profit stream businesses contributed an incremental operating profit of more than \$100 million in 2019. Kroger Precision Marketing (KPM) and Kroger Personal Finance continue to be the primary drivers of growth. Brands continue to invest in KPM because we close the loop between media exposure and store and digital sales to make brand advertising more addressable, actionable, and accountable.

### **Develop Talent**

Associates expect more from companies today than ever before and we support them in a variety of ways, including investments in wages, training and development.

Investments in associate wages increased Kroger's average hourly wage to \$15 an hour in 2019, putting more money in their pockets. When comprehensive benefits are factored in, the average associate hourly rate is over \$20, with benefits that many of our competitors don't offer.

Feed Your Future, our industry-leading education assistance program, continues to build momentum. Among all the participants, more than 87 percent are hourly store associates. Since inception of the program last year, we've distributed over 5,000 awards – that means 5,000 more associates have taken steps to secure a more prosperous future for themselves, their families and their communities through continued education.

We are working hard to ensure we have the right talent, teams, and structure in the right focus areas in our core supermarket business and our alternative profit businesses. Our focus is on developing, training and promoting internal talent, while simultaneously hiring seasoned food industry executives to drive our retail supermarket business.

### **Live Our Purpose**

Increasingly, customers, associates and investors are choosing to shop with, work for, and invest in companies that are purpose driven and are actively making the world a better place.

As I noted at the start of this letter, purpose matters now more than ever – but this was true before the COVID-19 pandemic. We applauded the Business Roundtable's announcement last year acknowledging that businesses have a responsibility to be a positive influence on society. Kroger has always strived to be a trusted partner in our communities while delivering growth for our shareholders.

During the initial weeks of the pandemic, The Kroger Co. Zero Hunger | Zero Waste Foundation deployed more than \$7 million in hunger-relief resources to communities disproportionately impacted by the coronavirus pandemic. This included support to nonprofit partners Feeding America and No Kid Hungry. The funding not only supported local food banks nationwide, but also funded initiatives that ensure children, whose schools were closed, still had access to nutritious meals.

Over the last three years, we have provided over 1 billion meals, exceeding our goal. Last year alone, we donated nearly 500 million meals for food insecure families in our communities. We are grateful for the role shareholders played last year as we donated a meal for every vote, and we will do the same this year.

We are also making it easy for customers to support The Kroger Co. Zero Hunger | Zero Waste Foundation's mission to create communities free of hunger and waste by providing options to roundup their purchases to the nearest dollar at every self-checkout lane in America or donate online at [ZeroHungerZeroWasteFoundation.org](http://ZeroHungerZeroWasteFoundation.org).

We are animated by purpose, and our customers want to know it and see it. For example, we've found that when customers are aware of our Zero Hunger | Zero Waste social impact platform, they rank our reputation among the best in the world.

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For 137 years, Kroger has risen to meet many challenges. We've always held strong through the hard times and emerged stronger, better, and with renewed resolve.

We have challenges ahead, but we're in this together – and I have never been more confident in our future.

Sincerely,



Rodney McMullen  
Chairman and CEO

*Kroger Safe Harbor Statement*

This letter contains “forward-looking statements” within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995 about future performance of Kroger, including with respect to Kroger’s ability to achieve sustainable net earnings growth, strategic capital deployment, strong and attractive total shareholder return, strong free cash flow and ability to increase the dividend, among other statements. These statements are based on management’s assumptions and beliefs in light of the information currently available to it. These statements are indicated by words such as “aspiration,” “model,” and “confidence,” as well as similar words or phrases. These statements are subject to known and unknown risks, uncertainties and other important factors that could cause actual results and outcomes to differ materially from those contained in the forward-looking statements. These include the specific risk factors identified in “Risk Factors” in Kroger’s Annual Report on Form 10-K and any subsequent filings with the Securities and Exchange Commission.

## 2019 Zero Hunger | Zero Waste Zero Hero Award

Congratulations to the Kroger Co. 2019 Zero Hunger | Zero Waste "Zero Heroes":

Division	Recipient
Atlanta	Stephanie Williams
Central	Abby Travers
Cincinnati	Bill Weidus
Columbus	Debbie Anders
Dallas	Johnny Gaines
Delta	Store #492
Dillon Stores	Hope Hoffman
Fred Meyer	Jodie Peters
Fry's	Store #686
King Soopers/City Market	Endiya Cheeks
Louisville	Store #737 Our Promise Team
Michigan	Terri Strong
Mid-Atlantic	Ruth Johnson
Nashville	Camille Davis
Ralphs	Marcos Hernandez
Roundy's	Jesse Pomeranz Graves
Ruler	Jennifer Zink
Smith's	Store #93

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GO	Adam Young, Connie Helmers, Sarah Golden, Amelia Geiser, Naomi Bluesummers, Jess Aurand
GO	Joseph Maggard
GO	Tammy Marmol
GO	Collette Remsen
84.51°	Justin Conley
84.51°	Holly Rohrer



## Notice of 2020 Annual Meeting of Shareholders

### Fellow Kroger Shareholders:

**We are pleased to invite you to join us for Kroger's 2020 Annual Meeting of Shareholders on June 25, 2020 at 11:00 a.m. Eastern Time. Due to the public health impact of the coronavirus (COVID-19), the 2020 Annual Meeting of Shareholders will be a completely virtual meeting conducted via webcast. You will be able to participate in the virtual meeting online, vote your shares electronically, and submit questions during the meeting by visiting [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020).**

**When:** Thursday, June 25, 2020, at 11:00 a.m. eastern time.

**Where:** Webcast at [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020)

**Items of Business:**

1. To elect 10 director nominees.
2. To approve our executive compensation, on an advisory basis.
3. To ratify the selection of our independent auditor for fiscal year 2020.
4. To vote on two shareholder proposals, if properly presented at the meeting.
5. To transact other business as may properly come before the meeting.

**Who can Vote:** Holders of Kroger common shares at the close of business on the record date April 27, 2020 are entitled to notice of and to vote at the meeting.

**How to Vote:** Your vote is important! Please vote your proxy in one of the following ways:

1. *Via the internet*, by visiting [www.proxyvote.com](http://www.proxyvote.com).
2. *By telephone*, by calling the number on your proxy card, voting instruction form, or notice.
3. *By mail*, by marking, signing, dating, and mailing your proxy card if you requested printed materials, or your voting instruction form. No postage is required if mailed in the United States.
4. *By mobile device*, by scanning the QR code on your proxy card, notice of internet availability of proxy materials, or voting instruction form.
5. *By voting electronically* during the Virtual Annual Meeting at [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020).

**Attending the Meeting:** Shareholders holding shares at the close of business on the record date may attend the virtual meeting. You will be able to attend the Annual Meeting, vote and submit your questions in advance of and real-time during the meeting via a live audio webcast by visiting [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020). To participate in the meeting, you must have your sixteen-digit control number that is shown on your Notice of Internet Availability of Proxy Materials or on your proxy card if you receive the proxy materials by mail. You will not be able to attend the Annual Meeting in person.

We appreciate your continued confidence in Kroger, and we look forward to your participation in our Virtual meeting.

May 12, 2020  
Cincinnati, Ohio

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



# Proxy Statement

May 12, 2020

We are providing this notice, proxy statement and annual report to the shareholders of The Kroger Co. (“Kroger”, “we”, “us”, “our”) in connection with the solicitation of proxies by the Board of Directors of Kroger (the “Board”) for use at the Annual Meeting of Shareholders to be held on June 25, 2020, at 11:00 a.m. eastern time, and at any adjournments thereof. The Annual Meeting will be held virtually and can be accessed online at [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020). There is no physical location for the Annual Meeting of Shareholders.

Our principal executive offices are located at 1014 Vine Street, Cincinnati, Ohio 45202-1100. Our telephone number is 513-762-4000. This notice, proxy statement and annual report, and the accompanying proxy card were first furnished to shareholders on May 12, 2020.

## Why are you holding a virtual meeting?

In light of the COVID-19 pandemic, for the safety of all of our shareholders, associates, and community, our 2020 Annual Meeting is being held on a virtual-only basis with no physical location. Our goal for the Annual Meeting is to enable the broadest number of shareholders to participate in the meeting, while providing substantially the same access and exchange with the Board and Management as an in-person meeting. We believe that we are observing best practices for virtual shareholder meetings, including by providing a support line for technical assistance and addressing as many shareholder questions as time allows.

## Who can vote?

You can vote if, as of the close of business on April 27, 2020, you were a shareholder of record of Kroger common shares.

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

Your proxy is being solicited by Kroger’s Board of Directors. Kroger is paying the cost of solicitation. We have hired D.F. King & Co., Inc., 48 Wall Street, New York, New York, a proxy solicitation firm, to assist us in soliciting proxies and we will pay them a fee estimated not to exceed \$17,500 for base solicitation fees.

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

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

## Who are the members of the Proxy Committee?

Anne Gates, W. Rodney McMullen, and Ronald L. Sargent, all Kroger Directors, are the members of the Proxy Committee for our 2020 Annual Meeting.

## How do I vote my proxy?

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

1. *Via the internet*, by visiting [www.proxyvote.com](http://www.proxyvote.com).
2. *By telephone*, by calling the number on your proxy card, voting instruction form, or notice.
3. *By mail*, by marking, signing, dating, and mailing your proxy card if you requested printed materials, or your voting instruction form. No postage is required if mailed in the United States.
4. *By mobile device*, by scanning the QR code on your proxy card, notice of internet availability of proxy materials, or voting instruction form.
5. *By voting electronically* during the Virtual Annual Meeting at [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020).

## How can I participate and ask questions at the Annual Meeting?

We are committed to ensuring that our shareholders have substantially the same opportunities to participate in the Virtual Annual Meeting as they would at an in-person meeting. In order to submit a question at the Annual Meeting, you will need your 16-digit control number that is printed on the Notice or proxy card that you received in the mail, or via email if you have elected to receive material electronically. You may log in 15 minutes before the start of the Annual Meeting and submit questions online. You will be able to submit questions during the Annual

Meeting as well. We encourage you to submit any question that is relevant to the business of the meeting. Questions asked during the Annual Meeting will be read and addressed during the meeting. Shareholders are encouraged to log into the webcast at least 15 minutes prior to the start of the meeting to test their Internet connectivity. You may also submit questions in advance of the meeting via the internet at [www.proxyvote.com](http://www.proxyvote.com) when you vote your shares.

### **What documentation must I provide to be admitted to the Virtual Annual Meeting and how do I attend?**

If your shares are registered in your name, you will need to provide your sixteen-digit control number included on your Notice or your proxy card (if you receive a printed copy of the proxy materials) in order to be able to participate in the meeting. If your shares are **not** registered in your name (if, for instance, your shares are held in “street name” for you by your broker, bank or other institution), you must follow the instructions printed on your Voting Instruction Form. In order to participate in the Annual Meeting, please log on to [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020) at least 15 minutes prior to the start of the Annual Meeting to provide time to register and download the required software, if needed. The webcast replay will be available at [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020) until the 2021 Annual Meeting of Shareholders. If you access the meeting but do not enter your control number, you will be able to listen to the proceedings, but you will not be able to vote or otherwise participate.

### **What if I have technical or other “IT” problems logging into or participating in the Annual Meeting webcast?**

We have provided a toll-free technical support “help line” that can be accessed by any shareholder who is having challenges logging into or participating in the Virtual Annual Meeting. If you encounter any difficulties accessing the virtual meeting during the check-in or meeting time, please call the technical support line number that will be posted on the Virtual Annual Meeting login page.

### **What documentation must I provide to vote online at the Annual Meeting?**

If you are a shareholder of record and provide your sixteen-digit control number when you access the meeting, you may vote all shares registered in your name during the Annual Meeting webcast. If you are not a shareholder of record as to any of your shares (i.e., instead of being registered in your name, all or a portion of your shares are registered in “street name” and held by your broker, bank or other institution for your benefit), you must follow the instructions printed on your Voting Instruction Form.

### **How do I submit a question at the Annual Meeting?**

If you would like to submit a question during the Annual Meeting, once you have logged into the webcast at [www.virtualshareholdermeeting.com/KR2020](http://www.virtualshareholdermeeting.com/KR2020), simply type your question in the “ask a question” box and click “submit”. You may also submit questions in advance of the meeting via the internet at [www.proxyvote.com](http://www.proxyvote.com) when you vote your shares.

### **When should I submit my question at the Annual Meeting?**

Each year at the Annual Meeting, we hold a question-and-answer session following the formal business portion of the meeting during which shareholders may submit questions to us. We anticipate having such a question-and-answer session at the 2020 Annual Meeting. You can submit a question up to 15 minutes prior to the start of the Annual Meeting and up until the time we indicate that the question-and-answer session is concluded. However, we encourage you to submit your questions *before or during* the formal business portion of the meeting and our prepared statements, in advance of the question-and-answer session, in order to ensure that there is adequate time to address questions in an orderly manner. You may also submit questions in advance of the meeting via the internet at [www.proxyvote.com](http://www.proxyvote.com) when you vote your shares.

### **Can I change or revoke my proxy?**

The common shares represented by each proxy will be voted in the manner you specified unless your proxy is revoked before it is exercised. You may change or revoke your proxy by providing written notice to Kroger’s Secretary at 1014 Vine Street, Cincinnati, Ohio 45202, by executing and sending us a subsequent proxy, or by voting your shares while logged in and participating in the 2020 Annual Meeting of Shareholders.

### How many shares are outstanding?

As of the close of business on April 27, 2020, the record date, our outstanding voting securities consisted of 786,187,556 common shares.

### How many votes per share?

Each common share outstanding on the record date will be entitled to one vote on each of the 10 director nominees and one vote on each other proposal. Shareholders may not cumulate votes in the election of directors.

### What voting instructions can I provide?

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

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

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

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

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

### What are the voting requirements and voting recommendation for each of the proposals?

Proposals	Board Recommendation	Voting Approval Standard	Effect of Abstention	Effect of broker Non-vote
No. 1 Election of Directors	<b>FOR each Director Nominee</b>	More votes “FOR” than “AGAINST” since an uncontested election	No Effect	No Effect
No. 2 Advisory Vote to Approve Executive Compensation	<b>FOR</b>	Affirmative vote of the majority of shares participating in the voting	No Effect	No Effect
No. 3 Ratification of Independent Auditors	<b>FOR</b>	Affirmative vote of the majority of shares participating in the voting	No Effect	Not Applicable
Nos. 4 and 5 Shareholder Proposals	<b>AGAINST each Proposal</b>	Affirmative vote of the majority of shares participating in the voting	No Effect	No Effect

#### **Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be Held on June 25, 2020**

The Notice of 2020 Annual Meeting, Proxy Statement and 2019 Annual Report and the means to vote by internet are available at [www.proxyvote.com](http://www.proxyvote.com).

## **Kroger's Corporate Governance Practices**

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

### **Board Governance Practices**

- ✓ Strong Board oversight of enterprise risk.
- ✓ All director nominees are independent, except for the CEO.
- ✓ All five Board committees are fully independent.
- ✓ Robust code of ethics.
- ✓ Annual evaluation of the Chairman and CEO by the independent directors, led by the independent Lead Director.
- ✓ Annual Board and committee self-assessments.
- ✓ Commitment to Board refreshment and diversity, with 4 of 10 directors nominees being women, including the chair of the Audit Committee.
- ✓ Regular executive sessions of the independent directors, at the Board and committee level.
- ✓ Strong independent Lead Director with clearly defined role and responsibilities.
- ✓ High degree of Board interaction with management to ensure successful oversight and succession planning.

### **Shareholder Rights**

- ✓ All directors are elected annually with a simple majority standard for all uncontested director elections and by plurality in contested director elections.
- ✓ No poison pill (shareholder rights plan).
- ✓ Shareholders have the right to call a special meeting.
- ✓ Regular engagement with shareholders to understand their perspectives and concerns on a broad array of topics, including corporate governance matters.
- ✓ Responsive to shareholder feedback.
- ✓ Adopted proxy access for director nominees, enabling a shareholder, or group of up to 20 shareholders, holding 3% of the Company's common shares for at least three years to nominate candidates for the greater of two seats or 20% of board nominees.

### **Compensation Governance**

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

## Proposals to Shareholders

### Item No. 1. Election of Directors

**You are being asked to elect 10 director nominees for a one-year term. The Board of Directors recommends that you vote FOR the election of all director nominees.**

As of the date of this proxy statement, Kroger's Board of Directors consists of 12 members. All 10 nominees, if elected at the 2020 Annual Meeting, will serve until the annual meeting in 2021, or until their successors have been elected by the shareholders or by the Board pursuant to Kroger's Regulations, and qualified. The Board has not nominated Mr. Jorge Montoya or Mr. James Runde for re-election as they reached their retirement dates under the Company's *Guidelines on Issues of Corporate Governance* (the "*Guidelines*") and have served an additional one-year term at the Board's request. In connection with Messrs. Montoya's and Runde's retirement, the Board will reduce its size to 10 directors.

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

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

#### Nominees for Directors for Terms of Office Continuing until 2021

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<b>Nora A. Aufreiter</b> Age 60 Director Since 2014 <i>Committees:</i> Financial Policy Public Responsibilities	<p>Ms. Aufreiter is Director Emeritus of McKinsey &amp; Company, a global management consulting firm. She retired in June 2014 after more than 27 years with McKinsey, most recently as a director and senior partner. During that time, she worked extensively in the U.S., Canada, and internationally with major retailers, financial institutions, and other consumer-facing companies. Before joining McKinsey, Ms. Aufreiter spent three years in financial services working in corporate finance and investment banking. She is a member of the Board of Directors of The Bank of Nova Scotia. She is also on the board of a privately held company, Cadillac Fairview, a subsidiary of Ontario Teachers Pension Plan, which is one of North America's largest owners, operators and developers of commercial real estate. Ms. Aufreiter also serves on the boards of St. Michael's Hospital and the Canadian Opera Company, and is a member of the Dean's Advisory Board for the Ivey Business School in Ontario, Canada.</p> <p>Ms. Aufreiter has over 30 years of broad business experience in a variety of retail sectors. Her vast experience in leading McKinsey's North American Retail Practice, North American Branding service line and the Consumer Digital and Omnichannel service line is of particular value to the Board. She also brings to the Board valuable insight on commercial real estate.</p>
<b>Anne Gates</b> Age 60 Director Since 2015 <i>Committees:</i> Audit* Public Responsibilities	<p>Ms. Gates was President of MGA Entertainment, Inc., a privately-held developer, manufacturer, and marketer of toy and entertainment products for children, from 2014 until her retirement in 2017. Ms. Gates held roles of increasing responsibility with The Walt Disney Company from 1992-2012. Her roles included Executive Vice President, Managing Director, and Chief Financial Officer for Disney Consumer Products, and Senior Vice President of Operations, Planning and Analysis. Prior to joining Disney, Ms. Gates worked for PepsiCo and Bear Stearns. She is currently a director of Tapestry, Inc. and Raymond James Financial, Inc.</p> <p>Ms. Gates has over 25 years of experience in the retail and consumer products industry. She brings to Kroger financial expertise gained while serving as President of MGA and CFO of a division of The Walt Disney Company. Ms. Gates has a broad business background in finance, marketing, strategy and business development, including international business. Her expertise in toy and entertainment products is of particular value to the Board. Ms. Gates has been designated an Audit Committee financial expert and serves as Chair of the Audit Committee.</p>

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\* Denotes Committee Chair

<p><b>Karen M. Hoguet</b> Age 63 Director since 2019  <i>Committees:</i> Audit Financial Policy</p>	<p>Ms. Hoguet served as the Chief Financial Officer of Macy's, Inc. from October 1997 until July of 2018 when she became a strategic advisor to the Chief Executive Officer until her retirement on February 1, 2019. Ms. Hoguet serves on the Board of Directors of Nielsen Holdings plc. She also serves on the boards of Hebrew Union College and UCHealth. In the past five years, she also served as a director of The Chubb Corporation.</p> <p>Ms. Hoguet has over 30 years of retail and commercial experience. Her long tenure as a senior executive of a publicly traded company with financial, audit, strategy, and risk oversight experience is of particular value to the Board.</p>
<p><b>Susan J. Kropf</b> Age 71 Director Since 2007  <i>Committees:</i> Compensation &amp; Talent Development Corporate Governance</p>	<p>Ms. Kropf was President and Chief Operating Officer of Avon Products Inc., a manufacturer and marketer of beauty care products, from 2001 until her retirement in January 2007. She joined Avon in 1970 and, during her tenure at Avon, Ms. Kropf also served as Executive Vice President and Chief Operating Officer, Avon North America and Global Business Operations from 1998 to 2000 and President, Avon U.S. from 1997 to 1998. Ms. Kropf was a member of Avon's Board of Directors from 1998 to 2006. She is currently a director of Tapestry, Inc., and Sherwin Williams Company. In the past five years she also served as a director of MeadWestvaco Corporation and Avon Products, Inc.</p> <p>Ms. Kropf has unique and valuable consumer insight, having led a major, publicly-traded retailer of beauty and related consumer products. She has extensive experience in manufacturing, marketing, supply chain operations, customer service, and product development, all of which assist her in her role as a member of Kroger's Board. Ms. Kropf has a strong financial background and has significant boardroom experience through her service on the boards of various public companies, including experience serving on compensation, audit, and corporate governance committees. She was inducted into the YWCA Academy of Women Achievers. Ms. Kropf received recognition from the National Association of Corporate Directors as an NACD Directorship 100 "Class of 2016" member.</p>
<p><b>W. Rodney McMullen</b> <i>Chairman and Chief Executive Officer</i> Age 59 Director Since 2003</p>	<p>Mr. McMullen was elected Chairman of the Board in January 2015 and Chief Executive Officer of Kroger in January 2014. He served as Kroger's President and Chief Operating Officer from August 2009 to December 2013. Prior to that, Mr. McMullen was elected to various roles at Kroger including Vice Chairman in 2003, Executive Vice President, Strategy, Planning, and Finance in 1999, Senior Vice President in 1997, Group Vice President and Chief Financial Officer in June 1995, and Vice President, Planning and Capital Management in 1989. He is a director of VF Corporation. In the past five years, he also served as a director of Cincinnati Financial Corporation.</p> <p>Mr. McMullen has broad experience in the supermarket business, having spent his career spanning over 40 years with Kroger. He has a strong background in finance, operations, and strategic partnerships, having served in a variety of roles with Kroger, including as our CFO, COO, and Vice Chairman. His service as chair of Cincinnati Financial Corporation's compensation committee and on its executive and investment committees, as well as his service on the audit and nominating and governance committees of VF Corporation, adds depth to his extensive retail experience.</p>
<p><b>Clyde R. Moore</b> Age 66 Director Since 1997  <i>Committees:</i> Compensation &amp; Talent Development* Corporate Governance</p>	<p>Mr. Moore was the Chairman of First Service Networks, a national provider of facility and maintenance repair services, until his retirement in 2015. Prior to his retirement, he was Chairman and Chief Executive Officer of First Service Networks from 2000 to 2014.</p> <p>Mr. Moore has over 30 years of general management experience in public and private companies. He has sound experience as a corporate leader overseeing all aspects of a facilities management firm and numerous manufacturing companies. Mr. Moore's expertise broadens the scope of the Board's experience to provide oversight to Kroger's facilities, digital, and manufacturing businesses. Additionally, his expertise and leadership as Chair of the Compensation and Talent Development Committee is of particular value to the Board.</p>

\* Denotes Committee Chair

<b>Ronald L. Sargent</b>	Mr. Sargent was Chairman and Chief Executive Officer of Staples, Inc., a business products retailer, where he was employed from 1989 until his retirement in 2017. Prior to joining Staples, Mr. Sargent spent 10 years with Kroger in various positions. He is a director of Five Below, Inc. and Wells Fargo & Company. In the past five years, he served as a director of Staples, Inc.
Lead Director	
Age 64	
Director Since 2006	
<i>Committees:</i> Audit Corporate Governance* Public Responsibilities	Mr. Sargent has over 35 years of retail experience, first with Kroger and then with increasing levels of responsibility and leadership at Staples, Inc. His efforts helped carve out a new market niche for the international retailer. His understanding of retail operations, consumer insights, and e-commerce are of particular value to the Board. Mr. Sargent has been designated an Audit Committee financial expert and serves as Lead Director of the Board.
<b>Bobby S. Shackouls</b>	Mr. Shackouls was Chairman of the Board of Burlington Resources Inc., a natural resources business, from July 1997 until its merger with ConocoPhillips in 2006 and its President and Chief Executive Officer from December 1995 until 2006. Mr. Shackouls was also President and Chief Executive Officer of Burlington Resources Oil and Gas Company (formerly known as Meridian Oil Inc.), a wholly-owned subsidiary of Burlington Resources, from 1994 to 1995. Mr. Shackouls is a director of Oasis Petroleum Inc., Quintana Energy Services, Plains GP Holdings, L.P., and Plains All American Pipeline, L.P. Plains GP Holdings, L.P. is the ultimate general partner of Plains All American Pipeline, L.P. and although the two are separate publicly traded companies, they are governed by a single board, and directors receive compensation for service on the single board.
Age 69	
Director Since 1999	
<i>Committees:</i> Audit Corporate Governance	Mr. Shackouls brings to the Board the critical thinking that comes with a chemical engineering background, as well as his experience leading a major natural resources company, coupled with his corporate governance expertise.
<b>Mark S. Sutton</b>	Mr. Sutton is Chairman and Chief Executive Officer of International Paper, a leading global producer of renewable fiber-based packaging, pulp, and paper products. Prior to becoming CEO, he served as President and Chief Operating Officer with responsibility for running the company's global business. Mr. Sutton joined International Paper in 1984 as an Electrical Engineer. He held roles of increasing responsibility throughout his career, including Mill Manager, Vice President of Corrugated Packaging Operations across Europe, the Middle East and Africa, Vice President of Corporate Strategic Planning, and Senior Vice President of several business units, including global supply chain, before being named CEO in 2014. Mr. Sutton is a member of The Business Council, serves on the American Forest & Paper Association board of directors, the Business Roundtable board of directors, and the international advisory board of the Moscow School of Management – Skolkovo. He was appointed chairman of the U.S. Russian Business Council. He also serves on the board of directors of Memphis Tomorrow and the board of governors for New Memphis Institute.
Age 58	
Director Since 2017	
<i>Committees:</i> Audit Public Responsibilities	Mr. Sutton has over thirty years of leadership experience with increasing levels of responsibility and leadership at International Paper. He brings to the Board the critical thinking that comes with an electrical engineering background as well as his experience leading a global company. His strong strategic planning background and manufacturing and supply chain experience are of particular value to the Board. Mr. Sutton has been designated an Audit Committee financial expert.

\* Denotes Committee Chair

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<b>Ashok Vemuri</b> Age 52 Director Since 2019 <i>Committees:</i> Financial Policy Public Responsibilities	<p>Mr. Vemuri was Chief Executive Officer and a Director of Conduent Incorporated, a global digital interactions company, since the company's inception as a result of the spin-off from Xerox Corporation in January 2017, until 2019. He previously served as Chief Executive Officer of Xerox Business Services, LLC and as an Executive Vice President of Xerox Corporation from July 2017 to December 2017. Prior to that, he was President, Chief Executive Officer, and a member of the Board of Directors of IGATE Corporation, a New Jersey-based global technology and services company now part of Capgemini, from 2013 to 2015. Before joining IGATE, Mr. Vemuri spent 14 years at Infosys Limited, a multinational consulting and technology services company, in a variety of leadership and business development roles and served on the board of Infosys from 2011 to 2013. Prior to joining Infosys in 1999, Mr. Vemuri worked in the investment banking industry at Deutsche Bank and Bank of America. In the past five years, he served as a director of Conduent Incorporated.</p> <p>Mr. Vemuri brings to the Board a proven track record of leading technology services companies through growth and corporate transformations. His experience as CEO of global technology companies is of particular value to the Board as he brings a unique operational, financial, and client experience perspective.</p>
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**The Board of Directors Recommends a Vote For Each Director Nominee.**

**Board Diversity and Succession Planning**

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

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

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



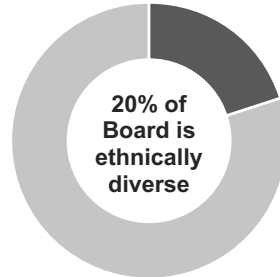
The Corporate Governance Committee believes that it has been successful in its efforts to promote gender and ethnic diversity on our Board. The Corporate Governance Committee and Board believe that our director nominees for election at our 2020 Annual Meeting bring to our Board a variety of different experiences, skills, and qualifications that contribute to a well-functioning diverse Board that effectively oversees the Company’s strategy and management. The charts below show the diversity of our director nominees and the skills and experience that we consider important for our directors in light of our current business, strategy, and structure:

	Nora Aufreiter	Anne Gates	Karen Hoguet	Susan Kropf	Rodney McMullen	Clyde Moore	Ronald Sargent	Bobby Shackouls	Mark Sutton	Ashok Vemuri	Total (of 10)
Business Management	●	●	●	●	●	●	●	●	●	●	10
Retail	●	●	●	●	●		●				6
Consumer	●	●	●	●	●		●				6
Financial Expertise	●	●	●	●	●	●	●	●	●	●	10
Risk Management			●		●		●	●	●	●	6
Operations & Technology	●	●		●	●	●	●	●	●	●	9
Sustainability	●	●		●			●		●		5
Manufacturing		●		●		●			●		4

**Gender Diversity**



**Ethnic Diversity**



## Information Concerning the Board of Directors

### Board Leadership Structure and Lead Independent Director

As of the date of this proxy statement, Kroger's Board is composed of eleven independent non-employee directors and one management director, Mr. McMullen, the Chairman and CEO. If all ten nominees are elected, the Board will reduce its size to ten directors and will be composed on nine independent non-employee directors and one management director, Mr. McMullen. Kroger has a governance structure in which independent directors exercise meaningful and vigorous oversight.

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

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

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

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

Unless otherwise determined by the independent members of the Board, the Chair of the Corporate Governance Committee is designated as the Lead Director. Ronald L. Sargent, an independent director and the Chair of the Corporate Governance Committee, was appointed Lead Director in June 2018. Mr. Sargent is an effective Lead Director for Kroger due to, among other things:

- his independence;
- his deep strategic and operational understanding of Kroger obtained while serving as a Kroger director;
- his insight into corporate governance;
- his experience as the CEO of an international retailer;
- his experience on the boards of other large publicly traded companies; and
- his engagement and commitment to carrying out the role and responsibilities of the Lead Director.

With respect to the roles of Chairman and CEO, the *Guidelines* provide that the Board will determine whether it is in the best interests of Kroger and our shareholders for the roles to be combined. The Board exercises this judgment as it deems appropriate in light of prevailing circumstances. The Board believes that this leadership structure improves the Board's ability to focus on key policy and operational issues and helps the Company operate in the long-term interest of shareholders. Additionally, this structure provides an effective balance between strong Company leadership and appropriate safeguards and oversight by independent directors. Our CEO's strong background in finance, operations, and strategic partnerships is particularly important to the Board given Kroger's current transformation under *Restock Kroger*. His consistent leadership, deep industry expertise, and extensive

knowledge of the Company are also especially critical in the midst of the rapidly evolving retail landscape. The Board believes that the structure of the Chairman and independent Lead Director position should continue to be considered as part of the succession planning process.

### Annual Board Evaluation Process

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

The Board recognizes that a robust evaluation process is an essential component of strong corporate governance practices and ensuring Board effectiveness. The Corporate Governance Committee oversees an annual evaluation process led by the Lead Independent Director (who also serves as Chair of the Corporate Governance Committee).

Each director completes a detailed written annual evaluation of the Board and the committees on which he or she serves and the Lead Director conducts interviews with each of the directors. These Board evaluations are designed to assess the skills, qualifications, and experience represented on the Board and its committees, and to determine whether the Board and its committees are functioning effectively. The process also evaluates the relationship between management and the Board, including the level of access to management, responsiveness of management, and the effectiveness of the Board's evaluation of management performance. The results of this Board evaluation are discussed by the full Board and each committee, as applicable, and changes to the Board's and its committees' practices are implemented as appropriate.

### Committees of the Board of Directors

To assist the Board in undertaking its responsibilities, and to allow deeper engagement in certain areas of company oversight, the Board has established five standing committees: Audit, Compensation and Talent Development ("Compensation"), Corporate Governance, Financial Policy, and Public Responsibilities. All committees are composed exclusively of independent directors, as determined under the New York Stock Exchange ("NYSE") listing standards. The current charter of each Board committee is available on our website at [ir.kroger.com](http://ir.kroger.com) under Investors – Governance – Guidelines on Issues of Corporate Governance.

Name of Committee, Number of Meetings, and Current Members	Committee Functions
<p><b>Audit Committee</b></p> <p><b>Meetings in 2019 : 5</b></p> <p><b>Members:</b>            Anne Gates, <i>Chair</i>            Karen M. Hoguet            Ronald L. Sargent            Bobby S. Shackouls            Mark S. Sutton</p>	<ul style="list-style-type: none"> <li>• Oversees the Company's financial reporting and accounting matters, including review of the Company's financial statements and the audit thereof, the Company's financial reporting and accounting process, and the Company's systems of internal control over financial reporting</li> <li>• Selects, evaluates, and oversees the compensation and work of the independent registered public accounting firm and reviews its performance, qualifications, and independence</li> <li>• Oversees and evaluates the Company's internal audit function, including review of its audit plan, policies and procedures, and significant findings</li> <li>• Oversees risk assessment and risk management, including review of cybersecurity risks as well as legal or regulatory matters that could have a significant effect on the Company</li> <li>• Reviews and monitors the Company's compliance programs, including the whistleblower program</li> </ul>

Name of Committee, Number of Meetings, and Current Members	Committee Functions
<p><b>Compensation Committee</b></p> <p><b>Meetings in 2019: 5</b></p> <p><b>Members:</b></p> <p>Clyde R. Moore, <i>Chair</i>  Susan J. Kropf  Jorge P. Montoya  James A. Runde</p>	<ul style="list-style-type: none"> <li>• Recommends for approval by the independent directors the compensation of the CEO and approves the compensation of other senior management</li> <li>• Administers the Company's executive compensation policies and programs, including determining grants of equity awards under the plans</li> <li>• Has sole authority to retain and direct the committee's compensation consultant</li> <li>• Assists the full Board with senior management succession planning</li> </ul>
<p><b>Corporate Governance Committee</b></p> <p><b>Meetings in 2019: 2</b></p> <p><b>Members:</b></p> <p>Ronald L. Sargent, <i>Chair</i>  Susan J. Kropf  Clyde R. Moore  Bobby S. Shackouls</p>	<ul style="list-style-type: none"> <li>• Oversees the Company's corporate governance policies and procedures</li> <li>• Develops criteria for selecting and retaining directors, including identifying and recommending qualified candidates to be director nominees</li> <li>• Designates membership and Chairs of Board committees</li> <li>• Reviews the Board's performance and director independence</li> <li>• Establishes and reviews the practices and procedures by which the Board performs its functions</li> </ul>
<p><b>Financial Policy Committee</b></p> <p><b>Meetings in 2019: 2</b></p> <p><b>Members:</b></p> <p>James A. Runde, <i>Chair</i>  Nora A. Aufreiter  Karen M. Hoguet  Ashok Vemuri</p>	<ul style="list-style-type: none"> <li>• Reviews and recommends financial policies and practices</li> <li>• Oversees management of the Company's financial resources</li> <li>• Reviews the Company's annual financial plan, significant capital investments, plans for major acquisitions or sales, issuance of new common or preferred stock, dividend policy, creation of additional debt and other capital structure considerations including additional leverage or dilution in ownership</li> <li>• Monitors the investment management of assets held in pension and profit sharing plans administered by the Company</li> </ul>
<p><b>Public Responsibilities Committee</b></p> <p><b>Meetings in 2019: 2</b></p> <p><b>Members:</b></p> <p>Jorge P. Montoya, <i>Chair</i>  Nora A. Aufreiter  Anne Gates  Ronald L. Sargent  Mark S. Sutton  Ashok Vemuri</p>	<ul style="list-style-type: none"> <li>• Reviews the Company's policies and practices affecting its social and public responsibility as a corporate citizen, including: community relations, charitable giving, supplier diversity, sustainability, government relations, political action, consumer and media relations, food and pharmacy safety and the safety of customers and employees</li> <li>• Reviews and examines the Company's evaluation of and response to changing public expectations and public issues affecting the business</li> </ul>

### Director Nominee Selection Process

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

These criteria are:

- demonstrated ability in fields considered to be of value to the Board in the deliberation and long-term planning of the Board and Kroger, including business management, public service, education, science, technology, e-commerce, law, and government;

- experience in high growth companies and nominees whose business experience can help the Company innovate and derive new value from existing assets;
- highest standards of personal character and conduct;
- willingness to fulfill the obligations of directors and to make the contribution of which he or she is capable, including regular attendance and participation at Board and committee meetings, and preparation for all meetings, including review of all meeting materials provided in advance of the meeting; and
- ability to understand the perspectives of Kroger's customers, taking into consideration the diversity of our customers, including regional and geographic differences.

The Corporate Governance Committee also considers the specific experience and abilities of director candidates in light of our current business, strategy and structure, and the current or expected needs of the Board in its identification and recruitment of director candidates.

## **Shareholder Engagement**

Maintaining ongoing relationships with our shareholders, and understanding our shareholders' views, is a priority for both our Board and management team. We have a longstanding history of engaging with our shareholders through our investor relations team's year-round outreach program. At the direction of our Board, we expanded our shareholder engagement program in 2016 to include outreach to our largest shareholders' governance teams. In 2019, we requested meetings with shareholders representing 43% of our outstanding shares during proxy season and off-season engagement and ultimately engaged with shareholders representing 36% of our outstanding shares.

During these engagements, some of which included the participation of our Lead Director, we discussed and solicited feedback on a range of topics, including business strategy, corporate governance, executive compensation and sustainability. In addition, we attended industry events to further engage with shareholders and subject matter experts. These conversations provided valuable insights into our shareholders' perspectives and their feedback was shared with, and considered by, our full Board. Please see page 36 for a discussion of actions taken by our Compensation Committee and Board of Directors based, in part, on these engagements.

## **Candidates Nominated by Shareholders**

The Corporate Governance Committee will consider shareholder recommendations for director nominees for election to the Board. If shareholders wish to nominate a person or persons for election to the Board at our 2021 annual meeting, written notice must be submitted to Kroger's Secretary, and received at our executive offices, in accordance with Kroger's Regulations, not later than March 28, 2021. Such notice should include the name, age, business address and residence address of such person, the principal occupation or employment of such person, the number of Kroger common shares owned of record or beneficially by such person and any other information relating to the person that would be required to be included in a proxy statement relating to the election of directors. The Secretary will forward the information to the Corporate Governance Committee for its consideration. The Corporate Governance Committee will use the same criteria in evaluating candidates submitted by shareholders as it uses in evaluating candidates identified by the Corporate Governance Committee, as described above. See "Director Nominee Selection Process."

Eligible shareholders have the ability to submit director nominees for inclusion in our proxy statement for the 2021 annual meeting of shareholders. To be eligible, shareholders must have owned at least 3% of our common shares for at least three years. Up to 20 shareholders are able to aggregate for this purpose. Nominations must be submitted to our Corporate Secretary at our principal executive offices no earlier than December 13, 2020 and no later than January 12, 2021.

## **Corporate Governance Guidelines**

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

## Independence

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

- the value of any business transactions between Kroger and entities with which the directors are affiliated falls below the thresholds identified by the NYSE listing standards, and
- none had any material relationships with Kroger other than serving on our Board.

## Audit Committee Expertise

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

## Code of Ethics

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

## Communications with the Board

The Board has established two separate mechanisms for shareholders and interested parties to communicate with the Board. Any shareholder or interested party who has concerns regarding accounting, improper use of Kroger assets, or ethical improprieties may report these concerns via the toll-free hotline (800-689-4609) or website ([ethicspoint.com](http://ethicspoint.com)) established by the Board’s Audit Committee. The concerns are investigated by Kroger’s Vice President, Chief Ethics and Compliance Officer and the Vice President of Internal Audit and reported to the Audit Committee as deemed appropriate.

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

## Attendance

The Board held five meetings in fiscal year 2019. During fiscal 2019, all incumbent directors attended at least 75% of the aggregate number of meetings of the Board and committees on which that director served. Members of the Board are expected to use their best efforts to attend all annual meetings of shareholders. All 12 of the then current members attended last year’s annual meeting.

## Independent Compensation Consultants

The Compensation Committee directly engages a compensation consultant to advise the Compensation Committee in the design of Kroger’s executive compensation. The Committee retained Korn Ferry Hay (US) (“Korn Ferry”) beginning in December 2017. Retained by and reporting directly to the Compensation Committee, Korn Ferry provided the Committee with assistance in evaluating Kroger’s executive compensation programs and policies.

In fiscal 2019, Kroger paid Korn Ferry \$523,769 for work performed for the Compensation Committee. Kroger, on management’s recommendation, retained Korn Ferry to provide other services for Kroger in fiscal 2019 for which Kroger paid \$311,868. These other services primarily related to consulting on administrative management

and compensation structure redesign. The Compensation Committee expressly approved Korn Ferry performing these additional services. After taking into consideration the NYSE's independence standards and the SEC rules, the Compensation Committee determined that Korn Ferry was independent, and their work has not raised any conflict of interest.

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

### **Compensation Committee Interlocks and Insider Participation**

No member of the Compensation Committee was an officer or employee of Kroger during fiscal 2019, and no member of the Compensation Committee is a former officer of Kroger or was a party to any related person transaction involving Kroger required to be disclosed under Item 404 of Regulation S-K. During fiscal 2019, none of our executive officers served on the board of directors or on the compensation committee of any other entity that has or had executive officers serving as a member of Kroger's Board of Directors or Compensation Committee of the Board.

### **Board Oversight of Enterprise Risk**

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

The Board receives presentations throughout the year from various department and business unit leaders that include discussion of significant risks as necessary, including newly identified and evolving high priority risks, such as those presented by the COVID-19 pandemic. At each Board meeting, the Chairman and CEO addresses matters of particular importance or concern, including any significant areas of risk that require Board attention. Additionally, through dedicated sessions focusing entirely on corporate strategy, the full Board reviews in detail Kroger's short- and long-term strategies, including consideration of significant risks facing Kroger and their potential impact. The independent directors, in executive sessions led by the Lead Director, address matters of particular concern, including significant areas of risk, that warrant further discussion or consideration outside the presence of Kroger employees. At the committee level, reports are given by management subject matter experts to each committee on risks within the scope of their charters.

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

Management provides regular updates throughout the year to the respective Board committees regarding management of the risks they oversee. For example, our Vice President, Chief Ethics and Compliance Officer provides regular updates to the Audit Committee on our compliance risks and actions taken to mitigate that risk; and our Senior Vice President and Chief Information Officer and our Chief Information Security Officer provide regular updates on our cybersecurity risks and actions taken to mitigate that risk to the Audit Committee. The Audit Committee reports on risk to the full Board at each regular meeting of the Board.

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

#### *Environmental, Sustainability, and Governance Oversight*

We are aligned with the desire of our customers, associates, and shareholders that we engage in our communities and reduce our impacts on the environment while continuing to create positive economic value over the long-term. Given the breadth of topics and their importance to us, most of our Board committees have direct oversight of environmental, sustainability and governance ("ESG") topics. Among the other key responsibilities for

each committee: the Audit Committee oversees risk management and compliance with legal, financial and regulatory requirements; the Public Responsibilities Committee oversees our responsibilities as a corporate citizen and efforts to engage stakeholders and manage issues that affect our business, including sustainability, supplier diversity and food safety, among other topics; the Corporate Governance Committee oversees our good governance practices; and the Compensation and Talent Development Committee oversees talent development. We discuss the responsibilities of each committee further above. Throughout the year, Kroger leaders update the Public Responsibilities Committee on important ESG topics, which may relate to our sustainability initiatives such as our Zero Hunger|Zero Waste campaign, our food safety programs, and community and customer engagement. At each Board meeting, Kroger's Chairman and CEO addresses matters of particular importance or concern, including any significant areas of risk that require Board attention.

For the past thirteen years, our Company has prepared and produced an annual report describing our progress and initiatives regarding sustainability and other ESG matters. For the most recent information regarding our ESG initiatives and related matters, please visit <http://sustainability.kroger.com>. The information on, or accessible through, this website is not part of, or incorporated by reference into, this proxy statement.

In addition, our full Board oversees issues related to diversity and inclusion within the Kroger workplace. Diversity and inclusion have been deeply rooted in Kroger's values for decades. We are committed to fostering an environment of inclusion in the workplace, marketplace, and workforce where the diversity of cultures, backgrounds, experiences, perspectives and ideas are valued and appreciated. Kroger's corporate team and retail divisions have strategic partnerships with universities, educational institutions and community partners to improve how we attract candidates from all backgrounds and ethnicities for jobs at all levels. Diversity and inclusion will continue to be a key ingredient in feeding Kroger's innovation, long-term sustainability and the human spirit.

The Kroger family of companies provides inclusion training to all management and many hourly associates. Most work locations (stores, plants, distribution centers and offices) have an inclusion-focused team, called Our Promise team. The teams work on projects that reflect Kroger's values, offer leaders valuable feedback and suggestions on improving diversity and inclusion, and facilitate communication to champion business priorities.



## Director Compensation

### 2019 Director Compensation

The following table describes the 2019 compensation for non-employee directors. Mr. McMullen does not receive compensation for his Board service.

Name	Fees Earned or Paid in Cash	Stock Awards <sup>(1)</sup>	Option Awards <sup>(2)</sup>	Change in Pension Value And Nonqualified Deferred Compensation Earnings <sup>(3)</sup>	Total
Nora A. Aufreiter	\$ 89,723	\$176,530	—	\$ 0	\$266,253
Robert D. Beyer <sup>(4)</sup>	\$ 36,964	\$ —	—	\$ 12,308	\$ 49,272
Anne Gates	\$124,615	\$176,530	—	0	\$301,145
Karen M. Hoguet <sup>(5)</sup>	\$ 16,954	\$102,084	—	0	\$119,038
Susan J. Kropf	\$ 89,723	\$176,530	39,000	0	\$266,253
Jorge P. Montoya	\$104,677	\$176,530	39,000	0	\$281,207
Clyde R. Moore	\$109,661	\$176,530	39,000	\$145,359	\$431,550
James A. Runde	\$104,677	\$176,530	26,000	0	\$281,207
Ronald L. Sargent	\$152,030	\$176,530	39,000	\$ 4,042	\$332,602
Bobby S. Shackouls	\$ 99,692	\$176,530	—	0	\$276,222
Mark S. Sutton	\$ 99,692	\$176,530	—	0	\$276,222
Ashok Vemuri	\$ 89,723	\$176,530	—	0	\$266,253

- (1) Amounts reported in the Stock Awards column represent the aggregate grant date fair value of the annual incentive share award, computed in accordance with FASB ASC Topic 718. On July 15, 2019, each non-employee director then serving received 7,995 incentive shares with a grant date fair value of \$176,530. Ms. Hoguet received a prorated award of 3,620 shares with a grant date fair value of \$102,084 on December 12, 2019 when she joined the Board.
- (2) Options are no longer granted to non-employee directors. The aggregate number of previously granted stock options that remained unexercised and outstanding at fiscal year-end was as follows: Mr. Runde held 26,000 options and Messrs. Montoya, Moore, and Sargent and Ms. Kropf each held 39,000 options.
- (3) The amounts reported for Mr. Beyer and Mr. Sargent represent preferential earnings on nonqualified deferred compensation. For a complete explanation of preferential earnings, please refer to footnote 5 to the Summary Compensation Table. The amount reported for Mr. Moore represents the change in actuarial present value of his accumulated benefit under the pension plan for non-employee directors. Pension values may fluctuate significantly from year to year depending on a number of factors, including age, average annual earnings, and the assumptions used to determine the present value, such as the discount rate. The increase in the actuarial present value of his accumulated pension benefit for 2019 is primarily due to the decrease in the discount rate, partially offset by the change in value of the benefit due to aging and mortality project scale updates.
- (4) Because Mr. Beyer retired from the Board on June 27, 2019, he received a prorated cash retainer.
- (5) Because Ms. Hoguet was appointed to the Board on December 12, 2019, she received a prorated cash retainer.

### Annual Compensation

Each non-employee director receives an annual cash retainer of \$90,000. The Lead Director receives an additional annual retainer of \$37,500 per year; the members of the Audit Committee each receive an additional annual retainer of \$10,000; the Chair of the Audit Committee receives an additional annual retainer of \$25,000; the Chair of Compensation Committee receives an additional annual retainer of \$20,000; and the Chair of each of the other committees receives an additional annual retainer of \$15,000. Each non-employee director also receives an annual grant of incentive shares (Kroger common shares) with a value of approximately \$175,000.

The Board has determined that compensation of non-employee directors must be competitive on an ongoing basis to attract and retain directors who meet the qualifications for service on the Board. Non-employee director compensation was adjusted in 2018 and will be reviewed from time to time as the Corporate Governance Committee deems appropriate.

### **Pension Plan**

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

### **Nonqualified Deferred Compensation**

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

### ***Cash Deferrals***

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

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

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

### ***Incentive Share Deferrals***

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

## Beneficial Ownership of Common Stock

The following table sets forth the common shares beneficially owned as of April 1, 2020 by Kroger's directors, the NEOs, and the directors and executive officers as a group. The percentage of ownership is based on 777,408,444 of Kroger common shares outstanding on April 1, 2020. Shares reported as beneficially owned include shares held indirectly through Kroger's defined contribution plans and other shares held indirectly, as well as shares subject to stock options exercisable on or before May 31, 2020. Except as otherwise noted, each beneficial owner listed in the table has sole voting and investment power with regard to the common shares beneficially owned by such owner.

Name	Amount and Nature of Beneficial Ownership <sup>(1)</sup> (a)	Options Exercisable on or before May 31, 2020 – included in column (a) (b)
Stuart Aitken <sup>(2)</sup>	246,295	95,590
Nora A. Aufreiter <sup>(3)</sup>	34,096	—
Yael Cosset	221,313	79,307
Michael J. Donnelly	807,014	470,029
Anne Gates <sup>(3)</sup>	28,724	—
Karen M. Hoguet <sup>(4)</sup>	5,695	—
Susan J. Kropf	135,166	39,000
W. Rodney McMullen	4,775,861	1,819,463
Gary Millerchip	245,101	75,974
Jorge P. Montoya <sup>(5)</sup>	108,059	39,000
Clyde R. Moore	153,566	39,000
James A. Runde	128,578	26,000
Ronald L. Sargent <sup>(3)</sup>	179,767	39,000
J. Michael Schlotman	296,954	195,804
Bobby S. Shackouls <sup>(3)</sup>	88,974	—
Mark S. Sutton <sup>(3)</sup>	24,189	—
Ashok Vemuri	11,043	—
Directors and executive officers as a group (28 persons, including those named above)	10,607,159	4,552,369

- (1) No director or officer owned as much as 1% of Kroger common shares. The directors and executive officers as a group beneficially owned 1.36% of Kroger common shares.
- (2) This amount includes 3,018 shares held by Mr. Aitken's spouse. He disclaims beneficial ownership of these shares.
- (3) This amount includes incentive share awards that were deferred under the deferred compensation plan for independent directors in the following amounts: Ms. Aufreiter, 9,447; Ms. Gates, 7,669; Mr. Sargent, 39,129; Mr. Shackouls, 39,129; Mr. Sutton, 6,503.
- (4) This amount includes 2,075 shares held by Ms. Hoguet's spouse. She disclaims beneficial ownership of these shares.
- (5) This amount includes 22,000 shares held in Mr. Montoya's trust. He disclaims beneficial ownership of these shares.

The following table sets forth information regarding the beneficial owners of more than five percent of Kroger common shares as of April 1, 2020 based on reports on Schedule 13G filed with the SEC.

Name	Address	Amount and Nature of Ownership	Percentage of Class
BlackRock, Inc.	55 East 52 <sup>nd</sup> St. New York, NY 10055	57,998,196 <sup>(1)</sup>	7.20%
State Street Corporation	State Street Financial Center One Lincoln Street Boston, MA 02111	40,494,591 <sup>(2)</sup>	5.06%
Vanguard Group Inc.	100 Vanguard Blvd. Malvern, PA 19355	69,103,533 <sup>(3)</sup>	8.63%

- (1) Reflects beneficial ownership by BlackRock Inc., as of December 31, 2019, as reported on Amendment No. 10 to Schedule 13G filed with the SEC on February 5, 2020, reporting sole voting power with respect to 48,728,989 common shares, and sole dispositive power with regard to 57,998,196 common shares.
- (2) Reflects beneficial ownership by State Street Corporation as of December 31, 2019 as reported on Schedule 13G filed with the SEC on February 13, 2020, reporting shared voting power with respect to 34,718,821 common shares, and shared dispositive power with respect to 40,494,591 common shares.
- (3) Reflects beneficial ownership by Vanguard Group Inc. as of December 31, 2019, as reported on Amendment No. 5 to Schedule 13G filed with the SEC on February 12, 2020, reporting sole voting power with respect to 1,195,599 common shares, shared voting power with respect to 241,812 common shares, sole dispositive power of 67,741,558 common shares, and shared dispositive power of 1,361,975 common shares.

### Related Person Transactions

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

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

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

## Compensation Discussion and Analysis

### Executive Summary

#### Named Executive Officers

This Compensation Discussion and Analysis provides a discussion and analysis of our compensation program for our named executive officers (“NEOs”). For the 2019 fiscal year ended February 1, 2020, the NEOs were:

Name	Title
W. Rodney McMullen	Chairman and Chief Executive Officer
Gary Millerchip	Senior Vice President and Chief Financial Officer
Stuart Aitken	Senior Vice President, Alternative Business
Yael Cosset	Senior Vice President and Chief Information Officer
Michael J. Donnelly	Executive Vice President and Chief Operating Officer
J. Michael Schlotman	Executive Vice President and Retired Chief Financial Officer

Mr. Schlotman, who had been in his role for nearly 20 years, stepped down as Chief Financial Officer on April 3, 2019. He remained Executive Vice President until his retirement from the Company on December 31, 2019, during which time he continued to receive the same compensation and to participate in the Company’s annual and long-term incentive programs. Mr. Millerchip succeeded Mr. Schlotman as Chief Financial Officer on April 4, 2019.

#### Summary of Key Compensation Practices

What we do:	What we do not do:
✓ Align pay and performance	✗ No employment contracts with executives
✓ Significant share ownership guidelines of 5x salary for our CEO	✗ No special severance or change in control programs applicable only to executive officers
✓ Multiple performance metrics under our short- and long-term performance-based plans discourage excessive risk taking at the expense of long-term results	✗ No single-trigger cash severance benefits upon a change in control
✓ Double trigger change in control provisions in all equity awards beginning in 2019	✗ No cash component of the new long-term incentive plan
✓ All long-term compensation is equity-based beginning in 2019	✗ No tax gross-up payments for executives
✓ Engagement of an independent compensation consultant	✗ No special executive life insurance benefit
✓ Robust clawback policy	✗ No re-pricing or backdating of options without shareholder approval
✓ Ban on hedging, pledging and short sales of Kroger securities	✗ No guaranteed salary increases or bonuses
✓ Minimal prerequisites	✗ No payment of dividends or dividend equivalents until performance units are earned

## Summary of Fixed and At-Risk Pay Elements

The fixed and at-risk pay elements of the NEO compensation plan for 2019 are reflected in the following table and charts.

	Element	Form	Description	
ANNUAL / SHORT-TERM INCENTIVE	Base Salary	Cash	<ul style="list-style-type: none"> <li>Attract, incentivize, retain talented executives</li> <li>Benchmarked to peer group median</li> <li>Fixed cash component</li> <li>Reviewed annually</li> <li>No automatic or guaranteed increases</li> <li>Based on individual performance &amp; experience</li> </ul>	FIXED
	Annual Incentive Plan	Cash Bonus	<ul style="list-style-type: none"> <li>Metrics and targets align with annual business goals; payout depends on actual performance against each goal</li> <li>Rewards and incentivizes Kroger employees, including NEOs, for annual performance on key financial and operational metrics</li> <li>Benchmarked to peer group median</li> </ul>	
LONG-TERM INCENTIVE	<ul style="list-style-type: none"> <li>NEW – Cash has been eliminated from the long-term performance-based bonus program</li> <li>NEW – Equity program has been rebalanced so that 50% of equity is performance-based (performance units) and 50% is time-based (restricted stock and stock options)</li> </ul>			VARIABLE / AT-RISK
	Performance-Based Equity	Performance Units	<ul style="list-style-type: none"> <li>Performance units are equity grants which are "paid out" in Kroger common shares, dependent upon company performance against each goal, at the end of the 3-year performance period</li> <li>Measures performance on key financial and operational metrics over a 3-year period</li> <li>Designed to create shareholder value, foster executive retention, and align NEO and shareholder interests</li> </ul>	
	Time-Based Equity	Restricted Stock	<ul style="list-style-type: none"> <li>Stock options and restricted stock for NEOs vest ratably over 4 years; exercise price of stock options is closing price on day of grant</li> <li>Provides direct alignment to stock price appreciation and rewards executives for the achievement of long-term business objectives and providing incentives for the creation of shareholder value</li> </ul>	
Stock Options				

## Fiscal Year 2019 CEO Compensation Decisions

In fiscal year 2019, the Compensation Committee made the following key decisions about Mr. McMullen's compensation:

- No increase to base salary
- No increase to the target annual cash bonus
- Elimination of the cash component of the long-term incentive plan
- An increase to the total long-term incentive opportunity from \$10 million to \$10.5 million
- A long-term incentive compensation value mix comprised of 50% performance units, 30% restricted stock, and 20% stock options
- A total increase to target total direct compensation of 3.6%

The table below compares fiscal 2019 to 2018 target direct compensation. Target total direct compensation is a more accurate reflection of how the Compensation Committee benchmarks and establishes CEO compensation than the disclosure provided in the Summary Compensation Table, which table includes a combination of actual compensation earned in the fiscal year, the current value of at-risk equity compensation to be earned in future fiscal years, and the actuarial value of future pension benefits. The Compensation Committee establishes Mr. McMullen's target direct compensation such that only 9% of his compensation is fixed. The remaining 91% of target compensation is at-risk, meaning that the actual compensation Mr. McMullen receives will depend on the extent to which the Company achieves the performance metrics set by the Compensation Committee, and with respect to all of the equity vehicles, the future value of Kroger common shares.

(\$000s)

Year	Base Salary	Target Annual Incentive	Long-Term Cash Bonus	Performance Units	Restricted Stock	Stock Options	Total LTI	Target TDC	Increase
2019	\$1,316	\$2,500	—	\$5,250	\$3,150	\$2,100	\$10,500	\$14,316	3.6%
2018	\$1,316	\$2,500	\$2,632	\$2,632	\$2,368	\$2,368	\$10,000	\$13,816	

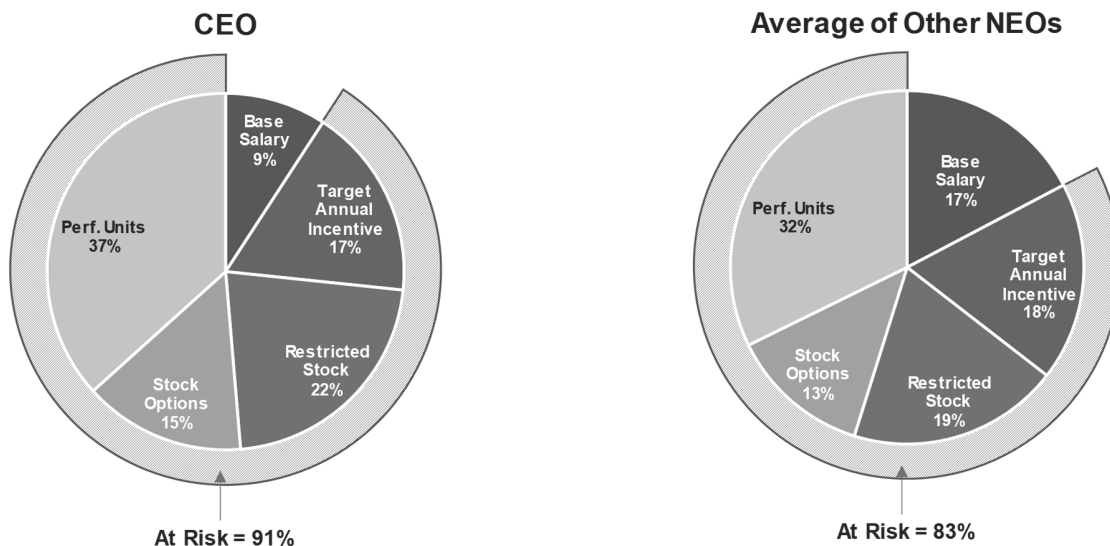
As shown in the table above, and discussed in more detail on page 33, in fiscal 2019, the Compensation Committee made the decision to eliminate the cash portion of the long-term performance-based bonus program and grant 100% of long-term performance-based incentives in equity. This was done in order to increase performance orientation of the plan, to align with market practices, and to further align the interests of executives with shareholders. In addition, the Committee combined time-based and performance-based long-term equity into one program with consistent guidelines and rebalanced the forms of equity as follows: 50% performance units, 30% restricted stock, and 20% stock options. The Compensation Committee made these decisions after reviewing Mr. McMullen's compensation relative to peer group CEOs and evaluating the Company's performance. These decisions resulted in target total direct compensation for the CEO to be positioned at the median relative to peer group CEOs.

The CEO and several other NEOs are participants in Kroger's grandfathered pension plan, details of which are provided in the Summary Compensation Table and further in the section titled, "Pension Plan and Excess Plan" on page 47. The Summary Compensation Table provides the change in value of the future pension benefit for each fiscal year, in accordance with disclosure rules and actuarial standards. The value disclosed in the Summary Compensation Table in the Change in Pension Value column and footnote 4 to the table, for the CEO shows a significant increase, from \$335,955 in fiscal 2018 to \$6,962,485 in fiscal 2019. However, it is important to note that this does not represent an amount paid to the CEO in the fiscal year but is an estimate of the change in the present value of the future pension benefit based on standardized actuarial assumptions. The increase in value in 2019 is attributed to the change in the discount rate from 2018 to 2019, which resulted in an increase in the actuarially determined value, and the increase in Mr. McMullen's average annual earnings as calculated under the pension plan.

Lastly, on December 31, 2019, Kroger froze the compensation and service periods used to calculate pension benefits for all active employees, including the CEO and other NEO participants. Beginning January 1, 2020, the CEO and others, will no longer accrue additional benefits for future service or eligible compensation received under these plans.

## CEO and Named Executive Officer Target Pay Mix

The amounts used in the charts below are based on 2019 target total direct compensation for the CEO and the average of other Named Executive Officers. As illustrated below, 91% of the CEO's target total direct compensation is at-risk. On average, 83% of the other Named Executive Officers' compensation is at risk.



## Our Compensation Philosophy and Objectives

As one of the largest retailers in the world, our executive compensation philosophy is to attract and retain the best management talent as well as motivate these employees to achieve our business and financial goals. Kroger's incentive plans are designed to reward the actions that lead to long-term value creation. The Compensation Committee believes that there is a strong link between our business strategy, the performance metrics in our short-term and long-term incentive programs, and the business results that drive shareholder value.

We believe our strategy creates value for shareholders in a manner consistent with Kroger's purpose: To Feed the Human Spirit.

To achieve our objectives, the Compensation Committee seeks to ensure that compensation is competitive and that there is a direct link between pay and performance. To do so, it is guided by the following principles:

- A significant portion of pay should be performance-based, with the percentage of total pay tied to performance increasing proportionally with an NEO's level of responsibility.
- Compensation should include incentive-based pay to drive performance, providing superior pay for superior performance, including both a short- and long-term focus.
- Compensation policies should include an opportunity for, and a requirement of, equity ownership to align the interests of NEOs and shareholders.
- Components of compensation should be tied to an evaluation of business and individual performance measured against metrics that directly drive our business strategy.
- Compensation plans should be clear and simple and provide a direct line of sight to company performance.
- Compensation programs should be aligned with market practices.
- Compensation programs should serve to both motivate and retain talent.

The Compensation Committee has three related objectives regarding compensation:

- First, the Compensation Committee believes that compensation must be designed to attract and retain those individuals who are best suited to be an officer at Kroger.
- Second, a majority of compensation should help align the interests of our NEOs with the interests of our shareholders.



- Third, compensation should create strong incentives for the NEOs to achieve the annual business plan targets established by the Board, and to achieve Kroger's long-term strategic objectives.

### **Components of Executive Compensation at Kroger**

For 2019, compensation for our NEOs is comprised of the following:

- Annual Compensation:
  - Salary
  - Performance-Based Annual Cash Bonus
- Long-Term Compensation:
  - Performance-Based Long-Term Incentive Plan consisting only of performance units; eliminated cash portion of plan for the 2019 program
  - Non-qualified stock options
  - Restricted stock
- Retirement and other benefits
- Minimal perquisites

The annual and long-term performance-based compensation awards described herein were made pursuant to our 2014 Long-Term Incentive and Cash Bonus Plan, which was approved by our shareholders in 2014. Grants made in July 2019 and thereafter are made under the 2019 Long-Term Incentive and Cash Bonus Plan, which was approved by our shareholders in June 2019.

### ***Annual Compensation – Salary***

Our philosophy with respect to salary is to provide a sufficient and stable source of fixed cash compensation. All of our compensation cannot be at-risk or long-term. It is important to provide a meaningful annual salary to attract and retain a high caliber leadership team, and to have an appropriate level of cash compensation that is not variable.

Salaries for the NEOs (with the exception of the CEO) are established each year by the Compensation Committee, in consultation with the CEO. The CEO's salary is established by all of the independent directors. Salaries for the NEOs were reviewed by the Compensation Committee in March of 2019 and increased as of April 1, 2019.

The amount of each NEO's salary is influenced by numerous factors including:

- An assessment of individual contribution in the judgment of the CEO and the Compensation Committee (or, in the case of the CEO, all of the independent directors);
- Benchmarking with comparable positions at peer group companies;
- Tenure in role; and
- Relationship to other Kroger executives' salaries.

The assessment of individual contribution is a qualitative determination, based on the following factors:

- Leadership;
- Contribution to the officer group;
- Achievement of established objectives;
- Decision-making abilities;
- Performance of the areas or groups directly reporting to the NEO;
- Increased responsibilities;
- Strategic thinking; and
- Furtherance of Kroger's purpose: To Feed the Human Spirit.

### ***Annual Compensation – Performance-Based Annual Cash Bonus***

The NEOs participate in a corporate performance-based annual cash bonus plan. The amount of annual cash bonus that the NEOs earn each year is based upon Kroger's overall company performance compared to goals established by the Compensation Committee based on the business plan adopted by the Board of Directors. The annual cash bonus for all NEOs other than Mr. Aitken was based solely on the corporate plan metrics and Mr. Aitken's annual cash bonus was based half on corporate plan metrics and half on team metrics, as described below.

A minimum level of performance must be achieved before any payouts are earned, while a payout of up to 200% of target bonus potential can be achieved for superior performance on the corporate plan metrics. There are no guaranteed or minimum payouts; if none of the performance goals are achieved, then none of the bonus is earned and no payout is made.

The annual cash bonus plan is designed to encourage decisions and behavior that drive the annual operating results and the long-term success of the Company. Kroger's success is based on a combination of factors, and accordingly the Compensation Committee believes that it is important to encourage behavior that supports multiple elements of our business strategy.

In 2019, the Company instituted a team metric component of the annual cash bonus plan applicable to a portion of the associates eligible for the plan. Those associates typically received 50% of their bonus based on the corporate results and the remaining 50% based on between one and three team metrics tied to the results of their business unit or function. The purpose of the team metric component is to support line of sight between individual behavior and the incentive payout, and is designed to reward high performing teams and to allow associates to have an even more direct influence on their bonus payout. Mr. Aitken is the only NEO whose annual cash bonus plan included team metrics, as his role supports enterprise marketing, alternative profit businesses, and 84.51, Kroger's data analytics business unit. His annual bonus was allocated as follows: 50% corporate annual bonus plan metrics; 25% alternative profit streams results; and 25% supermarket identical sales results. The annual cash bonus for all other NEOs was based 100% on the corporate plan metrics as their roles support the enterprise as a whole.

### ***Establishing Annual Cash Bonus Potentials***

The Compensation Committee establishes annual cash bonus potentials for each NEO, other than the CEO, whose annual cash bonus potential is established by the independent directors. Actual payouts represent the extent to which performance meets or exceeds the goals established by the Compensation Committee.

The Compensation Committee considers multiple factors in making its determination or recommendation as to annual cash bonus potentials:

- The individual's level within the organization, as the Compensation Committee believes that more senior executives should have a more substantial part of their compensation dependent upon Kroger's performance;
- The individual's salary, as the Compensation Committee believes that a significant portion of a NEO's total cash compensation should be dependent upon Kroger's performance;
- Individual performance;
- The recommendation of the CEO for the other NEOs; and
- The compensation consultant's benchmarking report regarding annual cash bonus potential and total compensation awarded by our peer group.

## 2019 Annual Cash Bonus Plan Metrics

The corporate annual cash bonus plan is a broad-based plan used across the Kroger enterprise. Approximately 53,000 associates receive bonus payouts based all or in part on the bonus plan described below. The 2019 corporate annual cash bonus plan had the following measurable performance metrics, all of which are interconnected:

Metric	Weight	Rationale for Use
<i>ID Sales, excluding fuel</i>		<ul style="list-style-type: none"> <li>• Identical Sales (“ID Sales”) represent sales, excluding fuel, at our supermarkets that have been open without expansion or relocation for five full quarters, plus sales growth at all other customer-facing non-supermarket business, including Kroger Specialty Pharmacy and ship to home solutions.</li> <li>• The change in this metric from ID Supermarket Sales, excluding fuel, to total company ID Sales, excluding fuel, is consistent with a change in the Company’s reporting during fiscal year 2018. We now calculate ID Sales to be more inclusive of Company business units, and this measure presents a comprehensive view of our performance as we redefine the grocery customer experience, and is therefore a more appropriate measure of company performance than ID Supermarket Sales.</li> <li>• We believe that ID sales are the best measure of real growth of our sales across the enterprise. A key driver of our model is ID Sales growth.</li> </ul>
<i>Adjusted FIFO Operating Profit, including fuel</i>	Combined 67%	<ul style="list-style-type: none"> <li>• Adjusted FIFO Operating Profit, including fuel, is a key measure of company success. An earnings measure like this helps track our earnings from operations, and it measures our day-to-day operational effectiveness.</li> <li>• Adjusted FIFO Operating Profit is a non-GAAP calculation reflecting operating profit, including fuel, minus the LIFO charge, and adjusted by excluding certain items included in FIFO Operating Profit. This calculation is the non-GAAP adjusted operating profit measure that we disclose, and reconcile, in our financial statements.</li> </ul>
<i>Kroger Way Plans</i>	33%	<ul style="list-style-type: none"> <li>• Each major business line and department created a Kroger Way Plan – a strategic business plan to directly support one of the four pillars of <i>Restock Kroger</i>, each of which outlines both the resource allocation and the return commitment for that plan.</li> <li>• We measure the success of the Kroger Way Plans with an internal calculation called Restock Savings &amp; Benefits, which is a combination of cost savings generated under our Kroger Way Plans, incremental profits from ID sales growth, and incremental net operating profit from our alternative profit streams.</li> </ul>
<b>Total of 3 Metrics</b>	<b>100%</b>	

## 2019 Annual Cash Bonus Plan Results

The 2019 goals established by the Compensation Committee, the actual 2019 results, and the bonus percentage earned for each of the performance metrics of the 2019 corporate annual bonus plan were as follows.

The first component of the corporate annual bonus plan, accounting for 67% of the payout, is ID sales, excluding fuel, and adjusted FIFO operating profit, including fuel, determined on the following grid with payouts interpolated for actual performance levels between the defined goals on the grid:

### 2019 Corporate Annual Cash Bonus Plan Metrics – ID Sales and OP

		ID Sales, excluding Fuel				
		1.30%	1.70%	2.40%	2.70%	3.10%
<b>Adjusted FIFO Operating Profit,</b>	\$2,750 to 3,000	15%	35%	70%	85%	105%
<b>including Fuel</b>	Greater than \$3,000 to 3,100	20%	60%	130%	170%	200%
<b>(in millions)</b>	Greater than \$3,100	20%	60%	130%	170%	250%

The second component of the corporate annual bonus plan, accounting for 33% of the payout is progress on proprietary strategic business plans known as Kroger Way Plans, measured by Restock Savings & Benefits:

### 2019 Corporate Annual Cash Bonus Plan Metrics – Restock Savings & Benefits

Restock Savings & Benefits Results	Payout
Less than \$1.36 Billion	0% payout
\$1.36 Billion to \$1.46 Billion	Interpolated payout between 1 and 99%
\$1.46 Billion	100% payout

### 2019 Corporate Annual Cash Bonus Plan – Actual Results and Payout Percentages

Performance Metrics	Result	Payout Percentage <sup>1</sup> (A)	Weight (B)	Amount Earned (A) x (B)
ID Sales/OP	ID Sales = 2.01% OP = \$2.96 Billion	50.5%	67%	33.84%
Kroger Way Plans	\$1.41 Billion	46.2%	33%	15.25%
Total Earned				49.09%

(1) See grids above.

Following the close of the 2019 fiscal year, the Compensation Committee reviewed Kroger's performance against each of the metrics outlined above and determined the extent to which Kroger achieved those objectives. Our performance compared to the goals established by the Compensation Committee resulted in a payout on the 2019 corporate annual bonus of 49.09% of the participant's bonus potential for all of the NEOs except Mr. Aitken. Mr. Aitken's annual bonus payout of 58.0% of his bonus potential included the corporate annual plan described above and two team metrics, as follows:

### Mr. Aitken's Corporate Plan & Team Metrics – Actual Results and Payout Percentages

	Payout Percentage (A)	Weight (B)	Amount Earned (A) x (B)
Corporate Annual Bonus Plan	49.09%	50%	24.55%
Alternative Profit Streams	93.0 %	25%	23.25%
Supermarket ID Sales	41.0 %	25%	10.25%
Total Earned			58.0 %

In 2019, as in all years, the Compensation Committee retained the ability to reduce the annual cash bonus payout for all executive officers, including the NEOs, if the Compensation Committee determined for any reason that the bonus payouts were not appropriate given their assessment of Company performance – however, no adjustments were made in 2019. The independent directors retained that discretion for the CEO’s bonus. The Compensation Committee and the independent directors also retained the ability to adjust the goals for each metric under the plan should unanticipated developments arise during the year – however no adjustments were made in 2019.

The actual corporate annual cash bonus percentage payout for 2019 reflects growth over 2018 in both ID Sales, excluding fuel, and Adjusted FIFO Operating Profit, including fuel, but performance below business plan objectives on both measures. The strong link between pay and performance is illustrated by a comparison of earned amounts under our annual cash bonus plan in previous years, such as 2016 and 2017, when payouts were particularly low. In those years, we failed to achieve many of our business plan objectives. A comparison of actual percentage payouts this year and in prior years demonstrates the variability of the corporate annual cash bonus compensation and its strong link to our performance:

Fiscal Year	Annual Cash Bonus Payout Percentage
2019	49.09%
2018	91.2 %
2017	3.8 %
2016	19.9 %
2015	126.7 %
2014	121.5 %
2013	104.9 %
2012	85.9 %
2011	138.7 %
2010	53.9 %

As described above, the corporate annual cash bonus payout percentage is applied to each NEO’s bonus potential (along with team metrics for Mr. Aitken) which is determined by the Compensation Committee, and the independent directors in the case of the CEO. The actual amounts of performance-based annual cash bonuses paid to the NEOs for 2019 are reported in the Summary Compensation Table in the “Non-Equity Incentive Plan Compensation” column and footnote 3 to that table.

### **Long-Term Compensation Program**

The Compensation Committee believes in the importance of providing an incentive to the NEOs to achieve the long-term goals established by the Board. As such, a majority of NEO compensation is dependent on the achievement of the Company’s long-term goals. Long-term compensation promotes long-term value creation and discourages the over-emphasis of attaining short-term goals at the expense of long-term growth.

The long-term incentive program is structured to be a combination of performance- and time-based compensation that reflects elements of financial and common share performance to provide both retention value and alignment with company performance. Each year, NEOs receive grants under the long-term compensation program, which is structured as follows:

- *Performance-Based*
  - Long-term performance-based compensation is provided under a Long-Term Incentive Plan adopted by the Compensation Committee. The Committee adopts a new plan every year, measuring improvement on the Company’s long-term goals over successive three-year periods. Accordingly, at any one time there are three plans outstanding, which are summarized below.
  - Under the Long-Term Incentive Plans, NEOs receive grants of equity called performance units, and until 2019 received cash “grants” as well. A fixed number of performance units based on level and individual performance is awarded to each participant at the beginning of the three-year performance period and prior to 2019 a cash bonus base was set as well.
  - Payouts under the plan are contingent on the achievement of certain strategic performance and financial measures and incentivize recipients to promote long-term value creation and enhance shareholder wealth by supporting the Company’s long-term strategic goals.

- The payout percentage, based on the extent to which the performance metrics are achieved, is applied to both the long-term cash bonus potential (for plans prior to 2019) and the number of performance units awarded.
- Performance units are “paid out” in Kroger common shares based on actual performance, along with a cash amount equal to the dividends paid during the performance period on the number of issued common shares.
- *Time-Based*
  - Long-term time-based compensation consists of stock options and restricted stock, which are linked to common share performance creating alignment between the NEOs’ and our shareholders’ interests.
  - Stock options have no initial value and recipients only realize benefits if the value of our common shares increases following the date of grant, further aligning the NEOs’ and our shareholders’ interests.

The Compensation Committee considers several factors in determining the target value of long-term compensation awarded to the NEOs or, in the case of the CEO, recommending to the independent directors the amount awarded. These factors include:

- The NEO’s level in the organization and the internal relationship of long-term compensation awards within Kroger;
- The compensation consultant’s benchmarking report regarding long-term compensation awarded by our peer group;
- Individual performance; and
- The recommendation of the CEO, for the other NEOs.

Amounts of long-term compensation awards issued and outstanding for the NEOs are set forth in the Executive Compensation Tables section.

### **Summary of Three Long-Term Incentive Plans Outstanding During 2019**

The Compensation Committee adopts a new Long-Term Incentive Plan each year, which provides for overlapping three-year performance periods. Additional detail regarding each of the three plans is provided below, and a summary of the design of the plans outstanding during 2019 is as follows:

	<b>2017-2019 LTIP</b>	<b>2018-2020 LTIP</b>	<b>2019-2021 LTIP</b>
<b>Cash Component</b>	Participant’s salary at the end of FY 2016	Cash bonus potential set by Compensation Committee	No cash component
<b>Performance Units and Dividends</b>	Performance units are equity grants which are “paid out” in Kroger common shares, based on actual performance at the end of the 3-year performance period, along with a cash amount equal to the dividends paid during the performance period on the number of issued common shares ultimately earned.		
<b>Performance Metrics</b>	1/3 = original metrics 2/3 = Restock Kroger metrics	Restock Kroger metrics + ROIC multiplier	Restock Kroger metrics + ROIC multiplier
<b>Determination of Payout</b>	The payout percentage, based on the extent to which the performance metrics are achieved, is applied to both the long-term cash bonus potential and the number of performance units awarded.		The payout percentage, based on the extent to which the performance metrics are achieved, is applied to number of performance units awarded.
<b>Maximum Payout</b>	100%	120%	120%
<b>Payout Date</b>	March 2020	March 2021	March 2022

## Recap of 2018 Realignment of Long-Term Plans

As previously disclosed by the Company, in October 2017, we announced *Restock Kroger*, our three-year plan to redefine the food and grocery customer experience in America and to create value for our shareholders. Since we implement a new three-year long-term incentive plan each year, at any one time, there are three outstanding plans, as was the case in 2018. Because the 2016-2018 and 2017-2019 long-term plans were mid-cycle, we felt strongly that we should focus on *Restock Kroger* metrics rather than having competing priorities. As a result, in setting 2018 compensation, the Compensation Committee determined that the metrics of the two mid-cycle plans should be modified to align with *Restock Kroger* and the payouts for the NEOs should be addressed as described below.

The first mid-cycle plan, the 2016-2018 Long-Term Incentive Plan paid out in March 2019 and was disclosed in our proxy statement filed in May 2019. For the second mid-cycle plan, the 2017-2019 Long-Term Incentive Plan, fiscal year 2017 performance was measured on the pre-existing plan metrics and was applied to one-third of the previously granted cash and performance unit bonus target amounts. Fiscal years 2018 and 2019 performance was measured on the *Restock Kroger* metrics of Cumulative Restock Savings & Benefits and Cumulative Free Cash Flow and was applied to two-thirds of the previously granted cash and performance unit bonus target amounts.

The *Restock Kroger* metrics are calculated as follows:

- Cumulative Restock Savings & Benefits is an internal calculation that is a combination of cost savings generated under our Kroger Way Plans; incremental profits from ID sales growth; and incremental net operating profit from our alternative profit streams.
- Cumulative Free Cash Flow is an adjusted free cash flow measure calculated as net cash provided by operating activities minus net cash used by investing activities plus or minus adjustments for certain items.

With respect to the mid-cycle plans, we did not adjust the cash bonus potentials or re-issue previously issued performance unit grants, we did not allow the re-earning of cash and performance units that were not earned in the completed year(s) of the outstanding plans, and we did not change the timing of the payout under the outstanding plans.

## 2017-2019 Long-Term Incentive Plan – Results

The 2017 Long-Term Incentive Plan, which measured performance over the three-year period from 2017 to 2019, paid out in March 2020. The 2017 plan was modified during 2018 as described above and was calculated in two parts as follows:

**Part 1:** Fiscal year 2017 performance was measured on the existing plan metrics and was applied to one-third of the previously granted cash and performance unit bonus target amounts.

Metric	Baseline	Result	Improvement (A)	Payout per Improvement (B)	Percentage Earned (A) x (B)
Customer 1 <sup>st</sup> Strategy <sup>(1)</sup>	*	*	No improvement	4.0%	0.0%
Improvement in Associate Engagement <sup>(1)</sup>	*	*	No improvement	4.0%	0.0%
Reduction in Operating Cost as a Percentage of Sales, without Fuel <sup>(2)</sup>	26.17%	27.17%	No improvement	0.5%	0.0%
Return on Invested Capital <sup>(3)</sup>	13.23%	11.20%	No improvement	1.0%	0.0%
Total					0.0%

(1) The Customer 1<sup>st</sup> Strategy and Improvement in Associate Engagement components were established by the Compensation Committee at the beginning of the performance period, but are not disclosed as they are competitively sensitive.

(2) Operating Costs is a non-GAAP measure and is calculated as the sum of (i) operating, general and administrative expenses, depreciation and amortization, and rent expense, without fuel, and (ii) warehouse and transportation costs, shrink, and advertising expenses, for our supermarket operations, without fuel.

Operating costs exclude one-time expenses incurred in lieu of future anticipated obligations. Future expenses that are avoided by virtue of the incurrence of the one-time expense will be deemed to be total operating costs in the year in which they otherwise would have been incurred.

- (3) Return on invested capital is a non-GAAP measure and is calculated by dividing adjusted operating profit for the prior four quarters by the average invested capital. Adjusted operating profit is calculated by excluding certain items included in operating profit, and adding our last-in, first out (“LIFO”) charge, depreciation and amortization, and rent. Average invested capital is calculated as the sum of (i) the average of our total assets, (ii) the average LIFO reserve, (iii) the average accumulated depreciation and amortization, and (iv) a rent factor equal to total rent for the last four quarters multiplied by a factor of eight; minus (i) the average taxes receivable, (ii) the average trade accounts payable, (iii) the average accrued salaries and wages, and (iv) the average other current liabilities, excluding accrued income taxes.

**Part 2:** Fiscal year 2017 and 2018 performance was measured on the *Restock Kroger* metrics of Cumulative Restock Savings & Benefits and Cumulative Free Cash Flow, with each metric accounting for 50% of the payout. The payout percentage was applied to two-thirds of the previously granted cash and performance unit bonus target amounts.

	Cut in = 50% Payout	Goal = 100% Payout	Result	Payout Percentage	Weight	Payout Amount
Cumulative Restock Savings & Benefits	\$1.95B	\$2.50B	\$2.51B	100%	50%	50 %
Cumulative Free Cash Flow <sup>(1)</sup>	\$2.80B	\$4.00B	\$3.59B	83%	50%	41.5%
<b>Total Payout</b>						<b>91.5%</b>

- (1) Cumulative Free Cash Flow is a non-GAAP measure calculated as net cash provided by operating activities minus net cash used by investing activities plus, in this case, an amount equal to cash taxes paid on the gain on the sale of Turkey Hill Dairy and You Technology.

Accordingly, no payout was earned on one-third of the bonus target and 91.5% payout was earned on two-thirds of the bonus target, resulting in a 61.0% overall payout. The NEOs received long-term cash bonus payments in an amount equal to 61.0% of that executive’s long-term cash bonus potential and were issued the number of Kroger common shares equal to 61.0% of the number of performance units awarded to that executive, along with a cash amount equal to the dividends paid on that number of common shares during the three year performance period.

The cash payout and dividends paid on common shares earned under the 2017-2019 Long-Term Incentive Plan are reported in the “Non-Equity Incentive Plan Compensation” and “All Other Compensation” columns of the Summary Compensation Table and footnotes 3 and 5 to that table, respectively, and the common shares issued under the plan are reported in the 2019 Option Exercises and Stock Vested Table and footnote 2 to that table.

### **2018-2020 Long-Term Incentive Plan Metrics**

Our 2018-2020 Long-Term Incentive Plan has performance metrics tied entirely to *Restock Kroger* goals of Cumulative Restock Savings & Benefits and Cumulative Free Cash Flow, with a return on invested capital modifier.

Each of the following plan components account for 50% of the potential payout percentage.

Plan Component	2018-2020
<b>Cumulative Restock Savings &amp; Benefits</b>	
Cut in = 50% payout	\$3.0B
Goal = 100% payout	\$4.450B
<b>Cumulative Free Cash Flow</b>	
Cut in = 50% payout	\$4.875B
Goal = 100% payout	\$6.5B



After the calculation of the two metrics above, a Return on Invested Capital multiplier is applied, as follows:

ROIC Modifier Component	
ROIC Results	Payout Modifier
Less than 12.12%	80%
12.12% - 12.32%	100%
Greater than 12.32%	120%

The payout percentage is applied to the cash bonus base and the number of performance units granted under the plan to determine the payout amount.

### **Long-Term Compensation – 2019 Redesign**

Previously, long-term compensation was delivered via four long-term compensation vehicles: long-term cash bonus, performance units, stock options, and restricted stock. These four elements existed in the 2017-2019 Long-Term Incentive Plan and remain in the mid-cycle 2018-2020 Long-Term Incentive Plan.

In 2019, the Compensation Committee considered both feedback from shareholders and market practices and made two fundamental changes to the Company's long-term compensation program, which is applicable to all associates who are Vice President level and higher, including NEOs:

- The Committee eliminated the cash portion of the long-term performance-based compensation, maintaining only equity, in the form of performance units, in the plan.
- With respect to the equity grants awarded each year, the Committee combined time-based and performance based long-term equity into one program with consistent guidelines and rebalanced the forms of equity as follows:
  - 50% performance units
  - 30% restricted stock
  - 20% stock options

Accordingly, starting in 2019, all long-term compensation is equity-based, and fifty percent of equity granted under the program is performance based.

### **2019-2021 Long-Term Incentive Plan Metrics**

The 2019-2021 Long-Term Incentive Plan reflects existing *Restock Kroger* metrics for the final two years of the 2018-2020 *Restock Kroger* financial plan, along with an ROIC component for fiscal year 2021. Each of the following plan components account for 50% of the potential payout percentage.

Plan Component	2019-2020
<b>Cumulative Restock Savings &amp; Benefits</b>	
Cut in = 50% payout	\$2.050B
Goal = 100% payout	\$3.434B
<b>Cumulative Free Cash Flow</b>	
Cut in = 50% payout	\$3.675B
Goal = 100% payout	\$4.640B

After the calculation of the two metrics above, a 2021 Return on Invested Capital multiplier is applied, as follows:

ROIC Modifier Component	
FY 2021 ROIC Results	Payout Modifier
Less than 12.24%	80%
12.24% - 12.44%	100%
Greater than 12.44%	120%

The payout percentage is applied to the number of performance units granted under the plan to determine the payout amount.

### ***Stock Options and Restricted Stock***

Stock options and restricted stock continue to play an important role in rewarding NEOs for the achievement of long-term business objectives and providing incentives for the creation of shareholder value. Awards based on Kroger's common shares are granted annually to the NEOs. Kroger historically has distributed time-based equity awards widely, aligning the interests of employees with your interest as shareholders.

The options permit the holder to purchase Kroger common shares at an option price equal to the closing price of Kroger common shares on the date of the grant. Options are granted only on one of the four dates of Board meetings conducted after Kroger's public release of its quarterly earnings results.

The Compensation Committee determines the vesting schedule for stock options and restricted stock. During 2019, the Compensation Committee granted to the NEOs stock options and restricted stock, each with a four-year ratable vesting schedule, with the exception of promotion awards with three-year ratable vesting schedules.

As discussed below under Stock Ownership Guidelines, covered individuals, including the NEOs, must hold 100% of common shares issued pursuant to performance units earned, the shares received upon the exercise of stock options or upon the vesting of restricted stock, except those necessary to pay the exercise price of the options and/or applicable taxes, until applicable stock ownership guidelines are met, unless the disposition is approved in advance by the CEO, or by the Board or Compensation Committee for the CEO.

### ***Retirement and Other Benefits***

Kroger maintains several defined benefit and defined contribution retirement plans for its employees. The NEOs participate in one or more of these plans, as well as one or more excess plans designed to make up the shortfall in retirement benefits created by limitations under the Internal Revenue Code (the "Code") on benefits to highly compensated individuals under qualified plans. Additional details regarding certain retirement benefits available to the NEOs can be found below in footnote 4 to the Summary Compensation Table and the 2019 Pension Benefits Table and the accompanying narrative.

Kroger also maintains an executive deferred compensation plan in which some of the NEOs participate. This plan is a nonqualified plan under which participants can elect to defer up to 100% of their cash compensation each year. Additional details regarding our nonqualified deferred compensation plans available to the NEOs can be found below in the 2019 Nonqualified Deferred Compensation Table and the accompanying narrative.

Kroger also maintains The Kroger Co. Employee Protection Plan ("KEPP"), which covers all of our management employees who are classified as exempt under the federal Fair Labor Standards Act and certain administrative or technical support personnel who are not covered by a collective bargaining agreement, with at least one year of service. KEPP has a double-trigger change in control provision and it provides for severance benefits and extended Kroger-paid health care, as well as the continuation of other benefits as described in the plan, when an employee is actually or constructively terminated without cause within two years following a "change in control" of Kroger (as defined in KEPP). Participants are entitled to severance pay of up to 24 months' salary and target annual bonus. The actual amount is dependent upon pay level and years of service. KEPP can be amended or terminated by the Board at any time prior to a change in control.

With respect to awards prior to 2019, performance-based long-term cash bonus, performance unit, stock option, and restricted stock agreements with award recipients provide that those awards "vest," with 50% of the long-term cash bonus potential being paid, common shares equal to 50% of the performance units being awarded, options becoming immediately exercisable, and restrictions on restricted stock lapsing upon a change in control as described in the grant agreements. Grants made in 2019 have double trigger change in control provisions and the "vesting" described above is only triggered if an employee is actually or constructively terminated without cause within two years following a change in control of Kroger (as defined in the grant agreement, and consistent with KEPP).

None of the NEOs are party to an employment agreement.

## **Perquisites**

Our NEOs receive limited perquisites as the Compensation Committee does not believe that it is necessary for the attraction or retention of management talent to provide executives a substantial amount of compensation in the form of perquisites.

## **Process for Establishing Executive Compensation**

The Compensation Committee of the Board has the primary responsibility for establishing the compensation of our executive officers, including the NEOs, with the exception of the CEO. The Compensation Committee's role regarding the CEO's compensation is to make recommendations to the independent members of the Board; those members of the Board establish the CEO's compensation.

The Compensation Committee directly engaged Korn Ferry as a compensation consultant to advise the Compensation Committee in the design of compensation for executive officers, through the 2019 compensation planning cycle.

Korn Ferry conducted an annual competitive assessment of executive positions at Kroger for the Compensation Committee. The assessment is one of several bases, as described above, on which the Compensation Committee determines compensation. The consultant assessed:

- base salary;
- target performance-based annual cash bonus;
- target annual cash compensation (the sum of salary and annual cash bonus potential);
- long-term incentive compensation, comprised of performance units, stock options and restricted stock; and
- total direct compensation (the sum of target annual cash compensation and long-term compensation).

In addition to the factors identified above, the consultant also reviewed actual payout amounts against the targeted amounts.

The consultant compared these elements against those of other companies in a group of publicly traded companies selected by the Compensation Committee. For 2019, our peer group consisted of:

Best Buy	Home Depot	Target
Cardinal Health	Johnson & Johnson	TJX Companies
Costco Wholesale	Lowes	Wal-Mart
CVS Health	Procter & Gamble	Walgreens Boots Alliance
Express Scripts	Sysco	

The make-up of the compensation peer group is reviewed annually and modified as circumstances warrant. The Compensation Committee modified the peer group in 2016 because of industry consolidation and other competitive forces. In addition, the Compensation Committee considered data from "general industry" companies provided by its independent compensation consultant, a representation of major publicly-traded companies of similar size and scope from outside the retail industry. This data provided reference points, particularly for senior executive positions where competition for talent extends beyond the retail sector. The peer group includes a combination of food and drug retailers, other large retailers based on revenue size, and large consumer-facing companies. Median 2019 revenue for the peer group was \$96 billion, compared to our 2019 revenue of \$121 billion.

Considering the size of Kroger in relation to other peer group companies, the Compensation Committee believes that salaries paid to our NEOs should be competitively positioned relative to amounts paid by peer group companies for comparable positions. The Compensation Committee also aims to provide an annual cash bonus potential to our NEOs that, if achieved at superior levels, would cause total cash compensation to be meaningfully above the median. Actual payouts may be as low as zero if performance does not meet the baselines established by the Compensation Committee.

The independent members of the Board have the exclusive authority to determine the amount of the CEO's compensation. In setting total compensation, the independent directors consider the median compensation of the peer group's CEOs. With respect to the annual bonus, the independent directors make two determinations: (1) the annual cash bonus potential that will be multiplied by the corporate annual cash bonus payout percentage earned

that is applicable to the NEOs and (2) the annual cash bonus amount paid to the CEO by retaining discretion to reduce the annual cash bonus percentage payout the CEO would otherwise receive under the formulaic plan.

The Compensation Committee performs the same function and exercises the same authority as to the other NEOs. In its annual review of compensation for the NEOs, the Compensation Committee:

- Conducts an annual review of all components of compensation, quantifying total compensation for the NEOs including a summary for each NEO of salary; performance-based annual cash bonus; long-term performance-based equity comprised of performance units, stock options and restricted stock.
- Considers internal pay equity at Kroger to ensure that the CEO is not compensated disproportionately. The Compensation Committee has determined that the compensation of the CEO and that of the other NEOs bears a reasonable relationship to the compensation levels of other executive positions at Kroger taking into consideration performance and differences in responsibilities.
- Reviews a report from the Compensation Committee's compensation consultant reflecting a comprehensive review of each element of pay mix, both annual and long-term and comparing NEO compensation with that of other companies, including both our peer group of competitors and a larger general industry group, to ensure that the Compensation Committee's objectives of competitiveness are met.
- Takes into account a recommendation from the CEO (except in the case of his own compensation) for salary, annual cash bonus potential and long-term compensation awards for each of the senior officers including the other NEOs. The CEO's recommendation takes into consideration the objectives established by and the reports received by the Compensation Committee as well as his assessment of individual job performance and contribution to our management team.

The Compensation Committee does not make use of a formula, but both qualitatively and quantitatively considers each of the factors identified above in setting compensation.

### **Looking Ahead – 2020 Compensation**

As of the date of this Proxy Statement, Kroger's operations have been affected by the COVID-19 pandemic. Numerous uncertainties have been created by the pandemic, and certain aspects of our compensation programs may later be revised or modified once the Compensation Committee has had an opportunity to fully evaluate the impact of COVID-19 on our business. The Compensation Committee will work with its independent compensation consultant, Korn Ferry, to evaluate any potential changes to our executive compensation design. With that important caveat, we are providing a preview of our 2020 compensation programs.

- Our 2020 Annual Cash Bonus Plan is likely to have the following components: ID sales, excluding fuel and adjusted FIFO operating profit, including fuel, with an associate experience kicker.
- With respect to our long-term performance-based compensation, since 2018, Kroger's metrics in its Long-Term Incentive Plans have focused on key *Restock Kroger* metrics. With the three-year financial targets of the 2018-2020 *Restock Kroger* plan concluding in 2020, the Compensation Committee reconsidered the long-term incentive plan framework. In November 2019, Kroger committed to investors an 8-11% Total Shareholder Return (TSR) target. The Committee determined that going forward, the Long-Term Incentive Plan metrics should align with Kroger's long-term business plans and guidance that we communicated to shareholders. Accordingly, the 2020-2022 Long-Term Bonus Plan is likely to have the following components which support our long term business plans: total sales without fuel + fuel gallons; cumulative growth in net operating profit; cumulative growth in free cash flow; a fresh metric; and a total shareholder return modifier.

### **Shareholder Engagement & the 2019 Advisory Vote to Approve Executive Compensation**

At the 2019 annual meeting, we held our ninth annual advisory vote on executive compensation. Over 89% of the votes cast were in favor of the advisory vote in 2019. In 2019, we also requested meetings with shareholders representing 43% of our outstanding shares during the proxy season and off-season engagement and ultimately engaged with shareholders representing 36% of our outstanding shares. Conversations with our shareholders in these meetings included discussions of our compensation program, with our shareholders providing feedback that they appreciate the pay for performance nature of our program's structure. In light of this feedback and

benchmarking to market practices, along with the strong support for our executive compensation program at the 2019 annual meeting, the Compensation Committee made a number of changes in the structure of our compensation programs for 2019 described above.

### **Stock Ownership Guidelines**

To more closely align the interests of our officers and directors with your interests as shareholders, the Board has adopted stock ownership guidelines. These guidelines require non-employee directors, executive officers, and other key executives to acquire and hold a minimum dollar value of Kroger common shares as set forth below:

<b>Position</b>	<b>Multiple</b>
Chief Executive Officer	5 times base salary
President and Chief Operating Officer	4 times base salary
Executive Vice Presidents and Senior Vice Presidents	3 times base salary
Group Vice Presidents, Division Presidents, and Other Designated Key Executives	2 times base salary
Non-employee Directors	5 times annual base cash retainer

All covered individuals are expected to achieve the target level within five years of appointment to their positions. Until the requirements are met, covered individuals, including the NEOs, must hold 100% of common shares issued pursuant to performance units earned, shares received upon the exercise of stock options and upon the vesting of restricted stock, except those necessary to pay the exercise price of the options and/or applicable taxes, and must retain all Kroger common shares unless the disposition is approved in advance by the CEO, or by the Board or Compensation Committee for the CEO.

### **Executive Compensation Recoupment Policy (Clawback)**

If a material error of facts results in the payment to an executive officer at the level of Group Vice President or higher of an annual cash bonus or a long-term cash bonus in an amount higher than otherwise would have been paid, as determined by the Compensation Committee, then the officer, upon demand from the Compensation Committee, will reimburse Kroger for the amounts that would not have been paid if the error had not occurred. This recoupment policy applies to those amounts paid by Kroger within 36 months prior to the detection and public disclosure of the error. In enforcing the policy, the Compensation Committee will take into consideration all factors that it deems appropriate, including:

- the materiality of the amount of payment involved;
- the extent to which other benefits were reduced in other years as a result of the achievement of performance levels based on the error;
- individual officer culpability, if any; and
- other factors that should offset the amount of overpayment.

### **Compensation Policies as They Relate to Risk Management**

As part of the Compensation Committee's review of our compensation practices, the Compensation Committee considers and analyzes the extent to which risks arise from such practices and their impact on Kroger's business. As discussed in this Compensation Discussion and Analysis, our policies and practices for compensating employees are designed to, among other things, attract and retain high quality and engaged employees. In this process, the Compensation Committee also focuses on minimizing risk through the implementation of certain practices and policies, such as the executive compensation recoupment policy, which is described above. Accordingly, we do not believe that our compensation practices and policies create risks that are reasonably likely to have a material adverse effect on Kroger.

### **Prohibition on Hedging and Pledging**

After considering best practices related to ownership of Kroger shares, the Board adopted a policy prohibiting Kroger directors and executive officers from engaging, directly or indirectly, in the pledging of, hedging transactions in, or short sales of, Kroger securities.

## **Section 162(m) of the Internal Revenue Code**

Prior to the effective date of the Tax Cuts and Jobs Act of 2017, Section 162(m) of the Code generally disallowed a federal tax deduction to public companies for compensation greater than \$1 million paid in any tax year to specified executive officers unless the compensation was “qualified performance-based compensation” under that section. Pursuant to the Tax Cuts and Jobs Act of 2017, the exception for “qualified performance-based compensation” under Section 162(m) of the Code was eliminated with respect to all remuneration in excess of \$1 million other than qualified performance based compensation pursuant to a written binding contract in effect on November 2, 2017 or earlier which was not modified in any material respect on or after such date (the legislation providing for such transition rule, the “Transition Rule”).

As a result, performance-based compensation that the Compensation Committee structured with the intent of qualifying as performance-based compensation under Section 162(m) prior to the change in the law may or may not be fully deductible, depending on the application of the Transition Rule. In addition, compensation arrangements structured following the change in law will be subject to the Section 162(m) limitation (without any exception for performance-based compensation). Consistent with its past practice, the Committee will continue to retain flexibility to design compensation programs that are in the best long-term interests of the Company and our shareholders, with deductibility of compensation being one of a variety of considerations taken into account.

### **Compensation Committee Report**

The Compensation Committee has reviewed and discussed with Kroger’s management the Compensation Discussion and Analysis contained in this proxy statement. Based on its review and discussions with management, the Compensation Committee has recommended to the Board that the Compensation Discussion and Analysis be included in Kroger’s proxy statement and incorporated by reference into its Annual Report on Form 10-K.

Compensation Committee:

Clyde R. Moore, Chair  
Susan J. Kropf  
Jorge P. Montoya  
James A. Runde

## Executive Compensation Tables

### Summary Compensation Table

The following table and footnotes provide information regarding the compensation of the NEOs for the fiscal years presented.

Name and Principal Position	Fiscal Year	Salary (\$)	Stock Awards (\$) <sup>(1)</sup>	Option Awards (\$) <sup>(2)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(3)</sup>	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) <sup>(4)</sup>	All Other Compensation (\$) <sup>(5)</sup>	Total (\$)
W. Rodney McMullen	2019	\$ 1,311,849	\$8,400,002	\$2,100,170	\$2,006,450	\$6,962,485	\$348,692	\$21,129,648
Chairman and Chief Executive Officer	2018	\$ 1,311,984	\$4,999,996	\$2,367,858	\$2,692,833	\$ 335,955	\$329,246	\$12,037,872
	2017	\$1,318,752	\$5,166,317	\$2,700,116	\$ 359,806	\$1,690,923	\$298,463	\$11,534,377
Gary Millerchip	2019	\$ 472,561	\$2,350,034	\$ 775,042	\$ 442,755	\$ 0	\$101,888	\$ 4,142,280
Senior Vice President and Chief Financial Officer <sup>(6)</sup>	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
Stuart Aitken	2019	\$ 822,460	\$2,225,025	\$ 600,051	\$ 830,446	\$ 0	\$134,801	\$ 4,612,783
Senior Vice President, Alternative Business	2018	\$ 724,946	\$1,059,224	\$ 224,548	\$ 817,670	\$ 0	\$107,830	\$ 2,934,218
	2017	\$ 721,328	\$1,275,567	\$ 262,612	\$ 160,015	\$ 0	\$110,363	\$ 2,529,884
Yael Cosset	2019	\$ 638,519	\$1,825,016	\$ 500,042	\$ 572,191	\$ 0	\$110,044	\$ 3,645,812
Senior Vice President and Chief Information Officer	—	—	—	—	—	—	—	—
	—	—	—	—	—	—	—	—
Michael Donnelly	2019	\$ 922,516	\$3,200,002	\$ 800,064	\$1,060,269	\$4,111,824	\$235,009	\$10,329,684
Executive Vice President	2018	\$ 885,677	\$2,355,780	\$ 769,118	\$1,344,160	\$ 205,544	\$133,014	\$ 5,693,293
And Chief Operating Officer	2017	\$ 817,967	\$2,230,028	\$ 780,637	\$ 183,832	\$1,032,483	\$247,149	\$ 5,292,096
J. Michael Schlotman	2019	\$ 854,879	\$1,792,989	\$ 0	\$1,061,055	\$4,207,937	\$550,563	\$ 8,467,423
Executive Vice President and Retired Chief Financial Officer <sup>(6)</sup>	2018	\$ 907,292	\$2,350,843	\$ 752,700	\$1,374,160	\$ 295,994	\$ 91,133	\$ 5,772,122
	2017	\$ 898,316	\$1,973,228	\$1,040,846	\$ 207,136	\$ 873,808	\$242,637	\$ 5,235,971

(1) Amounts reflect the grant date fair value of restricted stock and performance units granted each fiscal year, as computed in accordance with FASB ASC Topic 718. The following table reflects the value of each type of award granted to the NEOs in 2019:

Name	Restricted Stock	Performance Units
Mr. McMullen	\$3,150,007	\$5,249,995
Mr. Millerchip	\$1,350,035	\$ 999,999
Mr. Aitken	\$ 975,026	\$1,249,999
Mr. Cosset	\$ 825,017	\$ 999,999
Mr. Donnelly	\$1,200,004	\$1,999,998
Mr. Schlotman	0	\$1,792,989

The grant date fair value of the performance units reflected in the stock awards column and in the table above is computed based on the probable outcome of the performance conditions as of the grant date. This amount is consistent with the estimate of aggregate compensation cost to be recognized by the Company over the three-year performance period of the award determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. The assumptions used in calculating the valuations are set forth in Note 12 to the consolidated financial statements in Kroger's Form 10-K for fiscal year 2019.

Assuming that the highest level of performance conditions is achieved, the aggregate fair value of the 2019 performance unit awards at the grant date is as follows:

Name	Value of Performance Units Assuming Maximum Performance
Mr. McMullen	\$6,299,994
Mr. Millerchip	\$1,199,999
Mr. Aitken	\$1,499,999
Mr. Cosset	\$1,199,999
Mr. Donnelly	\$2,399,998
Mr. Schlotman	\$2,151,587

- (2) These amounts represent the aggregate grant date fair value of option awards computed in accordance with FASB ASC Topic 718. The assumptions used in calculating the valuations are set forth in Note 12 to the consolidated financial statements in Kroger's Form 10-K for fiscal year 2019.
- (3) Non-equity incentive plan compensation earned for 2019 consists of amounts earned under the 2019 performance-based annual cash bonus plan and the 2017-2019 Long-Term Incentive Plan.

Name	Annual Cash Bonus	Long-Term Cash Bonus
Mr. McMullen	\$1,227,175	\$779,275
Mr. Millerchip	\$ 254,875	\$187,880
Mr. Aitken	\$ 406,343	\$424,103
Mr. Cosset	\$ 258,651	\$313,540
Mr. Donnelly	\$ 589,044	\$471,225
Mr. Schlotman	\$ 543,733	\$517,322

In accordance with the terms of the 2019 performance-based annual cash bonus plan, Kroger paid 49.09% to all of the NEOs except for Mr. Aitken who received 58.0%, reflecting results of the corporate annual bonus plan and Mr. Aitken's team metrics as described in the CD&A. These amounts were earned with respect to performance in 2019 and paid in March 2020. See "2019 Annual Cash Bonus Plan Results" in the CD&A for more information on this plan.

The long-term cash bonus awarded under the 2017-2019 Long-Term Incentive Plan is a performance-based bonus plan designed to reward participants for improving the long-term performance of the Company. See "2017-2019 Long-Term Incentive Plan – Results" in the CD&A for more information on this plan.

- (4) For 2019, the amounts reported consist of the aggregate change in the actuarial present value of each NEO's accumulated benefit under a defined benefit pension plan (including supplemental plans), which applies to Messrs. McMullen, Donnelly and Schlotman, and preferential earnings on nonqualified deferred compensation, which applies to Messrs. McMullen and Donnelly. The remainder of the NEOs do not participate in a nonqualified deferred compensation plan.

Name	Change in Pension Value	Preferential Earnings on Nonqualified Deferred Compensation
Mr. McMullen	\$6,840,110	\$122,375
Mr. Millerchip	\$ —	\$ —
Mr. Aitken	\$ —	\$ —
Mr. Cosset	\$ —	\$ —
Mr. Donnelly	\$4,104,897	\$ 6,927
Mr. Schlotman	\$4,207,937	\$ —

*Change in Pension Value.* These amounts represent the aggregate change in the actuarial present value of accumulated pension benefits. Pension values may fluctuate significantly from year to year depending on a number of factors, including age, years of service, average annual earnings and the assumptions used to determine the present value, such as the discount rate. The increase in the actuarial present value of accumulated pension benefits for 2019 compared to 2018 is due to additional benefits accrued, as applicable, driven by an increase in average annual earnings, the decrease in the discount rate, and the decrease in IRC 417(e) segment rates used to convert the Dillon profit sharing offset to an annuity, slightly offset by the mortality projection scale update. Please see the 2019 Pension Benefits section for further information regarding the assumptions used in calculating pension benefits. The Company froze the compensation and service periods used to calculate pension benefits for active employees who participate in the affected pension plans, including the NEO participants, as of December 31, 2019. Beginning January 1, 2020, the affected active employees will no longer accrue additional benefits for future service and eligible compensation received under these plans.

*Preferential Earnings on Nonqualified Deferred Compensation.* Messrs. McMullen and Donnelly participate in The Kroger Co. Executive Deferred Compensation Plan (the "Deferred Compensation Plan"). Under the plan, deferred compensation earns interest at a rate representing Kroger's cost of ten-year debt, as determined by



the CEO and approved by the Compensation Committee prior to the beginning of each deferral year. For each participant, a separate deferral account is created each year and the interest rate established for that year is applied to that deferral account until the deferred compensation is paid out. If the interest rate established by Kroger for a particular year exceeds 120% of the applicable federal long-term interest rate that corresponds most closely to the plan rate, the amount by which the plan rate exceeds 120% of the corresponding federal rate is deemed to be above-market or preferential. In fifteen of the twenty-four years in which at least one NEO deferred compensation, the rate set under the plan for that year exceeds 120% of the corresponding federal rate. For each of the deferral accounts in which the plan rate is deemed to be above-market, Kroger calculates the amount by which the actual annual earnings on the account exceed what the annual earnings would have been if the account earned interest at 120% of the corresponding federal rate, and discloses those amounts as preferential earnings. Amounts deferred in 2019 earn interest at a rate higher than 120% of the corresponding federal rate; accordingly, there are preferential earnings on these amounts.

- (5) Amounts reported in the “All Other Compensation” column for 2019 include Company contributions to defined contribution retirement plans, dividend equivalents paid on earned performance units, and dividends paid on unvested restricted stock. The following table identifies the value of each benefit.

Name	Retirement Plan Contributions <sup>(a)</sup>	Payment of Dividend Equivalents on Earned Performance Units	Dividends Paid on Unvested Restricted Stock	Other <sup>(b)</sup>
Mr. McMullen	\$ 4,983	\$122,129	\$221,580	—
Mr. Millerchip	\$ 43,928	\$ 8,408	\$ 49,552	—
Mr. Aitken	\$ 75,608	\$ 10,732	\$ 48,461	—
Mr. Cosset	\$ 53,890	\$ 8,387	\$ 47,767	—
Mr. Donnelly	\$105,252	\$ 31,906	\$ 97,851	—
Mr. Schlotman	\$ —	\$ 41,454	\$ 73,989	\$435,120

- (a) *Retirement plan contributions.* The Company makes automatic and matching contributions to NEOs’ accounts under the applicable defined contribution plan on the same terms and using the same formulas as other participating employees. The Company also makes contributions to NEOs’ accounts under the applicable defined contribution plan restoration plan, which is intended to make up the shortfall in retirement benefits caused by the limitations on benefits to highly compensated individuals under the defined contribution plans in accordance with the Code. The aggregate amounts in the table above include the following additional contributions for Mr. Donnelly for 2019: a \$14,000 matching contribution to the Dillon Companies, Inc. Employees’ Profit Sharing Plan and a \$87,377 matching contribution to the Dillon Companies, Inc. Excess Benefit Profit Sharing Plan.
- (b) *Other.* In 2019, the total amount of perquisites and personal benefits for each of the NEOs was less than \$10,000. Mr. Schlotman received \$435,120 for banked vacation which was paid out upon his retirement.
- (6) Mr. Schlotman served as our Chief Financial Officer until April 3, 2019 and as our Executive Vice President until his retirement from the Company on December 31, 2019. Mr. Millerchip succeeded him as Chief Financial Officer on April 4, 2019.

## 2019 Grants of Plan-Based Awards

The following table provides information about equity and non-equity incentive awards granted to the NEOs in 2019.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(3)</sup>	All Other Option Awards: Number of Securities Underlying Options (#) <sup>(4)</sup>	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards
		Target (\$)	Maximum (\$)	Target (#) <sup>(2)</sup>	Maximum (#) <sup>(2)</sup>				
W. Rodney McMullen		\$2,500,000 <sup>(1)</sup>	\$5,000,000 <sup>(1)</sup>						
	3/14/2019					127,273			\$3,150,007
	3/14/2019						348,259	\$24.75	\$2,100,170
	3/14/2019			212,121	254,545				\$5,249,995
Gary Millerchip		\$ 550,000 <sup>(1)</sup>	\$1,100,000 <sup>(1)</sup>						
	3/14/2019					33,334			\$ 825,017
	7/15/2019					23,778			\$ 525,018
	3/14/2019						82,919	\$24.75	\$ 500,042
	7/15/2019						51,116	\$22.08	\$ 275,000
	3/14/2019			40,404	48,485				\$ 999,999
Stuart Aitken		\$ 700,000 <sup>(1)</sup>	\$1,400,000 <sup>(1)</sup>						
	3/14/2019					39,395			\$ 975,026
	3/14/2019						99,503	\$24.75	\$ 600,051
	3/14/2019			50,505	60,606				\$1,249,999
Yael Cosset		\$ 550,000 <sup>(1)</sup>	\$1,100,000 <sup>(1)</sup>						
	3/14/2019					33,334			\$ 825,017
	3/14/2019						82,919	\$24.75	\$ 500,042
	3/14/2019			40,404	48,485				\$ 999,999
Michael J. Donnelly		\$1,200,000 <sup>(1)</sup>	\$2,400,000 <sup>(1)</sup>						
	3/14/2019					48,485			\$1,200,004
	3/14/2019						132,670	\$24.75	\$ 800,064
	3/14/2019			80,808	96,970				\$1,999,998
J. Michael Schlotman	3/14/2019	\$1,200,000 <sup>(1)</sup>	\$2,400,000 <sup>(1)</sup>	72,444	86,933				\$1,792,989

- (1) These amounts relate to the 2019 performance-based annual cash incentive bonus plan. The amount listed under “Target” represents the annual cash incentive bonus potential of the NEO. By the terms of the plan, payouts are limited to no more than 200% of a participant’s annual cash incentive bonus potential; accordingly, the amount listed under “Maximum” is two times that officer’s annual cash incentive bonus potential amount. The amounts actually earned under this plan were paid in March 2020 and are included in the Summary Compensation Table for 2019 in the “Non-Equity Incentive Plan Compensation” column and are described in footnote 3 to that table under “Annual Cash Bonus.”
- (2) These amounts represent performance units awarded under the 2019 Long-Term Incentive Plan, which covers performance during fiscal years 2019, 2020 and 2021. The amount listed under “Maximum” represents the maximum number of common shares that can be earned by the NEO under the award or 120% of the target amount. This amount is consistent with the estimate of aggregate compensation cost to be recognized by the Company over the three-year performance period of the award determined as of the grant date under FASB ASC Topic 718, excluding the effect of estimated forfeitures. The grant date fair value reported in the last column is based on the probable outcome of the performance conditions as of the grant date. The aggregate grant date fair value of these awards is included in the Summary Compensation Table for 2019 in the “Stock Awards” column and described in footnote 1 to that table.

- (3) These amounts represent the number of shares of restricted stock granted in 2019. The aggregate grant date fair value reported in the last column is calculated in accordance with FASB ASC Topic 718. The aggregate grant date fair value of these awards is included in the Summary Compensation Table for 2019 in the “Stock Awards” column and described in footnote 1 to that table.
- (4) These amounts represent the number of stock options granted in 2019. Options are granted with an exercise price equal to the closing price of Kroger common shares on the grant date. The aggregate grant date fair value reported in the last column is calculated in accordance with FASB ASC Topic 718. The aggregate grant date fair value of these awards is included in the Summary Compensation Table for 2019 in the “Option Awards” column.

The Compensation Committee, and the independent members of the Board in the case of the CEO, established the incentive potential amounts for the performance-based annual cash incentive awards (shown in this table as “Target”) and the number of performance units awarded for the long-term incentive awards (shown in this table as “Target”). Amounts are payable to the extent that Kroger’s actual performance meets specific performance metrics established by the Compensation Committee at the beginning of the performance period. There are no guaranteed or minimum payouts; if none of the performance metrics are achieved, then none of the award is earned and no payout is made. As described in the CD&A, actual earnings under the performance-based annual cash incentive plan may exceed the target amount if the Company’s performance exceeds the performance goals, but are limited to 200% of the target amount. The potential values for performance units awarded under the 2019-2021 Long-Term Incentive Plan are more particularly described in the CD&A.

The annual restricted stock and nonqualified stock options awards granted to the NEOs vest in equal amounts on each of the first four anniversaries of the grant date, so long as the officer remains a Kroger employee, except for Messrs. Millerchip’s, Aitken’s, and Cosset’s March 2019 award included restricted stock awards of 9,091 shares and 16,584 stock options as special awards granted in connection with promotions that each vest in equal amounts on each of the first three anniversaries of the grant date. Any dividends declared on Kroger common shares are payable on unvested restricted stock.

## 2019 Outstanding Equity Awards at Fiscal Year-End

The following table provides information about outstanding equity-based incentive compensation awards for the NEOs as of the end of 2019. The vesting schedule for each award is described in the footnotes to this table. The market value of unvested restricted stock and unearned performance units is based on the closing price of Kroger's common shares of \$26.86 on January 31, 2020, the last trading day of fiscal 2019.

Name	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options Exercisable (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
W. Rodney McMullen	140,000	—	\$10.08	6/24/2020	17,219 <sup>(9)</sup>	\$ 462,502		
	182,880	—	\$12.37	6/23/2021	40,022 <sup>(10)</sup>	\$1,074,991		
	194,880	—	\$10.98	7/12/2022	98,168 <sup>(11)</sup>	\$2,636,792		
	194,880	—	\$18.88	7/15/2023	63,321 <sup>(11)</sup>	\$1,700,802		
	300,000	—	\$24.67	7/15/2024	127,273 <sup>(12)</sup>	\$3,418,553		
	188,332	47,083 <sup>(1)</sup>	\$38.33	7/15/2025				
	214,854	143,237 <sup>(2)</sup>	\$37.48	7/13/2026			61,268 <sup>(19)</sup>	\$1,754,095
	229,250	343,877 <sup>(3)</sup>	\$22.92	7/13/2027			95,242 <sup>(20)</sup>	\$2,737,265
	87,323	261,970 <sup>(3)</sup>	\$28.05	7/13/2028				
		348,259 <sup>(4)</sup>	\$24.75	3/14/2029				
Gary Millerchip	9,600	—	\$24.67	7/15/2024	1,014 <sup>(9)</sup>	\$ 27,236		
	11,193	2,799 <sup>(1)</sup>	\$38.33	7/15/2025	3,447 <sup>(10)</sup>	\$ 92,586		
	16,782	11,190 <sup>(2)</sup>	\$37.48	7/13/2026	7,671 <sup>(11)</sup>	\$ 206,043		
	8,726	26,179 <sup>(3)</sup>	\$22.92	7/13/2027	16,362 <sup>(13)</sup>	\$ 439,483		
	7,562	22,689 <sup>(3)</sup>	\$28.05	7/13/2028	7,795 <sup>(11)</sup>	\$ 209,374		
		66,335 <sup>(4)</sup>	\$24.75	3/14/2029	24,243 <sup>(12)</sup>	\$ 651,167		
		16,584 <sup>(5)</sup>	\$24.75	3/14/2029	9,091 <sup>(14)</sup>	\$ 244,184		
		51,116 <sup>(6)</sup>	\$22.08	7/15/2029	23,778 <sup>(15)</sup>	\$ 638,677		
		—					4,523 <sup>(19)</sup>	\$ 129,503
		—					18,141 <sup>(20)</sup>	\$ 521,384
Stuart Aitken	17,860	4,466 <sup>(1)</sup>	\$38.33	7/15/2025	1,618 <sup>(9)</sup>	\$ 43,459		
	20,896	13,932 <sup>(2)</sup>	\$37.48	7/13/2026	4,281 <sup>(10)</sup>	\$ 114,988		
	22,296	33,446 <sup>(3)</sup>	\$22.92	7/13/2027	10,500 <sup>(11)</sup>	\$ 282,030		
	8,281	24,843 <sup>(3)</sup>	\$28.05	7/13/2028	16,362 <sup>(13)</sup>	\$ 439,483		
		82,919 <sup>(4)</sup>	\$24.75	3/14/2029	9,172 <sup>(11)</sup>	\$ 246,360		
		16,584 <sup>(5)</sup>	\$24.75	3/14/2029	30,304 <sup>(12)</sup>	\$ 813,965		
		—			9,091 <sup>(14)</sup>	\$ 244,184		
	—					16,673 <sup>(19)</sup>	\$ 477,349	
	—					22,677 <sup>(20)</sup>	\$ 651,730	
Yael Cosset	11,193	2,799 <sup>(1)</sup>	\$38.33	7/15/2025	1,014 <sup>(9)</sup>	\$ 27,236		
	10,878	7,252 <sup>(2)</sup>	\$37.48	7/13/2026	2,074 <sup>(10)</sup>	\$ 55,708		
	3,979	2,653 <sup>(7)</sup>	\$31.25	9/15/2026	1,280 <sup>(16)</sup>	\$ 34,381		
	4,244	6,367 <sup>(8)</sup>	\$28.83	3/9/2027	3,330 <sup>(17)</sup>	\$ 89,444		
	17,406	26,110 <sup>(3)</sup>	\$22.92	7/13/2027	9,163 <sup>(11)</sup>	\$ 246,118		
	7,374	22,125 <sup>(3)</sup>	\$28.05	7/13/2028	16,362 <sup>(13)</sup>	\$ 439,483		
		66,335 <sup>(4)</sup>	\$24.75	3/14/2029	12,033 <sup>(11)</sup>	\$ 323,206		
		16,584 <sup>(5)</sup>	\$24.75	3/14/2029	24,243 <sup>(12)</sup>	\$ 651,167		
		—			9,091 <sup>(14)</sup>	\$ 244,184		
		—					4,656 <sup>(19)</sup>	\$ 133,298
	—					18,141 <sup>(20)</sup>	\$ 521,384	
Michael J. Donnelly	70,720	—	\$12.37	6/23/2021	5,910 <sup>(9)</sup>	\$ 158,743		
	50,720	—	\$10.98	7/12/2022	11,847 <sup>(10)</sup>	\$ 318,210		
	50,720	—	\$18.88	7/15/2023	29,058 <sup>(11)</sup>	\$ 780,498		
	60,000	—	\$24.67	7/15/2024	14,135 <sup>(18)</sup>	\$ 379,666		
	47,943	11,986 <sup>(1)</sup>	\$38.33	7/15/2025	39,594 <sup>(11)</sup>	\$1,063,495		
	62,116	41,412 <sup>(2)</sup>	\$37.48	7/13/2026	48,485 <sup>(12)</sup>	\$1,302,307		
	66,279	99,419 <sup>(3)</sup>	\$22.92	7/13/2027				
	28,364	85,092 <sup>(3)</sup>	\$28.05	7/13/2028			20,370 <sup>(19)</sup>	\$ 583,184
		132,670 <sup>(4)</sup>	\$24.75	3/14/2029			36,283 <sup>(20)</sup>	\$1,042,767
		—						
J. Michael Schlotman	91,280	—	\$12.37	6/23/2021	7,722 <sup>(9)</sup>	\$ 207,413		
	109,280	—	\$18.88	7/15/2023	15,795 <sup>(10)</sup>	\$ 424,254		
	80,000	—	\$24.67	7/15/2024	38,742 <sup>(11)</sup>	\$1,040,610		
	85,224	21,307 <sup>(1)</sup>	\$38.33	7/15/2025	38,891 <sup>(11)</sup>	\$1,044,612		
	82,822	55,216 <sup>(2)</sup>	\$37.48	7/13/2026				
	88,372	132,558 <sup>(3)</sup>	\$22.92	7/13/2027			13,376 <sup>(19)</sup>	\$ 382,955
	27,758	83,276 <sup>(3)</sup>	\$28.05	7/13/2028			10,008 <sup>(20)</sup>	\$ 287,630
		—						

(1) Stock options vest on 7/15/2020.

(2) Stock options vest in equal amounts on 7/13/2020 and 7/13/2021.

(3) Stock options vest in equal amounts on 7/13/2020, 7/13/2021, and 7/13/2022.

- (4) Stock options vest in equal amounts on 3/14/2020, 3/14/2021, 3/14/2022, and 3/14/2023.
- (5) Stock options vest in equal amounts on 3/14/2020, 3/14/2021, and 3/14/2022.
- (6) Stock options vest in equal amounts on 7/15/2020, 7/15/2021, 7/15/2022, and 7/15/2023.
- (7) Stock options vest in equal amounts on 9/15/2020 and 9/15/2021.
- (8) Stock options vest in equal amounts on 3/9/2020, 3/9/2021, and 3/9/2022.
- (9) Restricted stock vests on 7/15/2020.
- (10) Restricted stock vests in equal amounts on 7/13/2020 and 7/13/2021.
- (11) Restricted stock vests in equal amounts on 7/13/2020, 7/13/2021, and 7/13/2022.
- (12) Restricted stock vests in equal amounts on 3/14/2020, 3/14/2021, 3/14/2022, and 3/14/2023.
- (13) Restricted stock vests on 7/13/2020.
- (14) Restricted stock vests in equal amounts on 3/14/2020, 3/14/2021, and 3/14/2022.
- (15) Restricted stock vests in equal amounts on 7/15/2020, 7/15/2021, 7/15/2022, and 7/15/2023.
- (16) Restricted stock vests in equal amounts on 9/15/2020 and 9/15/2021.
- (17) Restricted stock vests in equal amounts on 3/9/2020, 3/9/2021, and 3/9/2022.
- (18) Restricted stock vests on 12/7/2020.
- (19) Performance units granted under the 2018 long-term incentive plan are earned as of the last day of fiscal 2020, to the extent performance conditions are achieved. Because the awards earned are not currently determinable, in accordance with SEC rules, the number of units and the corresponding market value reflect a representative amount based on performance through 2019, including cash payments equal to projected dividend equivalent payments. For Mr. Schlotman, the awards listed in the table reflect a representative amount prorated based on the number of weeks of the plan he was actively employed.
- (20) Performance units granted under the 2019 long-term incentive plan are earned as of the last day of fiscal 2021, to the extent performance conditions are achieved. Because the awards earned are not currently determinable, in accordance with SEC rules, the number of units and the corresponding market value reflect a representative amount based on performance through 2019, including cash payments equal to projected dividend equivalent payments. For Mr. Schlotman, the awards listed in the table reflect a representative amount prorated based on the number of weeks of the plan he was actively employed.

## 2019 Option Exercises and Stock Vested

The following table provides information regarding 2019 stock options exercised, restricted stock vested, and common shares issued pursuant to performance units earned under long-term incentive plans.

Name	Option Awards <sup>(1)</sup>		Stock Awards <sup>(2)</sup>	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
W. Rodney McMullen	130,000	\$1,875,900	188,948	\$4,688,674
Gary Millerchip	—	\$ —	22,463	\$ 529,660
Stuart Aitken	—	\$ —	25,122	\$ 598,127
Yael Cosset	—	\$ —	24,223	\$ 573,505
Michael J. Donnelly	40,000	\$ 642,959	65,978	\$1,628,211
J. Michael Schlotman	159,280	\$2,752,418	72,762	\$2,071,866

- (1) Stock options have a ten-year life and expire if not exercised within that ten-year period. The value realized on exercise is the difference between the exercise price of the option and the closing price of Kroger's common shares on the exercise date.

(2) The Stock Awards columns include vested restricted stock and earned performance units, as follows:

Name	Vested Restricted Stock		Earned Performance Units	
	Number of Shares	Value Realized	Number of Shares	Value Realized
W. Rodney McMullen	113,560	\$2,493,375	75,388	\$2,195,299
Gary Millerchip	17,273	\$ 378,527	5,190	\$ 151,133
Stuart Aitken	18,497	\$ 405,207	6,625	\$ 192,920
Yael Cosset	19,046	\$ 422,751	5,177	\$ 150,754
Michael J. Donnelly	46,283	\$1,054,693	19,695	\$ 573,518
J. Michael Schlotman	47,173	\$1,326,714	25,589	\$ 745,152

*Restricted stock.* The table includes the number of shares acquired upon vesting of restricted stock and the value realized on the vesting of restricted stock, based on the closing price of Kroger common shares on the vesting date.

*Performance Units.* Participants in the 2017-2019 Long-Term Incentive Plan, as modified, were awarded performance units that were earned based on performance criteria established by the Compensation Committee as described on page 31 in “2017-2019 Long-Term Incentive Plan – Results” in the CD&A. Actual payouts were based on the level of performance achieved and were paid in common shares. The number of common shares issued, and the value realized based on the closing price of Kroger common shares of \$29.12 on March 12, 2020, the date of deemed delivery of the shares, are reflected in the table above.

## 2019 Pension Benefits

The following table provides information regarding pension benefits for the NEOs as of the last day of fiscal 2019.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$) <sup>(1)</sup>	Payments during Last fiscal year (\$)
W. Rodney McMullen	Pension Plan	34	\$ 1,882,693	—
	Excess Plan	34	\$21,170,930	—
Gary Millerchip	Pension Plan		\$ — <sup>(2)</sup>	— <sup>(2)</sup>
	Excess Plan		\$ —	—
Stuart Aitken	Pension Plan		\$ — <sup>(2)</sup>	— <sup>(2)</sup>
	Excess Plan		\$ —	—
Yael Cosset	Pension Plan		\$ — <sup>(2)</sup>	— <sup>(2)</sup>
	Excess Plan		\$ —	—
Michael J. Donnelly	Pension Plan	40	\$ 1,206,264	—
	Excess Plan	40	\$ 9,812,413	—
J. Michael Schlotman	Pension Plan	34	\$ 1,973,721	—
	Excess Plan	34	\$11,467,608	—

(1) The discount rate used to determine the present values was 3.00% for The Kroger Consolidated Retirement Benefit Plan Spin Off (the “Pension Plan”) and 3.01% for The Kroger Co. Consolidated Retirement Excess Benefit Plan (the “Excess Plan”), which are the same rates used at the measurement date for financial reporting purposes. Additional assumptions used in calculating the present values are set forth in Note 15 to the consolidated financial statements in Kroger’s 10-K for fiscal year 2019.

(2) Messrs. Millerchip, Aitken and Cosset do not participate in the Pension Plan or the Excess Plan.

## ***Pension Plan and Excess Plan***

In 2019, Messrs. McMullen, Donnelly, and Schlotman were participants in the Pension Plan, which is a qualified defined benefit pension plan. Messrs. McMullen, Donnelly, and Schlotman also participate in the Excess Plan, which is a nonqualified deferred compensation plan as defined in Section 409A of the Code. The purpose of the Excess Plan is to make up the shortfall in retirement benefits caused by the limitations on benefits to highly compensated individuals under the qualified defined benefit pension plans in accordance with the Code.

Although participants generally receive credited service beginning at age 21, certain participants in the Pension Plan and the Excess Plan who commenced employment prior to 1986, including Messrs. McMullen, and Schlotman, began to accrue credited service after attaining age 25 and one year of service. The Pension Plan and the Excess Plan generally determine accrued benefits using a cash balance formula but retain benefit formulas applicable under prior plans for certain “grandfathered participants” who were employed by Kroger on December 31, 2000. Each of Messrs. McMullen, Donnelly, and Schlotman are eligible for these grandfathered benefits.

### ***Grandfathered Participants***

Benefits for grandfathered participants are determined using formulas applicable under prior plans, including the Kroger formula covering service to The Kroger Co. and the Dillon formula covering service to Dillon Companies, Inc. As “grandfathered participants,” Mr. McMullen, Mr. Donnelly and Mr. Schlotman, who retired on December 31, 2019, will receive benefits under the Pension Plan and the Excess Plan, determined as follows:

- 1½% times years of credited service multiplied by the average of the highest five years of total earnings (base salary and annual cash bonus) during the last ten calendar years of employment, reduced by 1¼% times years of credited service multiplied by the primary social security benefit;
- normal retirement age is 65;
- unreduced benefits are payable beginning at age 62; and
- benefits payable between ages 55 and 62 will be reduced by  $\frac{1}{3}$  of one percent for each of the first 24 months and by  $\frac{1}{2}$  of one percent for each of the next 60 months by which the commencement of benefits precedes age 62.

In 2018, we announced changes to these company-sponsored pension plans. The Company froze the compensation and service periods used to calculate pension benefits for active employees who participate in the affected pension plans, including the NEO participants, as of December 31, 2019. Beginning January 1, 2020, the affected active employees will no longer accrue additional benefits for future service and eligible compensation received under these plans.

In the event of a termination of employment other than death or disability, Messrs. McMullen and Donnelly currently are eligible for a reduced early retirement benefit, as each has attained age 55. If a “grandfathered participant” becomes disabled while employed by Kroger and after attaining age 55, the participant will receive the full retirement benefit. If a married “grandfathered participant” dies while employed by Kroger, the surviving spouse will receive benefits as though a retirement occurred on such date, based on the greater of: actual benefits payable to the participant if he or she was over age 55, or the benefits that would have been payable to the participant assuming he or she was age 55 on the date of death.

### ***Offsetting Benefits***

Mr. Donnelly also participates in the Dillon Companies, Inc. Employees’ Profit Sharing Plan (the “Dillon Profit Sharing Plan”), which is a qualified defined contribution plan under which Dillon Companies, Inc. and its participating subsidiaries may choose to make discretionary contributions each year that are allocated to each participant’s account. Participation in the Dillon Profit Sharing Plan was frozen in 2001 and participants are no longer able to make employee contributions, but certain participants, including Mr. Donnelly, are still eligible for employer contributions. Participants elect from among a number of investment options and the amounts in their accounts are invested and credited with investment earnings in accordance with their elections. Due to offset formulas contained in the Pension Plan, Mr. Donnelly’s accrued benefits under the Dillon Profit Sharing Plan offset a portion of the benefit that would otherwise accrue for him under the Pension Plan for his service with Dillon Companies, Inc. Mr. Donnelly also participates in the Dillon Companies, Inc. Excess Benefit Profit Sharing Plan

(“Dillon Excess Profit Sharing Plan”) which provides Company contributions in excess of the qualified plan limits. The Dillon Excess Profit Sharing Plan is offset by Mr. Donnelly’s benefit from the Excess Plan. The offsets are reflected in the Pension Benefits table above.

### 2019 Nonqualified Deferred Compensation

The following table provides information on nonqualified deferred compensation for the NEOs for 2019. Only Messrs. McMullen and Donnelly participate in a nonqualified deferred compensation plan.

<u>Name</u>	<u>Executive Contributions in Last FY</u>	<u>Aggregate Earnings in Last FY<sup>(1)</sup></u>	<u>Aggregate Balance at Last FYE<sup>(2)</sup></u>
W. Rodney McMullen	\$10,000 <sup>(3)</sup>	\$715,358	\$11,288,782
Gary Millerchip	—	—	—
Stuart Aitken	—	—	—
Yael Cosset	—	—	—
Michael J. Donnelly	—	\$ 39,042	\$ 707,870
J. Michael Schlotman	—	—	—

- (1) These amounts include the aggregate earnings on all accounts for each NEO, including any above-market or preferential earnings. The following amounts earned in 2019 are deemed to be preferential earnings and are included in the “Change in Pension Value and Nonqualified Deferred Compensation Earnings” column of the Summary Compensation Table for 2019: Mr. McMullen, \$122,375; and Mr. Donnelly, \$6,927.
- (2) The following amounts in the Aggregate Balance column were reported in the Summary Compensation Tables covering fiscal years 2006 – 2018: Mr. McMullen, \$3,273,221; and Mr. Donnelly, \$238,872.
- (3) This amount includes the deferral of \$10,000 of his salary in fiscal 2019; this amount is included in the “Salary” column of the Summary Compensation Table for 2019.

### Executive Deferred Compensation Plan

Messrs. McMullen and Donnelly participate in the Deferred Compensation Plan, which is a nonqualified deferred compensation plan. Participants may elect to defer up to 100% of the amount of their salary that exceeds the sum of the FICA wage base and pre-tax insurance and other Code Section 125 plan deductions, as well as up to 100% of their annual and long-term cash bonus compensation. Kroger does not match any deferral or provide other contributions. Deferral account amounts are credited with interest at the rate representing Kroger’s cost of ten-year debt as determined by Kroger’s CEO and approved by the Compensation Committee prior to the beginning of each deferral year. The interest rate established for deferral amounts for each deferral year will be applied to those deferral amounts for all subsequent years until the deferred compensation is paid out. Amounts deferred in 2019 earn interest at a rate of 4.45%. Participants can elect to receive lump sum distributions or quarterly installments for periods up to ten years. Participants also can elect between lump sum distributions and quarterly installments to be received by designated beneficiaries if the participant dies before distribution of deferred compensation is completed.

Participants may not withdraw amounts from their accounts until they leave Kroger, except that Kroger has discretion to approve an early distribution to a participant upon the occurrence of an unforeseen emergency. Participants who are “specified employees” under Section 409A of the Code, which includes the NEOs, may not receive a post-termination distribution for at least six months following separation. If the employee dies prior to or during the distribution period, the remainder of the account will be distributed to his or her designated beneficiary in lump sum or quarterly installments, according to the participant’s prior election.

### Potential Payments upon Termination or Change in Control

Kroger does not have employment agreements that provide for payments to the NEOs in connection with a termination of employment or a change in control of Kroger. However, KEPP, award agreements for stock options, restricted stock and performance units, the long-term cash bonus plans, and the long-term incentive plans under which performance units are granted provide for certain payments and benefits to participants, including the NEOs, in the event of a termination of employment or a change in control of Kroger, as defined in the applicable plan or agreement. Our pension plan and nonqualified deferred compensation plan also provide for certain payments and



benefits to participants in the event of a termination of employment, as described above in the 2019 Pension Benefits section and the 2019 Nonqualified Deferred Compensation section, respectively.

### **The Kroger Co. Employee Protection Plan**

KEPP applies to all management employees who are classified as exempt under the federal Fair Labor Standards Act and to certain administrative or technical support personnel who are not covered by a collective bargaining agreement, with at least one year of service, including the NEOs. KEPP provides severance benefits when a participant's employment is terminated actually or constructively within two years following a change in control of Kroger, as defined in KEPP. The actual amount of the severance benefit is dependent on pay level and years of service. Exempt employees, including the NEOs, are eligible for the following benefits:

- a lump sum severance payment equal to up to 24 months of the participant's annual base salary and target annual bonus potential;
- a lump sum payment equal to the participant's accrued and unpaid vacation, including banked vacation;
- continued medical and dental benefits for up to 24 months and continued group term life insurance coverage for up to 6 months; and
- up to \$10,000 as reimbursement for eligible outplacement expenses.

In the event that any payments or benefits received or to be received by an eligible employee in connection with a change in control or termination of employment (whether pursuant to KEPP or any other plan, arrangement or agreement with Kroger or any person whose actions result in a change in control) would constitute parachute payments within the meaning of Section 280G of the Code and would be subject to the excise tax under Section 4999 of the Code, then such payments and benefits will either be (i) paid in full or (ii) reduced to the minimum extent necessary to ensure that no portion of such payments or benefits will be subject to the excise tax, whichever results in the eligible employee receiving the greatest aggregate amount on an after-tax basis.

### **Long-Term Incentive Awards**

The following table describes the treatment of long-term incentive awards following a termination of employment or change in control of Kroger, as defined in the applicable agreement. In each case, the continued vesting, exercisability or eligibility for the incentive awards will end if the participant provides services to a competitor of Kroger.

<b>Triggering Event</b>	<b>Stock Options</b>	<b>Restricted Stock</b>	<b>Performance Units</b>	<b>Performance-Based Long-Term Cash Bonus</b>
<b>Involuntary Termination</b>	Forfeit all unvested options. Previously vested options remain exercisable for the shorter of one year after termination or the remainder of the original 10-year term.	Forfeit all unvested shares	Forfeit all rights to units for which the three-year performance period has not ended	Forfeit all rights to long-term cash bonuses for which the three-year performance period has not ended
<b>Voluntary Termination/ Retirement</b>  - Prior to minimum age and five years of service <sup>(1)</sup>	Forfeit all unvested options. Previously vested options remain exercisable for the shorter of one year after termination or the remainder of the original 10-year term.	Forfeit all unvested shares	Forfeit all rights to units for which the three-year performance period has not ended	Forfeit all rights to long-term cash bonuses for which the three-year performance period has not ended
<b>Voluntary Termination/ Retirement</b>  - After minimum age and five years of service <sup>(1)</sup>	Unvested options held greater than 1 year continue vesting on the original schedule. All options are exercisable for remainder of the original 10-year term.	Unvested shares held greater than 1 year continue vesting on the original schedule	Pro rata portion <sup>(2)</sup> of units earned based on performance results over the full three-year period	Pro rata portion <sup>(2)</sup> of long-term cash bonuses earned based on performance results over the full three-year period

Triggering Event	Stock Options	Restricted Stock	Performance Units	Performance-Based Long-Term Cash Bonus
<b>Death</b>	Unvested options are immediately vested. All options are exercisable for the remainder of the original 10-year term.	Unvested shares immediately vest	Pro rata portion <sup>(2)</sup> of units earned based on performance results through the end of the fiscal year in which death occurs. Award will be paid following the end of such fiscal year.	Pro rata portion <sup>(2)</sup> of long-term cash bonuses earned based on performance results through the end of the fiscal year in which death occurs. Award will be paid following the end of such fiscal year.
<b>Disability</b>	Unvested options are immediately vested. All options are exercisable for remainder of the original 10-year term.	Unvested shares immediately vest	Pro rata portion <sup>(2)</sup> of units earned based on performance results over the full three-year period	Pro rata portion <sup>(2)</sup> of long-term cash bonuses earned based on performance results over the full three-year period
<b>Change in Control<sup>(3)</sup></b> <b>- For awards prior to March 2019</b>	Unvested options are immediately vested and exercisable.	Unvested shares immediately vest.	50% of the units granted at the beginning of the performance period earned immediately	50% of the bonus granted at the beginning of the performance period earned immediately
<b>Change in Control<sup>(4)</sup></b> <b>- For awards in March 2019 and thereafter</b>	Unvested options only vest and become exercisable upon an actual or constructive termination of employment within 2 years following a change in control.	Unvested shares only vest upon an actual or constructive termination of employment within 2 years following a change in control.	50% of the units granted at the beginning of the performance period earned upon an actual or constructive termination of employment within 2 years following a change in control.	Not applicable

- (1) The minimum age requirement is age 62 for stock options and restricted stock and age 55 for performance units and the long-term cash bonus.
- (2) The prorated amount is equal to the number of weeks of active employment during the performance period divided by the total number of weeks in the performance period.
- (3) These benefits are payable upon a change in control of Kroger, as defined in the applicable agreement, with or without a termination of employment.
- (4) These benefits are payable upon an actual or constructive termination of employment within two years after a change in control, as defined in the applicable agreements.

## Quantification of Payments upon Termination or Change in Control

The following table provides information regarding certain potential payments that would have been made to the NEOs, except for Mr. Schlotman, if the triggering event occurred on the last day of the fiscal year, February 1, 2020, given compensation, age and service levels as of that date and, where applicable, based on the closing market price per Kroger common share on the last trading day of the fiscal year (\$26.86 on January 31, 2020). Amounts actually received upon the occurrence of a triggering event will vary based on factors such as the timing during the year of such event, the market price of Kroger common shares, and the officer's age, length of service and compensation level. Upon Mr. Schlotman's retirement on December 31, 2019, he received a payment equal to his banked vacation as described in footnote 5 to the Summary Compensation Table. Please see the Long-Term Incentive Awards Table on page 49 for a discussion of the treatment of Mr. Schlotman's long-term incentive awards following his retirement, with Mr. Schlotman having reached the minimum age and service requirements.

Name	Involuntary Termination	Voluntary Termination/Retirement	Death	Disability	Change in Control without Termination	Change in Control with Termination
<b>W. Rodney McMullen</b>						
Accrued and Banked Vacation	\$653,934	\$ 653,934	\$ 653,934	\$ 653,934	\$ 653,934	\$ 653,934
Severance	—	—	—	—	—	7,631,808
Continued Health and Welfare Benefits <sup>(1)</sup>	—	—	—	—	—	32,653
Stock Options <sup>(2)</sup>	0	0	2,089,702	2,089,702	1,354,875	2,089,702
Restricted Stock <sup>(3)</sup>	0	0	9,293,641	9,293,641	5,875,088	9,293,641
Performance Units <sup>(4)</sup>	0	1,949,837	1,949,837	1,949,837	1,260,070	4,108,855
Long-Term Cash Bonus <sup>(5)</sup>	0	1,145,710	1,145,710	1,145,710	1,315,900	1,315,900
Executive Group Life Insurance	—	—	1,973,850	—	—	—
<b>Gary Millerchip</b>						
Accrued and Banked Vacation	\$ 3,846	\$ 3,846	\$ 3,846	\$ 3,846	\$ 3,846	\$ 3,846
Severance	—	—	—	—	—	1,837,500
Continued Health and Welfare Benefits <sup>(1)</sup>	—	—	—	—	—	48,166
Stock Options <sup>(2)</sup>	0	0	522,439	522,439	103,145	522,439
Restricted Stock <sup>(3)</sup>	0	0	2,508,751	2,508,751	974,723	2,508,751
Performance Units <sup>(4)</sup>	0	0	243,424	243,424	93,030	635,655
Long-Term Cash Bonus <sup>(5)</sup>	0	0	141,483	141,483	162,500	162,500
Executive Group Life Insurance	—	—	750,000	—	—	—
<b>Stuart Aitken</b>						
Accrued and Banked Vacation	\$ 6,346	\$ 6,346	\$ 6,346	\$ 6,346	\$ 6,346	\$ 6,346
Severance	—	—	—	—	—	2,795,848
Continued Health and Welfare Benefits <sup>(1)</sup>	—	—	—	—	—	48,913
Stock Options <sup>(2)</sup>	0	0	341,729	341,729	131,777	341,729
Restricted Stock <sup>(3)</sup>	0	0	2,184,470	2,184,470	1,126,320	2,184,470
Performance Units <sup>(4)</sup>	0	0	501,591	501,591	342,908	1,021,190
Long-Term Cash Bonus <sup>(5)</sup>	0	0	311,786	311,786	358,100	358,100
Executive Group Life Insurance	—	—	1,237,500	—	—	—
<b>Yael Cosset</b>						
Accrued and Banked Vacation	\$ 5,038	\$ 5,038	\$ 5,038	\$ 5,038	\$ 5,038	\$ 5,038
Severance	—	—	—	—	—	2,209,174
Continued Health and Welfare Benefits <sup>(1)</sup>	—	—	—	—	—	36,213
Stock Options <sup>(2)</sup>	0	0	277,832	277,832	102,873	277,832
Restricted Stock <sup>(3)</sup>	0	0	2,110,927	2,110,927	1,215,576	2,110,927
Performance Units <sup>(4)</sup>	0	0	245,797	245,797	95,756	638,382
Long-Term Cash Bonus <sup>(5)</sup>	0	0	230,465	230,465	264,700	264,700
Executive Group Life Insurance	—	—	982,500	—	—	—
<b>Michael J. Donnelly</b>						
Accrued and Banked Vacation	\$174,144	\$ 174,144	\$ 174,144	\$ 174,144	\$ 174,144	\$ 174,144
Severance	—	—	—	—	—	4,260,000
Continued Health and Welfare Benefits <sup>(1)</sup>	—	—	—	—	—	15,831
Stock Options <sup>(2)</sup>	0	0	671,645	671,645	391,711	671,645
Restricted Stock <sup>(3)</sup>	0	0	4,002,919	4,002,919	2,700,612	4,002,919
Performance Units <sup>(4)</sup>	0	689,605	689,605	689,605	418,935	1,504,187
Long-Term Cash Bonus <sup>(5)</sup>	0	380,917	380,917	380,917	437,500	437,500
Executive Group Life Insurance	—	—	1,395,000	—	—	—

- (1) Represents the aggregate present value of continued participation in the Company's medical, dental and executive term life insurance plans, based on the premiums payable by the Company during the eligible period. The eligible period for continued medical and dental benefits is based on the level and length of service, which is 24 months for all NEOs. The eligible period for continued executive term life insurance coverage is six months for the NEOs. The amounts reported may ultimately be lower if the NEO is no longer eligible to receive benefits, which could occur upon obtaining other employment and becoming eligible for substantially equivalent benefits through the new employer.
- (2) Amounts reported in the death, disability and change in control columns represent the intrinsic value of the accelerated vesting of unvested stock options, calculated as the difference between the exercise price of the stock option and the closing price per Kroger common share on January 31, 2020. A value of \$0 is attributed to stock options with an exercise price greater than the market price on the last day of the fiscal year. In accordance with SEC rules, no amount is reported in the voluntary termination/retirement column because vesting is not accelerated, but the options may continue to vest on the original schedule if the conditions described above are met.
- (3) Amounts reported in the death, disability and change in control columns represent the aggregate value of the accelerated vesting of unvested restricted stock. In accordance with SEC rules, no amount is reported in the voluntary termination/retirement column because vesting is not accelerated, but the restricted stock may continue to vest on the original schedule if the conditions described above are met.
- (4) Amounts reported in the voluntary termination/retirement, death and disability columns represent the aggregate value of the performance units granted in 2018 and 2019, based on performance through the last day of fiscal 2019 and prorated for the portion of the performance period completed. Amounts reported in the change in control column represent the aggregate value of 50% of the maximum number of performance units granted in 2018 and 2019. Awards under the 2017 Long-Term Incentive Plan were earned as of the last day of 2019 so each NEO age 55 or over was entitled to receive (regardless of the triggering event) the amount actually earned, which is reported in the Stock Awards column of the 2019 Option Exercises and Stock Vested Table.
- (5) Amounts reported in the voluntary termination/retirement, death and disability columns represent the aggregate value of the long-term cash bonuses granted in 2018, based on performance through the last day of fiscal 2019 and prorated for the portion of the performance period completed. Amounts reported in the change in control column represent the aggregate value of 50% of the long-term cash bonus potentials under the 2018 Long-Term Incentive Plan. Awards under the 2017 Long-Term Incentive Plan were earned as of the last day of 2019, so each NEO age 55 or over was entitled to receive (regardless of the triggering event) the amount actually earned, which is reported in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for 2019.

## **CEO Pay Ratio**

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information regarding the ratio of the annual total compensation of our Chairman and CEO, Mr. McMullen, to the annual total compensation of our median employee.

As reported in the Summary Compensation Table, our CEO had annual total compensation for 2019 of \$21,129,648. Using this Summary Compensation Table methodology, the annual total compensation of our median employee for 2019 was \$26,790. As a result, we estimate that the ratio of our CEO's annual total compensation to that of our median employee for fiscal 2019 was 789 to 1.

This pay ratio is a reasonable estimate calculated in a manner consistent with SEC rules based on our payroll records and the methodology described below. The SEC rules for identifying the median compensated employee and calculating the pay ratio based on that employee's annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices. As such, other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates and assumptions in calculating their own pay ratios. Therefore, the estimated pay ratio reported above may not be comparable to the pay ratios reported by other companies and should not be used as a basis for comparison between companies.

As permitted by SEC rules, we used the same median employee in 2017 and 2018 based on our employee population on the last day of our 11<sup>th</sup> fiscal period (December 7, 2019), which included full-time, part-time,

temporary, and seasonal employees who were employed on that date, as there were no changes in our employee population or compensation arrangements that we believe would have significantly affected our pay ratio calculation.

We then determined the median employee's annual total compensation using the Summary Compensation Table methodology as detailed in Item 402(c)(2)(x) of Regulation S-K and compared it to the annual total compensation of Mr. McMullen as detailed in the "Total" column of the Summary Compensation Table for 2019, to arrive at the pay ratio disclosed above.

## **Item No. 2 Advisory Vote to Approve Executive Compensation**

**You are being asked to vote, on an advisory basis, to approve the compensation of our NEOs. The Board of Directors recommends that you vote FOR the approval of compensation of our NEOs.**

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in July 2010, requires that we give our shareholders the right to approve, on a nonbinding, advisory basis, the compensation of our NEOs as disclosed earlier in this proxy statement in accordance with the SEC's rules.

As discussed earlier in the CD&A, our compensation philosophy is to attract and retain the best management talent and to motivate these employees to achieve our business and financial goals. Our incentive plans are designed to reward the actions that lead to long-term value creation. To achieve our objectives, we seek to ensure that compensation is competitive and that there is a direct link between pay and performance. To do so, we are guided by the following principles:

- A significant portion of pay should be performance-based, with the percentage of total pay tied to performance increasing proportionally with an executive's level of responsibility;
- Compensation should include incentive-based pay to drive performance, providing superior pay for superior performance, including both a short- and long-term focus;
- Compensation policies should include an opportunity for, and a requirement of, equity ownership to align the interests of executives and shareholders; and
- Components of compensation should be tied to an evaluation of business and individual performance measured against metrics that directly drive our business strategy.

The vote on this resolution is not intended to address any specific element of compensation. Rather, the vote relates to the compensation of our NEOs as described in this proxy statement. The vote is advisory. This means that the vote is not binding on Kroger. The Compensation Committee of the Board is responsible for establishing executive compensation. In so doing, the Compensation Committee will consider, along with all other relevant factors, the results of this vote.

We ask our shareholders to vote on the following resolution:

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

The next advisory vote will occur at our 2021 Annual Meeting.

**The Board of Directors Recommends a Vote For This Proposal.**

## **Item No. 3 Ratification of the Appointment of Kroger's Independent Auditor**

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

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities regarding the Company's financial reporting and accounting practices including the integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; the independent public accountants' qualifications and independence; the performance of the Company's internal audit function and independent public accountants; and the preparation of the Audit Committee Report. The Audit Committee performs this work pursuant to a written charter approved by the Board of Directors. The Audit Committee charter most recently was revised during fiscal 2012 and is available on the Company's website at [ir.kroger.com](http://ir.kroger.com) under Investors – Governance – Committee Composition. The Audit Committee has implemented

procedures to assist it during the course of each fiscal year in devoting the attention that is necessary and appropriate to each of the matters assigned to it under the Audit Committee's charter. The Audit Committee held 5 meetings during fiscal year 2019.

### **Selection of Independent Auditor**

The Audit Committee of the Board of Directors is directly responsible for the appointment, compensation, retention, and oversight of Kroger's independent auditor, as required by law and by applicable NYSE rules. On March 11, 2020, the Audit Committee appointed PricewaterhouseCoopers LLP as Kroger's independent auditor for the fiscal year ending January 30, 2021. PricewaterhouseCoopers LLP or its predecessor firm has been the Company's independent auditor since 1929.

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

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

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

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

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

## Audit and Non-Audit Fees

The following table presents the aggregate fees billed for professional services performed by PricewaterhouseCoopers LLP for the annual audit and quarterly reviews of our consolidated financial statements for fiscal 2019 and 2018, and for audit-related, tax and all other services performed in 2019 and 2018.

	Fiscal Year Ended	
	February 1, 2020	February 2, 2019
Audit Fees <sup>(1)</sup>	\$5,153,885	\$5,067,485
Audit-Related Fees <sup>(2)</sup>	\$ 0	\$ 1,110,870
All Other Fees <sup>(3)</sup>	\$ 900	900
Total	<u>\$5,154,785</u>	<u>\$6,179,255</u>

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

(2) Includes fees related to audit services in connection with the carve-out for the sale of the c-stores from the financial statements, lease pre-implementation procedures, and divestiture due diligence.

(3) Includes use of accounting research tool.

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

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

**The Board of Directors Recommends a Vote For This Proposal.**

## Audit Committee Report

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

In performing its functions, the Audit Committee:

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

Based upon the review and discussions described in this report, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended February 1, 2020, as filed with the SEC.

This report is submitted by the Audit Committee.

Anne Gates, Chair  
Karen M. Hoguet  
Ronald L. Sargent  
Bobby S. Shackouls  
Mark S. Sutton



## Item No. 4 Shareholder Proposal – Recyclability of Packaging

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

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

Plastic is the fastest growing form of packaging; U.S. flexible plastic sales are estimated at \$26 billion. Dried fruit, frozen meat, cheese, and dog food are some of the Kroger house brand items packaged in unrecyclable plastic pouches. Private label items account for a quarter of all sales – nearly \$20 billion annually. Using unrecyclable packaging when recyclable alternatives are available wastes valuable resources.

Recyclability of household packaging is a growing area of focus as consumers become more environmentally conscious, yet recycling rates stagnate. Only 13% of plastic packaging is recycled, according to the U.S. Environmental Protection Agency (EPA). Billions of pouches and similar multi-layer plastic laminates, lie buried in landfills. Unrecyclable packaging is more likely to be littered and swept into waterways. An assessment of marine debris by the Global Environment Facility concluded that one cause of debris entering oceans is “design and marketing of products internationally without appropriate regard to their environmental fate or ability to be recycled...”

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

Making all packaging recyclable, if possible, is the first step needed to reduce the threat posed by plastic pollution. Better management of plastic could save consumer goods companies \$4 billion a year. Companies who aspire to corporate sustainability yet use these risky materials need to explain why they use unrecyclable packaging.

Other companies who manufacture and sell food and household goods are moving towards recyclability. Kroger is lagging behind competitors; the company has only offered a vague statement that it will strive to increase recyclability of its plastic packaging. Direct grocery competitors Walmart and Target have both agreed to make their packaging recyclable, reusable, or compostable by 2025. Colgate-Palmolive, PepsiCo, Procter & Gamble, and Unilever have developed similar packaging recyclability goals.

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

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

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

In 2016, Kroger introduced our 2020 Sustainability Goals, which include several targets to optimize *Our Brands* product packaging by following a balanced, multi-pronged approach. These goals include:

- Improving the recyclability of plastic packaging and achieving 20% recycled content in packaging for Kroger manufactured products -- which also helps drive demand for recycled materials;
- Increasing communication with our customers about recyclability and helping expand recycling infrastructure because we cannot solve this problem alone;
- Increasing responsible fiber sourcing in paper packaging; and
- Reducing plastic in *Our Brands* packaging by 10 million pounds.

The detailed packaging optimization goals for 2020 and an update on our progress through fiscal year 2018 can be found at <http://sustainability.kroger.com/2020-goals.html>.

Kroger continues to accelerate progress on every front during fiscal 2020 to achieve as many of these targets as possible.

We will report Kroger's 2019 progress in our 2020 Environmental, Social & Governance (ESG) report. By the end of 2019:

- Kroger achieved 10.1 million pounds of reduced plastic in our manufactured plastic packaging since 2015 – achieving our goal well ahead of schedule – with additional improvements planned for 2020.
- We added post-consumer recycled (PCR) content to multiple plastic packaging items, including dairy products, bakery and produce products, which helps create demand for recycling markets. As examples, in 2019, we added 25% PCR content into two buttermilk products, up to 40% PCR in pie containers, and up to 20% PCR in several cake and cookie containers – all of which we produce in our own Manufacturing plants.
- We raised awareness of our in-store plastic film collection and recycling program, which accepts a wide variety of plastic films not currently accepted in curbside recycling programs, like plastic grocery bags, produce bags, bread bags, and plastic overwrap on household tissues, diapers and bottled water. Kroger will pilot new recycling programs for harder-to-recycle items in 2020 in order to give customers additional resources to help reduce plastic waste in the environment.
- We added 'Please Recycle' to additional product packages – for a total of more than 3,000 items showing this message. We are also in the process of joining the How2Recycle program so that we can provide widely adopted recycling instructions for *Our Brands* products moving forward.
- Kroger joined the U.S. Chamber of Commerce Foundation's Beyond 34 initiative, which is aimed at finding scalable solutions to increase the national recycling rate (currently 34%). As a Champion of the second pilot, hosted in Cincinnati, our home city, Kroger is playing a key role in evaluating waste reduction and recovery opportunities that can potentially benefit our company-wide operations.
- The majority of paper packaging items used in Kroger's Manufacturing plants include recycled content and/or is certified to a responsible forestry standard. We also developed a Deforestation Commitment for Raw Material Sourcing ([https://www.thekrogerco.com/wp-content/uploads/2020/02/Kroger-Deforestation-Commitment\\_Raw-Material-Sourcing\\_Final.pdf](https://www.thekrogerco.com/wp-content/uploads/2020/02/Kroger-Deforestation-Commitment_Raw-Material-Sourcing_Final.pdf)), which includes a commitment regarding paper packaging used in our plants.

Recognizing that our customers' interest in sustainable packaging will continue to evolve, in 2019 we became the exclusive U.S. grocery retail partner for Loop, an innovative circular packaging platform that aligns with Kroger's zero-waste vision by reducing single-use plastics in the environment. We are working with our CPG partners and *Our Brands* team to pilot this new packaging system in select Kroger-operated stores in fall 2020.

Kroger was also the first major U.S. grocery retailer to commit to phase out the use of single-use plastic grocery shopping bags across the country by 2025. We learn more every day about the challenges of transitioning from single-use plastics to a more circular and sustainable economy. While there isn't a single, easy answer to the issue of plastics in nature, Kroger remains committed to being part of the solution – in our stores and communities, and in our customers' homes.

For the year ahead, Kroger will continue to accelerate progress on our 2020 Sustainability Goals while also defining our strategy and long-term goals for the future. We are currently designing our future long-term packaging commitments and anticipate setting and sharing those by the end of the year.<sup>(1)</sup>

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

## **Item No. 5 Shareholder Proposal – Human Rights Due Diligence**

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

**“Resolved:** Shareholders request the Board of Directors prepare a report, at reasonable cost and omitting proprietary information, on Kroger's human rights due diligence (HRDD) process to identify, assess, prevent and mitigate actual and potential adverse human rights impacts in its operations and supply chain.

## Supporting Statement:

In line with the HRDD approach outlined by the UN Guiding Principles on Business and Human Rights,<sup>1</sup> we recommend the report include:

- The human rights principles used to frame its risk assessments;
- The human rights impacts of Kroger's business activities, including company-owned operations and supply chain, and plans to mitigate adverse impacts;
- The types and extent of stakeholder consultation; and
- The company's plans to track effectiveness of measures to assess, prevent, mitigate, and remedy adverse human rights impacts.

These HRDD measures reduce long-term risk to shareholders. Companies that proactively identify and mitigate human rights abuses avoid costly backlash from communities, customers, and government regulators. Indeed, risks exist not only for companies directly producing products connected to human rights violations, but also those selling such products.<sup>2</sup> For supermarkets, this creates an imperative not to cause or contribute to abuses to workers and farmers in their supply chain. Given Kroger's business relationship with suppliers operating in high-risk sectors, the company's current business model exposes investors to significant reputational – and in turn, financial – risk.

Increased public scrutiny on industries reliant upon child and forced labor has magnified the reputational risk: media coverage by the NY Times detailed slave labor in Southeast Asia's shrimp industry;<sup>3</sup> the Wall Street Journal revealed migrant labor abuses in Malaysia's palm oil sector;<sup>4</sup> and CNN chronicled rampant labor abuse among U.S. tomato producers.<sup>5</sup> When these tainted products are connected to a brand, the reputational stain follows.<sup>6</sup> Responsible companies must strive to identify, remedy and prevent such human rights violations.

Kroger is not immune to these threats. The Department of Labor has identified dozens of food products that appear on Kroger's shelves produced from child or forced labor, including seafood, tea, palm oil and fresh produce.<sup>7</sup>

Transparency in supply chain sourcing can reduce these risks. Companies that know, show, and address supply chain risks not only garner positive attention and customer loyalty for sustainable practices, but head off potentially expensive reputational risks. Companies like Coca-Cola and Mondelez, and supermarkets Jumbo, Albert Heijn, and Tesco have all conducted or committed to implementing HRDD, including by conducting human rights impact assessments on their sourcing of agricultural commodities.

Given the low cost of integrating HRDD relative to the significant costs that companies bear when tied to human rights violations, shareholders urge the Board to adopt this measure as a cost-effective means of reducing exposure to risk and maximizing long-term financial interest.”

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

Human rights are a fundamentally important topic for Kroger and something to which we are deeply committed.

As a result, we have several governance assets and compliance procedures in place to assist in upholding this commitment.

- Our Statement on Human Rights ([https://www.thekrogerco.com/wp-content/uploads/2018/07/TheKrogerCo\\_Statement-on-Human-Rights\\_2018-July.pdf](https://www.thekrogerco.com/wp-content/uploads/2018/07/TheKrogerCo_Statement-on-Human-Rights_2018-July.pdf)) articulates what we stand for regarding human rights. Protecting human rights is embedded in our company governance and culture. We expect to publish an expanded statement in 2020, specifically addressing some key topics of concern like recruitment fees, which can lead to workers becoming indebted to employers as a result of paying fees for employment.

<sup>1</sup> [https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](https://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf)

<sup>2</sup> <https://www.fm-magazine.com/issues/2016/dec/human-rights-risks-in-supply-chain.html>

<sup>3</sup> <https://www.nytimes.com/2014/06/22/opinion/sunday/thai-seafood-is-contaminated-by-human-trafficking.html>

<sup>4</sup> <https://www.wsj.com/articles/palm-oil-migrant-workers-tell-of-abuses-on-malaysian-plantations-1437933321>

<sup>5</sup> <https://cnn.com/2017/05/30/world/ciw-fair-food-program-freedom-project/index.html>

<sup>6</sup> See, e.g., <https://www.bizjournals.com/cincinnati/news/2019/08/16/p-g-faces-criticism-for-buying-palm-oil-allegedly.html>; <https://nowtoronto.com/news/chocolate-child-labour-slavery-hersheys/>; <https://www.theguardian.com/environment/2019/oct/05/tesco-m-and-s-supermarkets-likely-to-have-soya-linked-to-deforestation-supply-chains>

<sup>7</sup> <https://www.dol.gov/sites/dolgov/files/ILAB/ListofGoods.pdf>.

- Our Vendor Code of Conduct (<https://www.thekrogerco.com/wp-content/uploads/2017/09/code-of-conduct.pdf>) defines our expectations of our suppliers regarding protecting human rights in our supply chain. All suppliers are required to agree to this code of conduct in order to do business with Kroger.
- Our Social Compliance Program, described in our Social Compliance Program Requirements ([https://www.thekrogerco.com/wp-content/uploads/2018/07/The-Kroger-Co.\\_Social-Compliance-Program\\_2018-July-1.pdf](https://www.thekrogerco.com/wp-content/uploads/2018/07/The-Kroger-Co._Social-Compliance-Program_2018-July-1.pdf)) and described in detail in our annual Environmental, Social & Governance report (<http://sustainability.kroger.com/products-supply-chain-accountability.html>) is our framework for ensuring Kroger suppliers are upholding our Vendor Code of Conduct.
- We have a zero-tolerance policy for human rights violations reported through our social compliance program audits or other means. Addressing violations includes documented corrective action plan(s) and corresponding improvements. Failure to complete the corrective action plan(s) within the agreed-upon timeline can result in termination of the supply contract. Through this management approach to supply chain accountability, a limited number of supplier contracts are terminated each year for failure to comply with our Vendor Code of Conduct and/or correct zero tolerance and other violations in a timely manner.
- Our Ethics Hotline phone number can be used anonymously by internal and external parties to report any potential human rights violations or other misconduct in our operations or supply chain. The Ethics Hotline is listed in our corporate policies—including our Statement on Human Rights and Vendor Code of Conduct, both available on Kroger’s website: <https://www.thekrogerco.com/newsroom/statements-policies/>—and on posters at Kroger facilities.
- Our work in this area is overseen by Kroger’s Vice President, Chief Ethics & Compliance Officer, Group Vice President of Corporate Affairs, Senior Vice President of Human Resources, Vice President of Sourcing, and Head of Sustainability. This ensures that every part of our business is clear about the responsibility to respect human rights. Board-level oversight is provided by the Audit Committee and Public Responsibilities Committee of The Kroger Co. Board of Directors.

Kroger’s supplier base is diverse across geographies and by type of product produced, and as a result, Kroger takes measures to understand and prioritize the highest human rights risks in our supply chain.

- To determine the scope of the vendors and facilities that are to be audited in our Social Compliance Program and how often, Kroger evaluates our supplier base against multiple criteria, such as where facilities are located, what products they produce and documented industry risks. We also use risk indicators such as the United Nations Human Development Index, the U.S. State Department Trafficking in Persons Report and The World Bank Worldwide Governance Indicators.
- In addition, Kroger’s social compliance team plans to begin in 2020 a risk assessment initiative with ELEVATE, Kroger’s primary social compliance audit company, to better understand social risks in the supply chain. Results from this process will be used to refine our auditing approach.
- Kroger carefully reviews other social certification standards and auditing requirements to identify cases where Kroger can adopt another standard as a proxy for our own social compliance audits, which allows us to redistribute Kroger auditing capacity to more suppliers.

And finally, we recognize the value of stakeholder engagement, including with our suppliers, to identify and better understand human rights risks in our supply chain.

- Our social compliance team conducts multiple site visits with our suppliers around the globe to witness working conditions first-hand, and to ensure our audit protocols are being effectively implemented. In 2019, Kroger visited several general merchandise and seafood suppliers across Asia as well as produce suppliers in Mexico and South America.
- We also conduct engagements with stakeholders such as investors, research groups and NGOs, and we benchmark peer companies to ensure we are incorporating best practices in our approach. In fact, Kroger has actively participated with other produce buyers in a working group aimed at encouraging implementation of the PMA/United Fresh-sponsored Ethical Charter – a universal code of conduct to protect human rights in the produce supply chain.
- Kroger supports the communities from which we source through our initiative to provide Fair Trade-certified products to our customers. Annually, we purchase more than 17 million pounds of Fair Trade-certified

ingredients such as coconut, coffee, sugar and tea for Kroger's *Our Brands* products. Fair trade helps ensure responsible practices and safe, healthy working conditions on the farms where products are grown. For every product sold, the labor force earns an additional amount of money that goes into a farm worker-controlled Community Development Fund at origin.

- In early 2020, we are updating our environmental, social and governance materiality assessment—originally conducted in early 2018 and shared in our 2018 Sustainability Report ([http://sustainability.kroger.com/Kroger\\_CSR2018.pdf](http://sustainability.kroger.com/Kroger_CSR2018.pdf))—to ensure we are capturing relevant stakeholder perspectives in our reporting and approach to sustainability. We anticipate findings from the ongoing assessment will be reflected in our 2020 Environmental, Social & Governance report.

Moving forward, Kroger will continue using our engagement channels to identify, assess and address human rights concerns affecting our Company.

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

### **Shareholder Proposals and Director Nominations – 2021 Annual Meeting**

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended, shareholder proposals intended for inclusion in the proxy material relating to Kroger's annual meeting of shareholders in June 2021 should be addressed to Kroger's Secretary and must be received at our executive offices not later than January 12, 2021. These proposals must comply with Rule 14a-8 and the SEC's proxy rules. If a shareholder submits a proposal outside of Rule 14a-8 for the 2021 annual meeting and such proposal is not delivered within the time frame specified in the Regulations, Kroger's proxy may confer discretionary authority on persons being appointed as proxies on behalf of Kroger to vote on such proposal.

In addition, Kroger's Regulations contain an advance notice of shareholder business and director nominations requirement, which generally prescribes the procedures that a shareholder of Kroger must follow if the shareholder intends, at an annual meeting, to nominate a person for election to Kroger's Board of Directors or to propose other business to be considered by shareholders. These procedures include, among other things, that the shareholder give timely notice to Kroger's Secretary of the nomination or other proposed business, that the notice contain specified information, and that the shareholder comply with certain other requirements. In order to be timely, this notice must be delivered in writing to Kroger's Secretary, at our principal executive offices, not later than 45 calendar days prior to the date on which our proxy statement for the prior year's annual meeting of shareholders was mailed to shareholders. If a shareholder's nomination or proposal is not in compliance with the procedures set forth in the Regulations, we may disregard such nomination or proposal. Accordingly, if a shareholder intends, at the 2021 annual meeting, to nominate a person for election to the Board of Directors or to propose other business, the shareholder must deliver a notice of such nomination or proposal to Kroger's Secretary not later than March 28, 2021 and comply with the requirements of the Regulations.

Eligible shareholders may also submit director nominees for inclusion in our proxy statement for the 2021 annual meeting of shareholders. To be eligible, shareholders must have owned at least three percent of our common shares for at least three years. Up to 20 shareholders will be able to aggregate for this purpose. Nominations must be submitted to our Corporate Secretary at our principal executive offices no earlier than December 13, 2020 and no later than January 12, 2021.

Shareholder proposals, director nominations, including, if applicable pursuant to proxy access, and advance notices must be addressed in writing, and addressed and delivered timely to: Corporate Secretary, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202-1100.

## Householding of Proxy Materials

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

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

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

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

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



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# 2019 ANNUAL REPORT

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

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

For the fiscal year ended February 1, 2020.

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-303

**THE KROGER CO.**

(Exact name of registrant as specified in its charter)

**Ohio**

(State or Other Jurisdiction of Incorporation or Organization)

**31-0345740**

(I.R.S. Employer Identification No.)

**1014 Vine Street, Cincinnati, OH**  
(Address of Principal Executive Offices)

**45202**  
(Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common, \$1.00 Par Value	KR	New York Stock Exchange

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

**NONE**

**(Title of class)**

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

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

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

Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (August 17, 2019). \$18.2 billion.

The number of shares outstanding of the registrant's common stock, as of the latest practicable date. 777,891,827 shares of Common Stock of \$1 par value, as of March 25, 2020.

**Documents Incorporated by Reference:**

Portions of Kroger's definitive proxy statement for its 2020 annual meeting of shareholders, which shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Report relates, are incorporated by reference into Part III of this Report.



**The Kroger Co.**  
**Form 10-K**

**For the Fiscal Year Ended February 1, 2020**

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## PART I

### FORWARD LOOKING STATEMENTS.

This Annual Report on Form 10-K contains forward-looking statements about our future performance. These statements are based on our assumptions and beliefs in light of the information currently available to us. These statements are subject to a number of known and unknown risks, uncertainties and other important factors, including the risks and other factors discussed in “Risk Factors” below, that could cause actual results and outcomes to differ materially from any future results or outcomes expressed or implied by such forward looking statements. Such statements are indicated by words such as “achieve,” “affect,” “believe,” “committed,” “continue,” “could,” “deliver,” “effect,” “estimate,” “expects,” “future,” “growth,” “intends,” “likely,” “may,” “model,” “plan,” “position,” “range,” “result,” “strategy,” “strong,” “trend,” “will” and “would,” and similar words or phrases. Moreover, statements in the sections entitled Risk Factors, Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), and elsewhere in this report regarding our expectations, projections, beliefs, intentions or strategies are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended.

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

- The extent to which our sources of liquidity are sufficient to meet our requirements may be affected by the state of the financial markets and the effect that such condition has on our ability to issue commercial paper at acceptable rates. Our ability to borrow under our committed lines of credit, including our bank credit facilities, could be impaired if one or more of our lenders under those lines is unwilling or unable to honor its contractual obligation to lend to us, or in the event that global pandemics, including the novel coronavirus, natural disasters or weather conditions interfere with the ability of our lenders to lend to us. Our ability to refinance maturing debt may be affected by the state of the financial markets.
- Our ability to achieve sales, earnings and incremental First-In, First-Out (“FIFO”) operating profit goals may be affected by: COVID-19 related factors, risks and challenges, including among others, the length of time that the pandemic continues, the temporary inability of customers to shop due to illness, quarantine, or other travel restrictions or financial hardship, shifts in demand away from discretionary or higher priced products to lower priced products, or stockpiling or similar pantry-filling activities, reduced workforces which may be caused by, but not limited to, the temporary inability of the workforce to work due to illness, quarantine, or government mandates, or temporary store closures due to reduced workforces or government mandates; labor negotiations or disputes; changes in the types and numbers of businesses that compete with Kroger; pricing and promotional activities of existing and new competitors, including non-traditional competitors, and the aggressiveness of that competition; Kroger's response to these actions; the state of the economy, including interest rates, the inflationary and deflationary trends in certain commodities, changes in tariffs, and the unemployment rate; the effect that fuel costs have on consumer spending; volatility of fuel margins; changes in government-funded benefit programs and the extent and effectiveness of any COVID-19 stimulus packages; manufacturing commodity costs; diesel fuel costs related to Kroger's logistics operations; trends in consumer spending; the extent to which Kroger's customers exercise caution in their purchasing in response to economic conditions; the uncertainty of economic growth or recession; changes in inflation or deflation in product and operating costs; stock repurchases; Kroger's ability to retain pharmacy sales from third party payors; consolidation in the healthcare industry, including pharmacy benefit managers; Kroger's ability to negotiate modifications to multi-employer pension plans; natural disasters or adverse weather conditions; the effect of public health crises or other significant catastrophic events, including the coronavirus; the potential costs and risks associated with potential cyber-attacks or data security breaches; the success of Kroger's future growth plans; the ability to execute on *Restock Kroger*; and the successful integration of merged companies and new partnerships.
- Our ability to achieve these goals may also be affected by our ability to manage the factors identified above. Our ability to execute our financial strategy may be affected by our ability to generate cash flow.
- Our effective tax rate may differ from the expected rate due to changes in laws, the status of pending items with various taxing authorities, and the deductibility of certain expenses.

We cannot fully foresee the effects of changes in economic conditions on our business.

Other factors and assumptions not identified above, including those discussed in Item 1A of this Report, could also cause actual results to differ materially from those set forth in the forward-looking information. Accordingly, actual events and results may vary significantly from those included in, contemplated or implied by forward-looking statements made by us or our representatives. We undertake no obligation to update the forward-looking information contained in this filing.

## **ITEM 1. BUSINESS.**

The Kroger Co. (the “Company” or “Kroger”) was founded in 1883 and incorporated in 1902. As of February 1, 2020, we are one of the largest retailers in the world based on annual sales. We also manufacture and process some of the food for sale in our supermarkets. We maintain a web site ([www.thekrogerco.com](http://www.thekrogerco.com)) that includes additional information about the Company. We make available through our web site, free of charge, our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and our interactive data files, including amendments. These forms are available as soon as reasonably practicable after we have filed them with, or furnished them electronically to, the SEC.

Our revenues are predominately earned and cash is generated as consumer products are sold to customers in our stores, fuel centers and via our online platforms. We earn income predominantly by selling products at price levels that produce revenues in excess of the costs to make these products available to our customers. Such costs include procurement and distribution costs, facility occupancy and operational costs and overhead expenses. Our fiscal year ends on the Saturday closest to January 31. All references to 2019, 2018 and 2017 are to the fiscal years ended February 1, 2020, February 2, 2019 and February 3, 2018, respectively, unless specifically indicated otherwise.

### **EMPLOYEES**

As of February 1, 2020, Kroger employed approximately 435,000 full- and part-time employees. A majority of our employees are covered by collective bargaining agreements negotiated with local unions affiliated with one of several different international unions. There are approximately 360 such agreements, usually with terms of three to five years.

### **STORES**

As of February 1, 2020, Kroger operated, either directly or through its subsidiaries, 2,757 supermarkets under a variety of local banner names, of which 2,270 had pharmacies and 1,567 had fuel centers. We offer Pickup (also referred to as ClickList®) and Harris Teeter ExpressLane™—personalized, order online, pick up at the store services — at 1,989 of our supermarkets and provide home delivery service to 97% of Kroger households. Approximately 54% of our supermarkets were operated in Company-owned facilities, including some Company-owned buildings on leased land. Our current strategy emphasizes self-development and ownership of real estate. Our stores operate under a variety of banners that have strong local ties and brand recognition. Supermarkets are generally operated under one of the following formats: combination food and drug stores (“combo stores”); multi-department stores; marketplace stores; or price impact warehouses.

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

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

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

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

## SEGMENTS

We operate supermarkets and multi-department stores throughout the United States. Our retail operations, which represent 97% of our consolidated sales, is our only reportable segment. We aggregate our operating divisions into one reportable segment due to the operating divisions having similar economic characteristics with similar long-term financial performance. In addition, our operating divisions offer customers similar products, have similar distribution methods, operate in similar regulatory environments, purchase the majority of the merchandise for retail sale from similar (and in many cases identical) vendors on a coordinated basis from a centralized location, serve similar types of customers, and are allocated capital from a centralized location. Our operating divisions are organized primarily on a geographical basis so that the operating division management team can be responsive to local needs of the operating division and can execute company strategic plans and initiatives throughout the locations in their operating division. This geographical separation is the primary differentiation between these retail operating divisions. The geographical basis of organization reflects how the business is managed and how our Chief Executive Officer, who acts as our chief operating decision maker, assesses performance internally. All of our operations are domestic. Revenues, profits and losses and total assets are shown in our Consolidated Financial Statements set forth in Item 8 below.

## MERCHANDISING AND MANUFACTURING

*Our Brands* products play an important role in our merchandising strategy. Our supermarkets, on average, stock over 16,000 private label items. *Our Brands* products are primarily produced and sold in three “tiers.” Private Selection® is one of our premium quality brands, offering customers culinary foods and ingredients that deliver amazing eating experiences. The Kroger® brand, which represents the majority of our private label items, is designed to consistently satisfy and delight customers with quality products that exceed or meet the national brand in taste and efficacy, as well as with unique and differentiated products. Big K®, Check This Out...® and Heritage Farm® are some of our value brands, designed to deliver good quality at a very affordable price. In addition, we continue to grow natural and organic *Our Brands* offerings with Simple Truth® and Simple Truth Organic®. Both Simple Truth and Simple Truth Organic are free from a defined list of artificial ingredients that customers have told us they do not want in their food, and the Simple Truth Organic products are USDA certified organic.

Approximately 31% of *Our Brands* units and 42% of the grocery category *Our Brands* units sold in our supermarkets are produced in our food production plants; the remaining *Our Brands* items are produced to our strict specifications by outside manufacturers. We perform a “make or buy” analysis on *Our Brands* products and decisions are based upon a comparison of market-based transfer prices versus open market purchases. As of February 1, 2020, we operated 35 food production plants. These plants consisted of 16 dairies, 9 deli or bakery plants, five grocery product plants, two beverage plants, one meat plant and two cheese plants.

## SEASONALITY

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

## INFORMATION ABOUT OUR EXECUTIVE OFFICERS

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

Name	Age	Recent Employment History
Mary E. Adcock	44	Ms. Adcock was elected Senior Vice President effective May 1, 2019 and is responsible for the oversight of several Kroger retail divisions. From June 2016 to April 2019, she served as Group Vice President of Retail Operations. Prior to that, she served as Vice President of Operations for Kroger’s Columbus Division from November 2015 to May 2016 and as Vice President of Merchandising for the Columbus Division from March 2014 to November 2015. From February 2012 to March 2014, Ms. Adcock served as Vice President of Natural Foods Merchandising and from October 2009 to February 2012, she served as Vice President of Deli/Bakery Manufacturing. Prior to that, Ms. Adcock held several leadership positions in the manufacturing department, including human resources manager, general manager and division operations manager. Ms. Adcock joined Kroger in 1999 as human resources assistant manager at the Country Oven Bakery in Bowling Green, Kentucky.
Stuart W. Aitken	48	Mr. Aitken was elected Senior Vice President in February 2019 and served as Group Vice President from June 2015 to February 2019. He is responsible for leading Kroger’s alternative profit businesses, including Kroger’s data analytics subsidiary, 84.51° LLC and Kroger Personal Finance. Prior to joining Kroger, he served as the chief executive officer of dunnhumby USA, LLC from July 2010 to June 2015. Mr. Aitken has over 15 years of marketing, academic and technical experience across a variety of industries, and held various leadership roles with other companies, including Michaels Stores and Safeway, Inc.
Robert W. Clark	54	Mr. Clark was named Senior Vice President of Supply Chain, Manufacturing and Sourcing in May 2019. He was elected Senior Vice President of Merchandising in March 2016. From March 2013 to March 2016, he served as Group Vice President of Non-Perishables. Prior to that, he served as Vice President of Merchandising for Kroger’s Fred Meyer division from October 2011 to March 2013. From August 2010 to October 2011 he served as Vice President of Operations for Kroger’s Columbus division. Prior to that, from May 2002 to August 2010, he served as Vice President of Merchandising for Kroger’s Fry’s division. From 1985 to 2002, Mr. Clark held various leadership positions in store and district management, as well as grocery merchandising. Mr. Clark began his career with Kroger in 1985 as a courtesy clerk at Fry’s.
Yael Cosset	46	Mr. Cosset was elected Senior Vice President and Chief Information Officer in May 2019 and is responsible for leading Kroger’s digital strategy, focused on building Kroger’s presence in the marketplace in digital channels, personalization and e-commerce. Prior to that, Mr. Cosset served as Group Vice President and Chief Digital Officer from January 2017 to April 2019. Before that, he served as Chief Commercial Officer and Chief Information Officer of 84.51° LLC from April 2015 to December 2016. Prior to joining Kroger, Mr. Cosset served in several leadership roles at dunnhumby USA, LLC from 2009 to 2015, including Executive Vice President of Consumer Markets and Global Chief Information Officer.

Michael J. Donnelly	61	Mr. Donnelly was elected Executive Vice President and Chief Operating Officer in December 2017. Prior to that, he was Executive Vice President of Merchandising from September 2015 to December 2017, and Senior Vice President of Merchandising from July 2011 to September 2015. Before that, Mr. Donnelly held a variety of key management positions with Kroger, including President of Ralphs Grocery Company, President of Fry's Food Stores, and Senior Vice President, Drug/GM Merchandising and Procurement. Mr. Donnelly joined Kroger in 1978 as a clerk.
Carin L. Fike	51	Ms. Fike was elected Vice President and Treasurer effective April 2017. Prior to that, she served as Assistant Treasurer from March 2011 to April 2017. Before that, Ms. Fike served as Director of Investor Relations from December 2003 to March 2011. Ms. Fike began her career with Kroger in 1999 as a manager in the Financial Reporting department after working with PricewaterhouseCoopers from 1995 to 1999, where most recently she was an audit manager.
Todd A. Foley	50	Mr. Foley was elected Vice President and Corporate Controller effective April 2017. Before that, he served as Vice President and Treasurer from June 2013 to April 2017. Prior to that, Mr. Foley served as Assistant Corporate Controller from March 2006 to June 2013, and Controller of Kroger's Cincinnati/Dayton division from October 2003 to March 2006. Mr. Foley began his career with Kroger in 2001 as an audit manager in the Internal Audit Department after working for PricewaterhouseCoopers from 1991 to 2001, where most recently he was a senior audit manager.
Joseph A. Grieshaber, Jr.	62	Mr. Grieshaber was elected Senior Vice President in June 2019 and is responsible for sales, promotional and category planning for center store, fresh foods, and general merchandise categories. Prior to this, he served as President of Kroger's Fred Meyer division since March 2017, the Columbus division President from March 2015 to March 2017, and the Dillons division President from July 2010 to March 2015. In August 2003, Mr. Grieshaber was named Kroger's Group Vice President of Perishables Merchandising and Procurement. From 1995 to 2003, he served various leadership roles, including district management and Meat Merchandising in the Michigan Division and Vice President of Merchandising in the Columbus Division. Mr. Grieshaber began his career with Kroger in 1983 as a store manager trainee in Nashville.
Calvin J. Kaufman	57	Mr. Kaufman was elected Senior Vice President in June 2017, and is responsible for the oversight of several Kroger retail divisions. From July 2013 to June 2017, he served as President of the Louisville division. Prior to that, he served as President of Kroger Manufacturing and Our Brands from June 2008 to June 2013, and Group Vice President of Fred Meyer Logistics from September 2005 to May 2008. Mr. Kaufman held various positions in Logistics after joining Kroger in the Fred Meyer division in September 1994.
Timothy A. Massa	53	Mr. Massa was elected Senior Vice President of Human Resources and Labor Relations in June 2018. Prior to that, he served as Group Vice President of Human Resources and Labor Relations from June 2014 to June 2018. Mr. Massa joined Kroger in October 2010 as Vice President, Corporate Human Resources and Talent Development. Prior to joining Kroger, he served in various Human Resources leadership roles for 21 years at Procter & Gamble, most recently serving as Global Human Resources Director of Customer Business Development.

Stephen M. McKinney	63	Mr. McKinney was elected Senior Vice President in March 2018, and is responsible for the oversight of several Kroger retail divisions. From October 2013 to March 2018, he served as President of Kroger's Fry's Food Stores division. Prior to that, he served as Vice President of Operations for the Ralphs division from October 2007 to September 2013, and Vice President of Operations for the Southwest division from October 2006 to September 2007. From 1988 to 1998, Mr. McKinney served in various leadership positions in the Fry's Food Stores division, including store manager, deli director, and executive director of operations. From 1981 to 1998, Mr. McKinney held several roles with Florida Choice Supermarkets, a former Kroger banner, including store manager, buyer, and field representative. He started his career with Kroger in 1981 as a clerk with Florida Choice.
W. Rodney McMullen	59	Mr. McMullen was elected Chairman of the Board effective January 1, 2015, and Chief Executive Officer effective January 1, 2014. Prior to that, he served as President and Chief Operating Officer from August 2009 to December 2013. Prior to that he was elected Vice Chairman in June 2003, Executive Vice President, Strategy, Planning and Finance in January 2000, Executive Vice President and Chief Financial Officer in May 1999, Senior Vice President in October 1997, and Group Vice President and Chief Financial Officer in June 1995. Before that he was appointed Vice President, Control and Financial Services in March 1993, and Vice President, Planning and Capital Management in December 1989. Mr. McMullen joined Kroger in 1978 as a part-time stock clerk.
Gary Millerchip	48	Mr. Millerchip was elected Senior Vice President and Chief Financial Officer effective April 2019. Prior to this, he serviced as Chief Executive Officer for Kroger Personal Finance since joining Kroger in 2008. Before coming to Kroger he was responsible for the Royal Bank of Scotland (RBS) Personal Credit Card business in the United Kingdom. He joined RBS in 1987 and held leadership positions in Sales & Marketing, Finance, Change Management, Retail Banking Distribution Strategy and Branch Operations during his time there.
Erin S. Sharp	62	Ms. Sharp has served as Group Vice President of Manufacturing since June 2013. She joined Kroger in 2011 as Vice President of Operations for Kroger's Manufacturing division. Before joining Kroger, Ms. Sharp served as Vice President of Manufacturing for the Sara Lee Corporation. In that role, she led the manufacturing and logistics operations for the central region of their U.S. Fresh Bakery Division. Ms. Sharp has over 30 years of experience supporting food manufacturing operations.
Mark C. Tuffin	60	Mr. Tuffin has served as Senior Vice President since January 2014, and is responsible for the oversight of several of Kroger's retail divisions. Prior to that, he served as President of Kroger's Smith's division from July 2011 to January 2014. From September 2009 to July 2011, Mr. Tuffin served as Vice President of Transition, where he was responsible for implementing an organizational restructuring initiative for Kroger's retail divisions. He joined Kroger's Smith's division in 1996 and served in a series of leadership roles, including Vice President of Merchandising from September 1999 to September 2009. Mr. Tuffin held various positions with other supermarket retailers before joining Smith's in 1996.

Christine S. Wheatley	49	Ms. Wheatley was elected Group Vice President, Secretary and General Counsel in May 2014. She joined Kroger in February 2008 as Corporate Counsel, and became Senior Attorney in 2010, Senior Counsel in 2011, and Vice President in 2012. Before joining Kroger, Ms. Wheatley was engaged in the private practice of law for 11 years, most recently as a partner at Porter Wright Morris & Arthur in Cincinnati.
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**COMPETITIVE ENVIRONMENT**

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

**ITEM 1A. RISK FACTORS.**

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

**COMPETITIVE ENVIRONMENT**

The operating environment for the food retailing industry continues to be characterized by intense price competition, expansion, increasing fragmentation of retail and online formats, entry of non-traditional competitors and market consolidation. In addition, evolving customer preferences and the advancement of online, delivery, ship to home, and mobile channels in our industry enhance the competitive environment. We must anticipate and meet these evolving customer preferences and continue to implement technology, software and processes to be able to conveniently and cost-effectively fulfill customer orders. Providing flexible fulfillment options and implementing new technology is complex and may not meet customer preferences. If we are not successful in offsetting increased cost of fulfilling orders outside of our traditional in-store channel with efficiencies, cost-savings or expense reductions, our results of operations could be adversely affected. If we do not anticipate customer preferences or fail to quickly adapt to these changing preferences, our sales and profitability could be adversely affected. If we are unable to make, improve, or develop relevant customer-facing technology in a timely manner, our ability to compete and our results of operations could be adversely affected.

We are continuing to enhance the customer connection with investments in our competitive moats of today – which are product freshness and quality, *Our Brands*, and personalized rewards – and our competitive moat of tomorrow, the seamless ecosystem we are building. If we are unable to enhance the foregoing customer connection, our ability to compete and our financial condition, results of operations, or cash flows could be adversely affected. We believe our *Restock Kroger* plan provides a balanced approach that will enable us to meet the wide-ranging needs and expectations of our customers. However, we may be unsuccessful in implementing *Restock Kroger*, including our alternative profit strategy and our cost savings initiatives, which could adversely affect our relationships with our customers, our market share and business growth, and our operations and results. The nature and extent to which our competitors respond to the evolving and competitive industry by developing and implementing their competitive strategies could adversely affect our profitability.

**PRODUCT SAFETY**

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



## **LABOR RELATIONS**

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

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

## **DATA AND TECHNOLOGY**

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

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

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

Our continued investment in our information technology systems may not effectively insulate us from potential attacks, breaches or disruptions to our business operations, which could result in a loss of customers or business information, negative publicity, damage to our reputation, and exposure to claims from customers, financial institutions, regulatory authorities, payment card associations, associates and other persons. Any such events could have an adverse effect on our business, financial condition and results of operations and may not be covered by our insurance. In addition, compliance with privacy and information security laws and standards may result in significant expense due to increased investment in technology and the development of new operational processes and may require us to devote significant management resources to address these issues. The costs of attempting to protect against the foregoing risks and the costs of responding to cyber-attacks are significant. Following a cyber-attack, our and/or our vendors' remediation efforts may not be successful, and a cyber-attack could result in interruptions, delays or cessation of service, and loss of existing or potential customers. In addition, breaches of our and/or our vendors' security measures and the unauthorized dissemination of sensitive personal information or confidential information about us or our customers could expose our customers' private information and our customers to the risk of financial or medical identity theft, or expose us or other third parties to a risk of loss or misuse of this information, and result in investigations, regulatory enforcement actions, material fines and penalties, loss of customers, litigation or other actions which could have a material adverse effect on our brands, reputation, business, financial condition, results of operations, or cash flows.

Data governance failures can adversely affect our reputation and business. Our business depends on our customers' willingness to entrust us with their personal information. Events that adversely affect that trust, including inadequate disclosure to our customers of our uses of their information, failing to keep our information technology systems and our customers' sensitive information secure from significant attack, theft, damage, loss or unauthorized disclosure or access, whether as a result of our action or inaction (including human error) or that of our business associates, vendors or other third parties, could adversely affect our brand and reputation and operating results and also could expose and/or has exposed us to mandatory disclosure to the media, litigation (including class action litigation), governmental investigations and enforcement proceedings, material fines, penalties and/or remediation costs, and compensatory, special, punitive and statutory damages, consent orders, and/or injunctive relief, any of which could adversely affect our businesses, financial condition, results of operations, or cash flows. Large scale data breaches at other entities increase the challenge we and our vendors face in maintaining the security of our information technology systems and proprietary information and of our customers' information. There can be no assurance that such failures will not occur, or if any do occur, that we will detect them or that they can be sufficiently remediated.

The use of data by our business and our business associates is highly regulated. Privacy and information-security laws and regulations change, and compliance with them may result in cost increases due to, among other things, systems changes and the development of new processes. If we or those with whom we share information fail to comply with laws and regulations, such as the California Consumer Privacy Act (CCPA), our reputation could be damaged, possibly resulting in lost business, and we could be subjected to additional legal risk or financial losses as a result of non-compliance.

## **PAYMENT SYSTEMS**

We accept payments using a variety of methods, including cash and checks, and select credit and debit cards. As we offer new payment options to our customers, we may be subject to additional rules, regulations, compliance requirements, and higher fraud losses. For certain payment methods, we pay interchange and other related acceptance fees, along with additional transaction processing fees. We rely on third parties to provide payment transaction processing services for credit and debit cards. It could disrupt our business if these companies become unwilling or unable to provide these services to us. We are also subject to evolving payment card association and network operating rules, including data security rules, certification requirements and rules governing electronic funds transfers. For example, we are subject to Payment Card Industry Data Security Standards ("PCI DSS"), which contain compliance guidelines and standards with regard to our security surrounding the physical and electronic storage, processing and transmission of individual cardholder data. If our internal systems are breached or compromised, we may be liable for card re-issuance costs, subject to fines and higher transaction fees and lose our ability to accept card payments from our members, and our business, financial condition, results of operations, or cash flows could be adversely affected.

## **INDEBTEDNESS**

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

## **LEGAL PROCEEDINGS AND INSURANCE**

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

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

## **MULTI-EMPLOYER PENSION OBLIGATIONS**

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

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

## **INTEGRATION OF NEW BUSINESS AND STRATEGIC ALLIANCES**

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

## **FUEL**

We sell a significant amount of fuel, which could face increased regulation and demand could be affected by concerns about the effect of emissions on the environment as well as retail price increases. We are unable to predict future regulations, environmental effects, political unrest, acts of terrorism, disruptions to the economy, including but not limited to the COVID-19 pandemic, and other matters that may affect the cost and availability of fuel, and how our customers will react, which could adversely affect our financial condition, results of operations, or cash flows.

## **ECONOMIC CONDITIONS**

Our operating results could be materially impacted by changes in overall economic conditions that impact consumer confidence and spending, including discretionary spending. Future economic conditions affecting disposable consumer income such as employment levels, business conditions, changes in housing market conditions, the availability of credit, interest rates, tax rates, the impact of natural disasters or acts of terrorism or pandemics, such as the spread of the novel coronavirus, COVID-19, and other matters could reduce consumer spending. Increased fuel prices could also have an effect on consumer spending and on our costs of producing and procuring products that we sell. We are unable to predict how the global economy and financial markets will perform. If the global economy and financial markets do not perform as we expect, it could adversely affect our financial condition, results of operations, or cash flows.

## **WEATHER AND NATURAL DISASTERS**

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

## **COVID-19**

On March 11, 2020, the World Health Organization announced that infections of the coronavirus (COVID-19) had become a pandemic, and on March 13, the U.S. President announced a National Emergency relating to the disease. There is a possibility of widespread infection in the United States and abroad, with the potential for catastrophic impact. National, state and local authorities have recommended social distancing and imposed or are considering quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures, while intended to protect human life, are expected to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts, including proposed government payments to affected citizens and industries, is uncertain. Some economists are predicting the United States may enter a recession as a result of the pandemic.

Our business may be negatively impacted by the fear of exposure to or actual effects of a disease outbreak, epidemic, pandemic or similar widespread public health concern, such as reduced travel or recommendations or mandates from governmental authorities to avoid large gatherings or to self-quarantine as a result of the coronavirus pandemic. These impacts include but are not limited to:

- Increased costs due to short-term significant increases in customer traffic and demand spikes;
- Failure of third parties on which we rely, including our suppliers, contract manufacturers, contractors, commercial banks, joint venture partners and external business partners to meet their obligations to the company, or significant disruptions in their ability to do so which may be caused by their own financial or operational difficulties and may adversely impact our operations;
- Supply chain risks such as scrutiny or embargoing of goods produced in infected areas;
- Reduced workforces which may be caused by, but not limited to, the temporary inability of the workforce to work due to illness, quarantine, or government mandates;
- Temporary store closures due to reduced workforces or government mandates; or
- Reduced consumer traffic and purchasing which may be caused by, but not limited to, the temporary inability of customers to shop with us due to illness, quarantine or other travel restrictions, or financial hardship, shifts in demand from discretionary or higher priced products to lower priced products, or stockpiling or similar pantry-loading activities.

Any of the foregoing factors, or other cascading effects of the coronavirus pandemic that are not currently foreseeable, could materially increase our costs, negatively impact our sales and damage the Company's financial condition, results of operations, cash flows and its liquidity position, possibly to a significant degree. The duration of any such impacts cannot be predicted because of the sweeping nature of the COVID-19 pandemic.

## **GOVERNMENT REGULATION**

Our stores are subject to various laws, regulations, and administrative practices that affect our business. We must comply with numerous provisions regulating, among other things, health and sanitation standards, food labeling and safety, equal employment opportunity, minimum wages, licensing for the sale of food, drugs, and alcoholic beverages, and new provisions relating to the COVID-19 pandemic. We cannot predict future laws, regulations, interpretations, administrative orders, or applications, or the effect they will have on our operations. They could, however, significantly increase the cost of doing business. They also could require the reformulation of some of the products that we sell (or manufacture for sale to third parties) to meet new standards. We also could be required to recall or discontinue the sale of products that cannot be reformulated. These changes could result in additional record keeping, expanded documentation of the properties of certain products, expanded or different labeling, or scientific substantiation. Any or all of these requirements could have an adverse effect on our financial condition, results of operations, or cash flows.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

### **ITEM 2. PROPERTIES.**

As of February 1, 2020, we operated approximately 2,800 owned or leased supermarkets, distribution warehouses and food production plants through divisions, subsidiaries or affiliates. These facilities are located throughout the United States. While our current strategy emphasizes ownership of real estate, a substantial portion of the properties used to conduct our business are leased.

We generally own store equipment, fixtures and leasehold improvements, as well as processing and food production equipment. The total cost of our owned assets and finance leases at February 1, 2020, was \$45.8 billion while the accumulated depreciation was \$24.0 billion.

We lease certain store real estate, warehouses, distribution centers, office space and equipment. While our current strategy emphasizes ownership of store real estate, we operate in leased facilities in approximately half of our store locations. Lease terms generally range from 10 to 20 years with options to renew for varying terms at our sole discretion. Certain leases also include options to purchase the leased property. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Certain leases include escalation clauses or payment of executory costs such as property taxes, utilities or insurance and maintenance. Rent expense for leases with escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain properties or portions thereof are subleased to others for periods generally ranging from one to 20 years. For additional information on lease obligations, see Note 10 to the Consolidated Financial Statements.

### **ITEM 3. LEGAL PROCEEDINGS.**

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

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

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II**

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

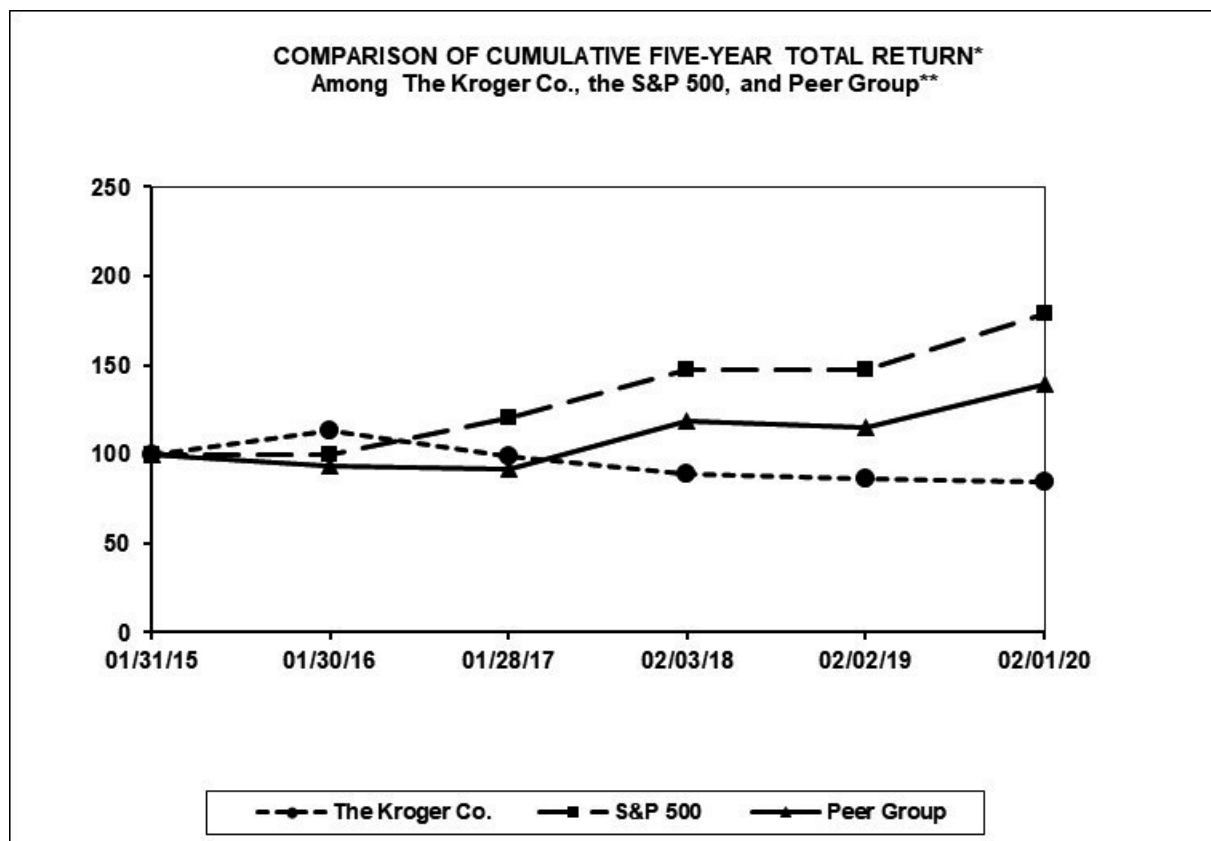
Our common stock is listed on the New York Stock Exchange under the symbol "KR." As of March 25, 2020, there were 26,407 shareholders of record.

During 2019, we paid two quarterly cash dividends of \$0.14 per share and two quarterly cash dividends of \$0.16 per share. During 2018, we paid two quarterly cash dividends of \$0.125 per share and two quarterly cash dividends of \$0.14 per share. On March 1, 2020, we paid a quarterly cash dividend of \$0.16 per share. On March 12, 2020, we announced that our Board of Directors declared a quarterly cash dividend of \$0.16 per share, payable on June 1, 2020, to shareholders of record at the close of business on May 15, 2020. We currently expect to continue to pay comparable cash dividends on a quarterly basis, that will increase over time, depending on our earnings and other factors, including approval by our Board.

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

## PERFORMANCE GRAPH

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



Company Name/Index	Base Period	INDEXED RETURNS				
		Years Ending				
	2014	2015	2016	2017	2018	2019
The Kroger Co.	100	113.63	98.98	88.69	86.45	84.67
S&P 500 Index	100	99.33	120.06	147.48	147.40	179.17
Peer Group	100	93.30	91.76	118.54	115.13	138.93

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

Data supplied by Standard & Poor's.

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

\* Total assumes \$100 invested on January 31, 2015, in The Kroger Co., S&P 500 Index, and the Peer Group, with reinvestment of dividends.

\*\* The Peer Group consists of Costco Wholesale Corp., CVS Health Corporation, Etablissements Delhaize Freres Et Cie Le Lion ("Groupe Delhaize", which is included through July 22, 2016 when it merged with Koninklijke Ahold), Koninklijke Ahold Delhaize NV (changed name from Koninklijke Ahold after merger with Groupe Delhaize), Supervalu Inc. (included through October 19, 2018 when it was acquired by United Natural Foods), Target Corp., Walmart Inc., Walgreens Boots Alliance Inc. (formerly, Walgreen Co.), Whole Foods Market Inc. (included through August 28, 2017 when it was acquired by Amazon.com, Inc.).

The following table presents information on our purchases of our common shares during the fourth quarter of 2019.

### ISSUER PURCHASES OF EQUITY SECURITIES

Period (1)	Total Number of Shares Purchased (2)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (3)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (4) (in millions)
First period - four weeks				
November 10, 2019 to December 7, 2019	224,436	\$ 26.95	211,551	\$ 1,000
Second period - four weeks				
December 8, 2019 to January 4, 2020	7,844,559	\$ 28.43	7,832,894	\$ 787
Third period — four weeks				
January 5, 2020 to February 1, 2020	7,117,032	\$ 28.49	7,117,032	\$ 600
<b>Total</b>	<u>15,186,027</u>	<u>\$ 28.43</u>	<u>15,161,477</u>	<u>\$ 600</u>

- (1) The reported periods conform to our fiscal calendar composed of thirteen 28-day periods. The fourth quarter of 2019 contained three 28-day periods.
- (2) Includes (i) shares repurchased under the November 2019 Repurchase Program described below in (4), (ii) shares repurchased under a program announced on December 6, 1999 to repurchase common shares to reduce dilution resulting from our employee stock option and long-term incentive plans, under which repurchases are limited to proceeds received from exercises of stock options and the tax benefits associated therewith (“1999 Repurchase Program”) and (iii) 24,550 shares that were surrendered to the Company by participants under our long term incentive plans to pay for taxes on restricted stock awards.
- (3) Represents shares repurchased under the November 2019 Repurchase Program and the 1999 Repurchase Program.
- (4) On November 5, 2019, our Board of Directors approved a \$1.0 billion share repurchase program to reacquire shares via open market purchase or privately negotiated transactions, block trades, or pursuant to trades intending to comply with rule 10b5-1 of the Securities Exchange Act of 1934 (the “November 2019 Repurchase Program”). The amounts shown in this column reflect the amount remaining under the November 2019 Repurchase Program as of the specified period end dates. Amounts available under the 1999 Repurchase Program are dependent upon option exercise activity. The November 2019 Repurchase Program and the 1999 Repurchase Program do not have an expiration date but may be suspended or terminated by our Board of Directors at any time.



## ITEM 6. SELECTED FINANCIAL DATA.

The following table presents our selected consolidated financial data for each of the last five fiscal years.

	Fiscal Years Ended				
	February 1, 2020 (52 weeks)	February 2, 2019 (52 weeks)	February 3, 2018 (53 weeks)	January 28, 2017 (52 weeks)	January 30, 2016 (52 weeks)
	(In millions, except per share amounts)				
Sales	\$ 122,286	\$ 121,852	\$ 123,280	\$ 115,337	\$ 109,830
Net earnings including noncontrolling interests	\$ 1,512	\$ 3,078	\$ 1,889	\$ 1,957	\$ 2,049
Net earnings attributable to The Kroger Co.	\$ 1,659	\$ 3,110	\$ 1,907	\$ 1,975	\$ 2,039
Net earnings attributable to The Kroger Co. per diluted common share	\$ 2.04	\$ 3.76	\$ 2.09	\$ 2.05	\$ 2.06
Total assets	\$ 45,256	\$ 38,118	\$ 37,197	\$ 36,505	\$ 33,897
Long-term liabilities, including obligations under finance leases	\$ 22,440	\$ 16,009	\$ 16,095	\$ 16,935	\$ 14,128
Total shareholders' equity — The Kroger Co.	\$ 8,602	\$ 7,886	\$ 6,931	\$ 6,698	\$ 6,820
Cash dividends per common share	\$ 0.600	\$ 0.530	\$ 0.490	\$ 0.450	\$ 0.395

Note: This information should be read in conjunction with MD&A and the Consolidated Financial Statements.

Fiscal year 2015, 2016, 2018 and 2019 each include 52 weeks. Fiscal year 2017 includes 53 weeks.

Total assets and long-term liabilities, including obligations under finance leases, were impacted in 2019 by the adoption of ASU 2016-02, "Leases," as further described in Notes 10 and 18 to the Consolidated Financial Statements. Prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting policies.

Products and services related primarily to Kroger Personal Finance and Media, which were historically accounted for as an offset to operating, general and administrative expenses ("OG&A"), are classified as a component of sales as of the beginning of fiscal year 2019, except for certain amounts in Media, which are netted against merchandise costs. The prior-year amounts have been reclassified to conform to current-year presentation with the exception of 2016 and 2015, which were not material and not adjusted for the sales reclassification. See Item 7, *Supplemental Information* for additional details.

Fiscal year ended February 2, 2019 includes the gain on sale of our convenience store business unit. Additionally, refer to Note 17 to the Consolidated Financial Statements for disclosure of disposals of businesses.

Refer to Note 2 to the Consolidated Financial Statements for disclosure of business combinations and their effect on the Consolidated Statements of Operations and the Consolidated Balance Sheets.

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

The following discussion and analysis of financial condition and results of operations of The Kroger Co. should be read in conjunction with the "Forward-looking Statements" section set forth in Part I and the "Risk Factors" section set forth in Item 1A of Part I. MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes thereto contained in Item 8 of this report, as well as Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Form 10-K for the year ended February 2, 2019, which provides additional information on comparisons of fiscal years 2018 and 2017.

### OUR BUSINESS

The Kroger Co. was founded in 1883 and incorporated in 1902. As of February 1, 2020, Kroger is one of the world's largest retailers, as measured by revenue, operating 2,757 supermarkets under a variety of local banner names in 35 states and the District of Columbia. Of these stores, 2,270 have pharmacies and 1,567 have fuel centers. We offer Pickup (also referred to as ClickList®) and Harris Teeter ExpressLane™ — personalized, order online, pick up at the store services — at 1,989 of our supermarkets and provide home delivery service to 97% of Kroger households. We also operate an online retailer.

We operate 35 food production plants, primarily bakeries and dairies, which supply approximately 31% of *Our Brands* units and 42% of the grocery category *Our Brands* units sold in our supermarkets; the remaining *Our Brands* items are produced to our strict specifications by outside manufacturers.

Our revenues are predominately earned and cash is generated as consumer products are sold to customers in our stores, fuel centers and via our online platforms. We earn income predominately by selling products at price levels that produce revenues in excess of the costs we incur to make these products available to our customers. Such costs include procurement and distribution costs, facility occupancy and operational costs, and overhead expenses. Our retail operations, which represent 97% of our consolidated sales, is our only reportable segment.

On January 27, 2020, Lucky's Market filed a voluntary petition in the Bankruptcy Court seeking relief under the Bankruptcy Code. Lucky's Market is included in our Consolidated Balance Sheet for 2018 and our Consolidated Statements of Operations in all periods in 2017 and 2018 and through January 26, 2020. Refer to Note 17 to the Consolidated Financial Statements for additional information.

On April 26, 2019, we completed the sale of our Turkey Hill Dairy business for total proceeds of \$225 million. Turkey Hill Dairy is included in our Consolidated Balance Sheet for 2018 and our Consolidated Statements of Operations in all periods in 2017 and 2018 and through April 25, 2019.

On March 13, 2019, we completed the sale of our You Technology business to Inmar for total consideration of \$565 million, including \$396 million of cash and \$64 million of preferred equity received upon closing. We are also entitled to receive other cash payments of \$105 million over five years. The transaction includes a long-term service agreement for Inmar to provide us digital coupon services. You Technology is included in our Consolidated Balance Sheet for 2018 and our Consolidated Statements of Operations in all periods in 2017 and 2018 and through March 12, 2019.

On June 22, 2018, we closed our merger with Home Chef by purchasing 100% of the ownership interest in Home Chef, for \$197 million net of cash and cash equivalents of \$30 million, in addition to future earnout payments of up to \$500 million over five years that are contingent on achieving certain milestones. Home Chef is included in our ending Consolidated Balance Sheet for 2018 and 2019 and in our Consolidated Statements of Operations from June 22, 2018 through February 2, 2019 and all periods in 2019. See Note 2 to the Consolidated Financial Statements for more information related to our merger with Home Chef.

On April 20, 2018, we completed the sale of our convenience store business unit for \$2.2 billion. The convenience store business is included in our Consolidated Statements of Operations in all periods in 2017 and through April 19, 2018.

## USE OF NON-GAAP FINANCIAL MEASURES

The accompanying Consolidated Financial Statements, including the related notes, are presented in accordance with generally accepted accounting principles (“GAAP”). We provide non-GAAP measures, including FIFO gross margin, FIFO operating profit, adjusted net earnings and adjusted net earnings per diluted share because management believes these metrics are useful to investors and analysts. These non-GAAP financial measures should not be considered as an alternative to gross margin, operating profit, net earnings and net earnings per diluted share or any other GAAP measure of performance. These measures should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP.

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

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

The adjusted net earnings and adjusted net earnings per diluted share metrics are important measures used by management to compare the performance of core operating results between periods. We believe adjusted net earnings and adjusted net earnings per diluted share are useful metrics to investors and analysts because they present more accurate year-over-year comparisons for our net earnings and net earnings per diluted share because adjusted items are not the result of our normal operations. Net earnings for 2019 include the following, which we define as the “2019 Adjusted Items:”

- Charges to operating, general and administrative expenses (“OG&A”) of \$135 million, \$104 million net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension funds; \$80 million, \$61 million net of tax, for a severance charge and related benefits; \$412 million including \$305 million attributable to The Kroger Co., \$225 million net of tax, for impairment of Lucky’s Market; \$52 million, \$37 million net of tax, for transformation costs, primarily including 35 planned store closures; and a reduction to OG&A of \$69 million, \$49 million net of tax, for the revaluation of Home Chef contingent consideration (the “2019 OG&A Adjusted Items”).
- Gains in other income (expense) of \$106 million, \$80 million net of tax, related to the sale of Turkey Hill Dairy; \$70 million, \$52 million net of tax, related to the sale of You Technology; and \$157 million, \$119 million net of tax, for the mark to market gain on Ocado Group plc (“Ocado”) securities (the “2019 Other Income (Expense) Adjusted Items”).

Net earnings for 2018 include the following, which we define as the “2018 Adjusted Items:”

- Charges to OG&A of \$155 million, \$121 million net of tax, for obligations related to withdrawal liabilities for certain local unions of the Central States multi-employer pension fund; \$33 million, \$26 million net of tax, for the revaluation of Home Chef contingent consideration; and \$42 million, \$33 million net of tax, for an impairment of financial instrument (the “2018 OG&A Adjusted Items”). We had initially received the financial instrument in 2016 with no cash outlay as part of the consideration for entering into agreements with a third party.
- A reduction to depreciation and amortization expenses of \$14 million, \$11 million net of tax, related to held for sale assets (the “2018 Depreciation Adjusted Item”).
- Gains in other income (expense) of \$1.8 billion, \$1.4 billion net of tax, related to the sale of our convenience store business unit and \$228 million, \$174 million net of tax, for the mark to market gain on Ocado securities.

Net earnings for 2017 include the following, which we define as the “2017 Adjusted Items:”

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

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

## **EXECUTIVE SUMMARY – OUR PATH TO DELIVERING CONSISTENT AND ATTRACTIVE TOTAL SHAREHOLDER RETURN**

In 2019, we delivered on the total shareholder return model that we outlined at our Investor Day in November 2019 and are positioned to deliver on our total shareholder return model of the future. We also delivered on our guidance for identical sales without fuel, adjusted net earnings per diluted share and adjusted FIFO operating profit. We are using the power of Kroger’s stable and growing supermarket business to create meaningful incremental operating profit through the alternative profit stream businesses, positioning our business for long-term growth. By executing against the *Restock Kroger* framework, we are repositioning our business by widening and deepening our competitive moats. The four main areas of the *Restock Kroger* framework – Redefine the Customer Experience, Partner to Create Value, Develop Talent and Live Our Purpose – continue to be a top strategic priority for us. Our model is built upon a strong and durable base driven by our retail supermarket, fuel, and health and wellness businesses. We continue to generate strong free cash flow and are being disciplined in how we deploy it to deliver strong and attractive total shareholder returns.

Our financial strategy is to continue to use our strong free cash flow to invest in the business to drive long-term sustainable growth through the identification of high-return projects that support our strategy. We will allocate capital toward driving profitable sales growth in stores and digital, improving productivity, and building a seamless digital ecosystem and supply chain. At the same time, we are committed to maintaining our net debt to adjusted EBITDA range of 2.30 to 2.50 in order to keep our current investment-grade debt rating. We also expect to continue to grow our dividend over time, reflecting the confidence we have in our free cash flow, and will continue to return excess cash to investors via share repurchases. We expect our model to deliver improved operating results over time and continued strong free cash flow, which will translate into a consistently strong and attractive total shareholder return over the long-term of 8% to 11%. Our full-year 2019 results demonstrated clear progress toward delivering on this model. *Restock Kroger* is the right strategic framework to deliver both our 2020 guidance and to position Kroger for sustainable growth and total shareholder return.

The following table provides highlights of our financial performance:

**Financial Performance Data**  
(\$ in millions, except per share amounts)

	2019	Percentage Change	2018
Sales	\$ 122,286	0.4 %	\$ 121,852
Net earnings attributable to The Kroger Co.	1,659	(46.7)%	3,110
Adjusted net earnings attributable to The Kroger Co.	1,786	2.3 %	1,745
Net earnings attributable to The Kroger Co. per diluted common share	2.04	(45.7)%	3.76
Adjusted net earnings attributable to The Kroger Co. per diluted common share	2.19	3.8 %	2.11
Operating profit	2,251	(13.9)%	2,614
Adjusted FIFO operating profit	2,995	4.0 %	2,880
Reduction in total debt, including obligations under finance leases	1,153	220.3 %	360
Share repurchases	465	(76.9)%	2,010
Dividends paid	486	11.2 %	437
Dividends paid per common share	0.600	13.2 %	0.530
Identical sales excluding fuel	2.0 %	N/A	1.8 %
FIFO gross margin rate, excluding fuel and Adjusted Items, bps decrease	(0.23)	N/A	(0.55)
OG&A rate, excluding fuel and Adjusted Items, bps increase (decrease)	(0.29)	N/A	0.07

## OVERVIEW

Notable items for 2019 are:

### *Shareholder Return*

- Net earnings attributable to The Kroger Co. per diluted common share of \$2.04.
- Adjusted net earnings attributable to The Kroger Co. per diluted common share of \$2.19.
- We returned \$951 million to shareholders from share repurchases and dividend payments.
- Over the last 12 months, we decreased total debt, including obligations under finance leases, by \$1.2 billion.

### *Other Financial Results*

- Identical sales, excluding fuel, increased 2.0% in 2019.
- Digital revenue grew 29% in 2019, driven by Pickup and Delivery sales growth. Digital revenue growth has moderated primarily due to cycling our merger with the Home Chef business. Digital revenue primarily includes revenue from all curbside pickup locations, online sales delivered to customer locations and products shipped to customer locations.
- Alternative profit streams grew over \$100 million in 2019 compared to 2018, meeting our expectations. Kroger's ecosystem fuels the growth of adjacent alternative profit streams like Kroger Personal Finance, customer data insights, and media businesses that are essential components of *Restock Kroger*. These businesses comprise a significant portion of Kroger's overall alternative profit stream portfolio. They are dependent on a core supermarket business to deliver sustainable, long-term growth and profitability.

### *Significant Events*

- During the fourth quarter of 2019, we recognized transformation costs of \$52 million, \$37 million net of tax, primarily including 35 planned store closures.

- During the third quarter of 2019, we approved and implemented a plan to reorganize certain portions of our division management structure, resulting in a charge for severance and related benefits of \$80 million, \$61 million net of tax. This reorganization is expected to increase operational effectiveness and reduce overhead costs while maintaining a high quality customer experience.
- As a result of a portfolio review, we decided to divest our interest in Lucky's Market and we recognized a non-cash impairment charge of \$238 million in the third quarter of 2019. The amount of the impairment charge attributable to The Kroger Co. is \$131 million, \$100 million net of tax. Subsequently, the decision was made by Lucky's Market to file for bankruptcy in January 2020, which led us to fully write off the value of our investment and deconsolidate Lucky's Market from our consolidated financial statements. This resulted in an additional non-cash charge of \$174 million, \$125 million net of tax, in the fourth quarter of 2019. The amount of the total 2019 charge attributable to The Kroger Co. is \$305 million, \$225 million net of tax. This impairment charge was a non-cash charge and reflects the write down of our initial investment in Lucky's Market, as well as additional funding provided to operate and grow the business. Kroger maintains liabilities associated with certain property related guarantees that will result in Kroger making payments to settle these over time.
- During the first quarter of 2019, we sold our You Technology business to Inmar for total consideration of \$565 million, including \$396 million of cash and \$64 million of preferred equity received upon closing. We are also entitled to receive other cash payments of \$105 million over five years. The transaction includes a long-term service agreement for Inmar to provide us digital coupon services.
- During the first quarter of 2019, we sold our Turkey Hill Dairy business to an affiliate of Peak Rock Capital for \$225 million.
- In 2019, we recorded charges to OG&A of \$135 million, \$104 million net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension funds.

#### *COVID-19*

On March 11, 2020, the World Health Organization announced that infections of the coronavirus (COVID-19) had become a pandemic, and on March 13, the U.S. President announced a National Emergency relating to the disease. There is a possibility of widespread infection in the United States and abroad, with the potential for catastrophic impact. National, state and local authorities have recommended social distancing and imposed or are considering quarantine and isolation measures on large portions of the population, including mandatory business closures. These measures, while intended to protect human life, are expected to have serious adverse impacts on domestic and foreign economies of uncertain severity and duration. The effectiveness of economic stabilization efforts, including proposed government payments to affected citizens and industries, is uncertain. Some economists are predicting the United States may enter a recession as a result of the pandemic.

We expect the ultimate significance of the impact on our financial condition, results of operations, or cash flows will be dictated by the length of time that such circumstances continue, which will depend on the currently unknowable extent and duration of the COVID-19 pandemic and any governmental and public actions taken in response. COVID-19 also makes it more challenging for management to estimate future performance of our businesses, particularly over the near term.

On April 1, 2020, we issued a press release announcing business updates in response to the impact from novel coronavirus (COVID-19).

The following table provides a reconciliation of net earnings attributable to The Kroger Co. to adjusted net earnings attributable to The Kroger Co. and a reconciliation of net earnings attributable to The Kroger Co. per diluted common share to adjusted net earnings attributable to The Kroger Co. per diluted common share, excluding the 2019, 2018 and 2017 Adjusted Items.

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

	2019	2018	2017
Net earnings attributable to The Kroger Co.	\$ 1,659	\$ 3,110	\$ 1,907
(Income) expense adjustments			
Adjustments for pension plan withdrawal liabilities <sup>(1)(2)</sup>	104	121	360
Adjustment for voluntary retirement offering <sup>(1)(3)</sup>	—	—	117
Adjustment for Kroger Specialty Pharmacy goodwill impairment <sup>(1)(4)</sup>	—	—	74
Adjustment for company-sponsored pension plan termination <sup>(1)(5)</sup>	—	—	335
Adjustment for gain on sale of convenience store business <sup>(1)(6)</sup>	—	(1,360)	—
Adjustment for gain on sale of Turkey Hill Dairy <sup>(1)(7)</sup>	(80)	—	—
Adjustment for gain on sale of You Technology <sup>(1)(8)</sup>	(52)	—	—
Adjustment for mark to market gain on Ocado securities <sup>(1)(9)</sup>	(119)	(174)	—
Adjustment for depreciation related to held for sale assets <sup>(1)(10)</sup>	—	(11)	(13)
Adjustment for severance charge and related benefits <sup>(1)(11)</sup>	61	—	—
Adjustment for deconsolidation and impairment of Lucky's Market attributable to The Kroger Co. <sup>(1)(12)</sup>	225	—	—
Adjustment for Home Chef contingent consideration <sup>(1)(13)</sup>	(49)	26	—
Adjustment for impairment of financial instrument <sup>(1)(14)</sup>	—	33	—
Adjustment for transformation costs, primarily including 35 planned store closures <sup>(1)(15)</sup>	37	—	—
Adjustment for Tax Act <sup>(1)(16)</sup>	—	—	(922)
Total Adjusted Items	<u>127</u>	<u>(1,365)</u>	<u>(49)</u>
Net earnings attributable to The Kroger Co. excluding the Adjusted Items	<u>\$ 1,786</u>	<u>\$ 1,745</u>	<u>\$ 1,858</u>
Extra Week adjustment <sup>(1)(17)</sup>	—	—	(79)
Net earnings attributable to The Kroger Co. excluding the Adjusted Items and the Extra Week adjustment	<u>\$ 1,786</u>	<u>\$ 1,745</u>	<u>\$ 1,779</u>
Net earnings attributable to The Kroger Co. per diluted common share	\$ 2.04	\$ 3.76	\$ 2.09
(Income) expense adjustments			
Adjustments for pension plan withdrawal liabilities <sup>(18)</sup>	0.13	0.15	0.40
Adjustment for voluntary retirement offering <sup>(18)</sup>	—	—	0.13
Adjustment for Kroger Specialty Pharmacy goodwill impairment <sup>(18)</sup>	—	—	0.08
Adjustment for company-sponsored pension plan termination <sup>(18)</sup>	—	—	0.37
Adjustment for gain on sale of convenience store business <sup>(18)</sup>	—	(1.65)	—
Adjustment for gain on sale of Turkey Hill Dairy <sup>(18)</sup>	(0.10)	—	—
Adjustment for gain on sale of You Technology <sup>(18)</sup>	(0.06)	—	—
Adjustment for mark to market gain on Ocado securities <sup>(18)</sup>	(0.15)	(0.21)	—
Adjustment for depreciation related to held for sale assets <sup>(18)</sup>	—	(0.01)	(0.01)
Adjustment for severance charge and related benefits <sup>(18)</sup>	0.08	—	—
Adjustment for deconsolidation and impairment of Lucky's Market attributable to The Kroger Co. <sup>(18)</sup>	0.28	—	—
Adjustment for Home Chef contingent consideration <sup>(18)</sup>	(0.07)	0.03	—
Adjustment for impairment of financial instrument <sup>(18)</sup>	—	0.04	—
Adjustment for transformation costs, primarily including 35 planned store closures <sup>(18)</sup>	0.04	—	—
Adjustment for Tax Act <sup>(18)</sup>	—	—	(1.02)
Total Adjusted Items	<u>0.15</u>	<u>(1.65)</u>	<u>(0.05)</u>
Net earnings attributable to The Kroger Co. per diluted common share excluding the Adjusted Items	<u>\$ 2.19</u>	<u>\$ 2.11</u>	<u>\$ 2.04</u>
Extra Week adjustment <sup>(18)</sup>	—	—	(0.09)
Net earnings attributable to The Kroger Co. per diluted common share excluding the Adjusted Items and the Extra Week adjustment	<u>\$ 2.19</u>	<u>\$ 2.11</u>	<u>\$ 1.95</u>
Average numbers of common shares used in diluted calculation	805	818	904

## Net Earnings per Diluted Share excluding the Adjusted Items (continued)

(\$ in millions, except per share amounts)

- (1) The amounts presented represent the after-tax effect of each adjustment, which was calculated using discrete tax rates.
- (2) The pre-tax adjustment for pension plan withdrawal liabilities was \$135 in 2019, \$155 in 2018 and \$550 in 2017.
- (3) The pre-tax adjustment for the voluntary retirement offering was \$184.
- (4) The pre-tax adjustment for Kroger Specialty Pharmacy goodwill impairment was \$110.
- (5) The pre-tax adjustment for the company-sponsored pension plan termination was \$502.
- (6) The pre-tax adjustment for gain on sale of convenience store business was (\$1,782).
- (7) The pre-tax adjustment for gain on sale of Turkey Hill Dairy was (\$106).
- (8) The pre-tax adjustment for gain on sale of You Technology was (\$70).
- (9) The pre-tax adjustment for mark to market gain on Ocado securities was (\$157) in 2019 and (\$228) in 2018.
- (10) The pre-tax adjustment for depreciation related to held for sale assets was (\$14) in 2018 and (\$19) in 2017.
- (11) The pre-tax adjustment for severance charge and related benefits was \$80.
- (12) The pre-tax adjustment for deconsolidation and impairment of Lucky's Market was \$412 including \$305 attributable to The Kroger Co.
- (13) The pre-tax adjustment for Home Chef contingent consideration was (\$69) in 2019 and \$33 in 2018.
- (14) The pre-tax adjustment for impairment of financial instrument was \$42.
- (15) The pre-tax adjustment for transformation costs, primarily including 35 planned store closures was \$52.
- (16) Due to the re-measurement of deferred tax liabilities and the reduction of the statutory income tax rate for the last few weeks of the fiscal year.
- (17) The pre-tax Extra Week adjustment was (\$119).
- (18) The amount presented represents the net earnings per diluted common share effect of each adjustment.

## RESULTS OF OPERATIONS

### Sales

#### Total Sales (\$ in millions)

	2019	Percentage Change <sup>(1)</sup>	2018	Percentage Change <sup>(2)</sup>	2017	2017 Adjusted <sup>(3)</sup>
Total sales to retail customers without fuel <sup>(4)</sup>	\$ 107,487	2.2 %	\$ 105,123	2.2 %	\$ 104,817	\$ 102,900
Supermarket fuel sales	14,052	(5.7)%	14,903	15.5 %	13,177	12,906
Convenience stores <sup>(5)</sup>	—	— %	944	(78.7)%	4,515	4,434
Other sales <sup>(6)</sup>	747	(15.3)%	882	15.9 %	771	761
<b>Total sales</b>	<b>\$ 122,286</b>	<b>0.4 %</b>	<b>\$ 121,852</b>	<b>0.7 %</b>	<b>\$ 123,280</b>	<b>\$ 121,001</b>

- (1) This column represents the percentage change in 2019 compared to 2018.
- (2) This column represents the percentage change in 2018 compared to 2017 adjusted sales, which removes the Extra Week.
- (3) The 2017 Adjusted column represents the items presented in the 2017 column adjusted to remove the Extra Week.
- (4) Digital sales, primarily including Pickup, Delivery, Ship and pharmacy e-commerce sales, grew approximately 29% in 2019, 58% in 2018 and 90% in 2017, adjusted to remove the Extra Week. These sales are included in the "total sales to retail customers without fuel" line above. Digital sales growth has moderated primarily due to cycling our merger with the Home Chef business.
- (5) We completed the sale of our convenience store business unit during the first quarter of 2018.
- (6) Other sales primarily relate to external sales at food production plants, data analytic services, third party media revenue and digital coupon services. The decrease in other sales in 2019, compared to 2018, is primarily due to the sale of You Technology and Turkey Hill Dairy during the first quarter of 2019, partially offset by an increase in data analytic services and third party media revenue.



Total sales increased in 2019, compared to 2018, by 0.4%. The increase was due to an increase in total sales to retail customers without fuel, partially offset by decreased supermarket fuel sales, a reduction in convenience store sales due to the sale of our convenience store business unit in the first quarter of 2018 and decreased sales due to the disposal of Turkey Hill Dairy and You Technology in the first quarter of 2019. Total sales, excluding fuel, dispositions and the merger with Home Chef increased 2.3% in 2019, compared to 2018. The increase in total sales to retail customers without fuel for 2019, compared to 2018, was primarily due to our merger with Home Chef and our identical sales increase, excluding fuel, of 2.0%. Identical sales, excluding fuel, for 2019, compared to 2018, increased primarily due to growth of loyal households, a higher customer basket value including retail inflation and Kroger Specialty Pharmacy sales growth, partially offset by continued investments in lower prices for our customers. Total supermarket fuel sales decreased 5.7% in 2019, compared to 2018, primarily due to a decrease in fuel gallons sold of 4.8% and a decrease in the average retail fuel price of 1.0%. The decrease in the average retail fuel price was caused by a decrease in the product cost of fuel.

Total sales decreased in 2018, compared to 2017, by 1.2%. The decrease in total sales in 2018, compared to 2017, is due to the Extra Week in 2017, partially offset by the increase in 2018 sales, compared to 2017 adjusted sales. Total sales increased in 2018, compared to 2017 adjusted sales, by 0.7%. This increase was primarily due to our increases in total sales to retail customers without fuel and supermarket fuel sales, partially offset by a reduction in convenience store sales due to the sale of our convenience store business unit in the first quarter of 2018. The increase in total sales to retail customers without fuel for 2018, compared to 2017 adjusted sales to retail customers without fuel, was primarily due to our merger with Home Chef and our identical sales increase, excluding fuel, of 1.8%. Identical sales, excluding fuel, for 2018, compared to 2017, increased primarily due to a higher customer basket value and Kroger Specialty Pharmacy sales growth, partially offset by our continued investments in lower prices for our customers. Total supermarket fuel sales increased 15.5% in 2018, compared to 2017 adjusted supermarket fuel sales, primarily due to an increase in the average retail fuel price of 13.6% and an increase in fuel gallons sold of 1.5%. The increase in the average retail fuel price was caused by an increase in the product cost of fuel.

We calculate identical sales, excluding fuel, as sales to retail customers, including sales from all departments at identical supermarket locations, Kroger Specialty Pharmacy businesses and ship-to-home solutions. We define a supermarket as identical when it has been in operation without expansion or relocation for five full quarters. Additionally, sales from all acquired businesses are treated as identical as if they were part of the Company in the prior year. Products and services related primarily to Kroger Personal Finance, which were historically accounted for as an offset to OG&A, are classified as a component of sales as of the beginning of fiscal year 2019. These prior-year amounts have been reclassified to conform to current-year presentation, which is consistent with our *Restock Kroger* initiative and our view of the products and services as part of our core business strategy. This is also more consistent with industry practice. These Kroger Personal Finance transactions represent sales to retail customers and, as such, are included in identical sales in 2019 and 2018. This change did not affect identical sales percentages for 2018. See “Supplemental Information” section below for more detail on the changes and the impact of the reclassification. Although identical sales is a relatively standard term, numerous methods exist for calculating identical sales growth. As a result, the method used by our management to calculate identical sales may differ from methods other companies use to calculate identical sales. We urge you to understand the methods used by other companies to calculate identical sales before comparing our identical sales to those of other such companies. Our identical sales results are summarized in the following table. We used the identical sales dollar figures presented below to calculate percentage changes for 2019.

**Identical Sales**  
(\$ in millions)

	<u>2019</u>	<u>2018</u>
Excluding fuel	\$ 106,037	\$ 103,946
Excluding fuel	2.0 %	1.8 %

### *Gross Margin, LIFO and FIFO Gross Margin*

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

Our gross margin rates, as a percentage of sales, were 22.07% in 2019 and 21.95% in 2018. The increase in 2019, compared to 2018, resulted primarily from a higher gross margin rate on fuel sales, decreased shrink, as a percentage of sales, growth in our alternative profit stream portfolio and effective negotiations to achieve savings on the cost of products sold, partially offset by industry-wide lower gross margin rates in pharmacy, continued investments in lower prices for our customers, a higher LIFO charge and continued growth in the specialty pharmacy business.

Our LIFO charge was \$105 million in 2019 and \$29 million in 2018. Our LIFO charge reflects an increase in our product cost inflation for 2019, driven by dry grocery, pharmacy and dairy.

Our FIFO gross margin rate, which excludes the LIFO charge, was 22.16% in 2019, compared to 21.98% for 2018. Our fuel sales lower our FIFO gross margin rate due to the very low FIFO gross margin rate, as a percentage of sales, of fuel sales compared to non-fuel sales. Excluding the effect of fuel, our FIFO gross margin rate decreased 23 basis points in 2019, compared to 2018. This decrease resulted primarily from industry-wide lower gross margin rates in pharmacy, continued investments in lower prices for our customers and continued growth in the specialty pharmacy business, partially offset by decreased shrink, as a percentage of sales, growth in our alternative profit stream portfolio and effective negotiations to achieve savings on the cost of products sold.

### *Operating, General and Administrative Expenses*

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

OG&A expenses, as a percentage of sales, were 17.34% in 2019 and 17.06% in 2018. The increase in 2019, compared to 2018 resulted primarily from the 2019 OG&A Adjusted Items, the effect of decreased supermarket fuel and convenience store sales, which increases our OG&A rate, as a percentage of sales, investments in our digital strategy and increases in hourly associate labor costs. The increase in hourly associate labor costs is attributable to investing in higher wages and other comprehensive benefits to improve employee retention, engagement and customer experience. The increase was partially offset by the 2018 OG&A Adjusted Items, broad based improvement of *Restock Kroger* cost savings initiatives that drive administrative efficiencies, store productivity and sourcing cost reductions, decreased incentive plan and healthcare costs and planned real estate transactions during the first quarter of 2019.

Excluding the effect of fuel, the 2019 OG&A Adjusted Items and the 2018 OG&A Adjusted Items, our OG&A rate decreased 29 basis points in 2019, compared to 2018. This decrease resulted primarily from broad based improvement of *Restock Kroger* cost savings initiatives that drive administrative efficiencies, store productivity and sourcing cost reductions, decreased incentive plan and healthcare costs and planned real estate transactions during the first quarter of 2019. The decrease was partially offset by investments in our digital strategy and increases in hourly associate labor costs attributed to investing in higher wages and other comprehensive benefits to improve employee retention, engagement and customer experience.

During the second quarter of 2019, we accepted an offer to sell an unused warehouse that had been on the market for some time. We used this gain as an opportunity to contribute a similar amount into the United Food and Commercial Workers (“UFCW”) Consolidated Pension Plan, helping stabilize associates’ future benefits. The net impact of these transactions had no effect to OG&A for 2019.

### *Rent Expense*

Rent expense, as a percentage of sales, remained relatively consistent in 2019, compared to 2018.

### *Depreciation and Amortization Expense*

Depreciation and amortization expense increased, as a percentage of sales, in 2019, compared to 2018. This increase is primarily due to the 2018 Depreciation Adjusted Item, additional depreciation on capital investments, excluding mergers and lease buyouts, of \$3.0 billion during 2019 and a decrease in the average useful life on these capital investments, as we are investing more in technology projects and our digital ecosystem.

### *Operating Profit and FIFO Operating Profit*

Operating profit was \$2.3 billion, or 1.84% of sales, for 2019, compared to \$2.6 billion, or 2.15% of sales, for 2018. Operating profit, as a percentage of sales, decreased 31 basis points in 2019, compared to 2018, due to increased OG&A and depreciation and amortization expenses, as a percentage of sales, partially offset by a higher gross margin rate.

FIFO operating profit was \$2.4 billion, or 1.93% of sales, for 2019, compared to \$2.6 billion, or 2.17% of sales, for 2018. FIFO operating profit excluding the 2019 and 2018 Adjusted Items was \$3.0 billion, or 2.45% of sales, for 2019, compared to \$2.9 billion, or 2.36% of sales, for 2018. FIFO operating profit excluding the 2019 and 2018 Adjusted Items increased 9 basis points in 2019, compared to 2018, due to increased fuel earnings, improved sales to retail customers without fuel and decreased OG&A expenses, as a percentage of sales, partially offset by decreased pharmacy gross profit and increased depreciation and amortization expense, as a percentage of sales.

Specific factors contributing to the operating trends for operating profit and FIFO operating profit above are discussed earlier in this section.

The following table provides a reconciliation of operating profit to FIFO operating profit, excluding the 2019 and 2018 Adjusted Items.

#### **Operating Profit excluding the Adjusted Items** (\$ in millions)

	<b>2019</b>	<b>2018</b>
Operating profit	\$ 2,251	\$ 2,614
LIFO charge	105	29
FIFO Operating profit	2,356	2,643
Adjustments for pension plan withdrawal liabilities	135	155
Adjustment for depreciation related to held for sale assets	—	(14)
Adjustment for Home Chef contingent consideration	(69)	33
Adjustment for severance charge and related benefits	80	—
Adjustment for impairment of financial instrument	—	42
Adjustment for transformation costs, primarily including 35 planned store closures	52	—
Adjustment for deconsolidation and impairment of Lucky's Market <sup>(1)</sup>	412	—
Other	29	21
2019 and 2018 Adjusted items	639	237
Adjusted FIFO operating profit excluding the adjustment items above	\$ 2,995	\$ 2,880

(1) The adjustment for impairment of Lucky's Market includes a \$107 million net loss attributable to the minority interest of Lucky's Market.

### *Interest Expense*

Interest expense totaled \$603 million in 2019 and \$620 million in 2018. The decrease in interest expense in 2019, compared to 2018, resulted primarily from decreased borrowings and a lower weighted average interest rate. Over the last 12 months, we decreased total debt, including obligations under finance leases, by \$1.2 billion.

### *Income Taxes*

Our effective income tax rate was 23.7% in 2019 and 22.6% in 2018. The 2019 tax rate differed from the federal statutory rate primarily due to the effect of state income taxes and Lucky's Market losses attributable to the noncontrolling interest which reduced pre-tax income but did not impact tax expense. These 2019 items were partially offset by the utilization of tax credits and deductions. The 2018 tax rate differed from the federal statutory rate primarily due to the effect of state income taxes and an IRS audit that resulted in a reduction of prior year tax deductions at pre-Tax Act rates and an increase in future tax deductions at post-Tax Act rates. These 2018 items were partially offset by the utilization of tax credits and deductions, the remeasurement of uncertain tax positions and adjustments to provisional amounts that increased prior year deductions at pre-Tax Act rates and decreased future deductions at post-Tax Act rates.

### *Net Earnings and Net Earnings Per Diluted Share*

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

Net earnings were \$2.04 per diluted share for 2019 compared to net earnings of \$3.76 per diluted share for 2018. Adjusted net earnings of \$2.19 per diluted share for 2019 represented an increase of 3.8% compared to adjusted net earnings of \$2.11 per diluted share for 2018. The increase in adjusted net earnings per diluted share resulted primarily from increased fuel earnings, decreased interest expense and lower weighted average common shares outstanding due to common share repurchases, partially offset by increased tax expense and a higher LIFO charge.

## **COMMON SHARE REPURCHASE PROGRAMS**

We maintain share repurchase programs that comply with Rule 10b5-1 of the Securities Exchange Act of 1934 and allow for the orderly repurchase of our common shares, from time to time. The share repurchase programs do not have an expiration date but may be suspended or terminated by our Board of Directors at any time. We made open market purchases of our common shares totaling \$400 million in 2019 and \$727 million in 2018. On April 20, 2018, we entered and funded a \$1.2 billion ASR program to reacquire shares in privately negotiated transactions.

In addition to these repurchase programs, we also repurchase common shares to reduce dilution resulting from our employee stock option plans. This program is solely funded by proceeds from stock option exercises, and the tax benefit from these exercises. We repurchased approximately \$65 million in 2019 and \$83 million in 2018 of our common shares under the stock option program.

On March 15, 2018, our Board of Directors approved a \$1.0 billion share repurchase program to reacquire shares via open market purchase or privately negotiated transactions, including accelerated stock repurchase transactions, block trades, or pursuant to trades intending to comply with rule 10b5-1 of the Securities Exchange Act of 1934 (the "March 2018 Repurchase Program"). On November 5, 2019, our Board of Directors approved a \$1.0 billion share repurchase program to reacquire shares via open market purchase or privately negotiated transactions, block trades, or pursuant to trades intending to comply with rule 10b5-1 of the Securities Exchange Act of 1934 (the "November 2019 Repurchase Program"). The November 2019 Repurchase Program authorization replaced the existing March 2018 Repurchase Program that had approximately \$546 million remaining.

The shares repurchased in 2019 were reacquired under the following share repurchase programs:

- The November 2019 Repurchase program.
- A program announced on December 6, 1999 to repurchase common shares to reduce dilution resulting from our employee stock option and long-term incentive plans, under which repurchases are limited to proceeds received from exercises of stock options and the tax benefits associated therewith (“1999 Repurchase Program”).

As of February 1, 2020, there was \$600 million remaining under the November 2019 Repurchase Program.

During the first quarter through March 25, 2020, we repurchased an additional \$39 million of our common shares under the stock option program and \$355 million additional shares under the November 2019 Repurchase Program. As of March 25, 2020, we have \$245 million remaining under the November 2019 Repurchase Program. To maintain financial flexibility, we have decided to pause on additional share repurchases during the first quarter of 2020.

## CAPITAL INVESTMENTS

Capital investments, including changes in construction-in-progress payables and excluding mergers and the purchase of leased facilities, totaled \$3.0 billion in 2019 and 2018. Capital investments for mergers were \$197 million in 2018 related to the merger with Home Chef. Refer to Note 2 to the Consolidated Financial Statements for more information on these mergers. Capital investments for the purchase of leased facilities totaled \$82 million in 2019 and \$5 million in 2018. The table below shows our supermarket storing activity and our total supermarket square footage:

### Supermarket Storing Activity

	2019	2018	2017
Beginning of year	2,764	2,782	2,796
Opened	10	10	24
Opened (relocation)	9	4	15
Acquired	6	10	3
Closed (operational)	(19)	(38)	(41)
Closed (relocation)	(13)	(4)	(15)
End of year	<u>2,757</u>	<u>2,764</u>	<u>2,782</u>
Total supermarket square footage (in millions)	180	179	179

## RETURN ON INVESTED CAPITAL

We calculate return on invested capital (“ROIC”) by dividing adjusted ROIC operating profit for the prior four quarters by the average invested capital. Adjusted operating profit for ROIC purposes is calculated by excluding certain items included in operating profit, and adding back our LIFO charge, depreciation and amortization and rent to our U.S. GAAP operating profit of the prior four quarters. Average invested capital is calculated as the sum of (i) the average of our total assets, (ii) the average LIFO reserve, (iii) the average accumulated depreciation and amortization, (iv) for 2018, a rent factor equal to total rent for the last four quarters multiplied by a factor of eight and (v) for 2019, an adjustment due to the adoption of ASU 2016-02, “Leases,” at the beginning of 2019 as further described in Notes 10 and 18 to the Consolidated Financial Statements; minus (i) the average taxes receivable, (ii) the average trade accounts payable, (iii) the average accrued salaries and wages, (iv) the average other current liabilities, excluding accrued income taxes, (v) the average liabilities held for sale and (vi) certain other adjustments. Averages are calculated for ROIC by adding the beginning balance of the first quarter and the ending balance of the fourth quarter, of the last four quarters, and dividing by two. For 2018, we used a factor of eight for our total rent as we believe this is a common factor used by our investors, analysts and rating agencies. ROIC is a non-GAAP financial measure of performance. ROIC should not be reviewed in isolation or considered as a substitute for our financial results as reported in accordance with GAAP. ROIC is an important measure used by management to evaluate our investment returns on capital. Management believes ROIC is a useful metric to investors and analysts because it measures how effectively we are deploying our assets.

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

The following table provides a calculation of ROIC for 2019 and 2018 on a 52 week basis (\$ in millions). The 2019 calculation of ROIC excludes the financial position and results of operations of You Technology and Turkey Hill Dairy, due to the sales in 2019, and Lucky's Market, due to the deconsolidation in 2019. The 2018 calculation of ROIC excludes the financial position and results of operations of Home Chef, due to the merger in 2018, and the convenience store business, due to the sale in 2018.

	<b>Fiscal Year Ended</b>	
	<b>February 1, 2020</b>	<b>February 2, 2019</b>
<b>Return on Invested Capital</b>		
<b>Numerator</b>		
Operating profit	\$ 2,251	\$ 2,614
LIFO charge	105	29
Depreciation and amortization	2,649	2,465
Rent	884	884
Adjustment for merger with Home Chef	—	28
Adjustment for operating profit of convenience store business	—	(21)
Adjustment for Home Chef contingent consideration	(69)	33
Adjustment for impairment of financial instrument	—	42
Adjustments for pension plan withdrawal liabilities	135	155
Adjustment for depreciation related to held for sale assets	—	(14)
Adjustment for severance charge and related benefits	80	—
Adjustment for transformation costs, primarily including 35 planned store closures	52	—
Adjustment for deconsolidation and impairment of Lucky's Market	412	—
Adjustment for operating losses of Lucky's Market	75	—
Adjustment for disposal of You Technology	(49)	—
Adjusted ROIC operating profit	<u>\$ 6,525</u>	<u>\$ 6,215</u>
<b>Denominator</b>		
Average total assets	\$ 41,687	\$ 37,658
Average taxes receivable <sup>(1)</sup>	(41)	(115)
Average LIFO reserve	1,329	1,263
Average accumulated depreciation and amortization	23,404	21,703
Average trade accounts payable	(6,204)	(5,959)
Average accrued salaries and wages	(1,198)	(1,163)
Average other current liabilities <sup>(2)</sup>	(3,942)	(3,571)
Average liabilities held for sale	(26)	(155)
Adjustment for merger with Home Chef	—	(145)
Adjustment for disposal of convenience store business	—	(198)
Adjustment for disposal of Turkey Hill Dairy	(45)	—
Adjustment for disposal of You Technology	(13)	—
Adjustment for deconsolidation of Lucky's Market	(25)	—
Rent x 8	—	7,072
Initial operating lease assets at adoption of ASU 2016-02, "Leases" (see Notes 10 and 18)	3,406	—
Average invested capital	<u>\$ 58,332</u>	<u>\$ 56,390</u>
<b>Return on Invested Capital</b>	<u>11.19 %</u>	<u>11.02 %</u>

(1) Taxes receivable were \$82 as of February 1, 2020 and \$229 as of February 3, 2018. We did not have any taxes receivable as of February 2, 2019.

(2) Other current liabilities included accrued income taxes of \$60 as of February 2, 2019. We did not have any accrued income taxes as of February 1, 2020 or February 3, 2018. Accrued income taxes are removed from other current liabilities in the calculation of average invested capital.

## CRITICAL ACCOUNTING POLICIES

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

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

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

### *Impairments of Long-Lived Assets*

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

As discussed previously in the Overview section, we recognized an impairment charge related to Lucky's Market in the third quarter of 2019 totaling \$238 million. The Lucky's Market impairment charge consists of property, plant and equipment of \$200 million; goodwill of \$19 million; operating lease assets of \$11 million; and other charges of \$8 million. Additionally, we recorded asset impairments totaling \$120 million in 2019, including \$70 million of operating lease assets. This 2019 impairment charge includes the 35 planned store closures across our footprint in 2020 related to our *Restock Kroger* transformation efforts. We recorded asset impairments in the normal course of business totaling \$56 million in 2018. We record costs to reduce the carrying value of long-lived assets in the Consolidated Statements of Operations as OG&A expense.

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

### *Business Combinations*

We account for business combinations using the acquisition method of accounting. All the assets acquired, liabilities assumed and amounts attributable to noncontrolling interests are recorded at their respective fair values at the date of acquisition once we obtain control of an entity. The determination of fair values of identifiable assets and liabilities involves estimates and the use of valuation techniques when market value is not readily available. We use various techniques to determine fair value in such instances, including the income approach. Significant estimates used in determining fair value include, but are not limited to, the amount and timing of future cash flows, growth rates, discount rates and useful lives. The excess of the purchase price over fair values of identifiable assets and liabilities is recorded as goodwill. See Note 3 for further information about goodwill.

### *Goodwill*

Our goodwill totaled \$3.1 billion as of February 1, 2020. We review goodwill for impairment in the fourth quarter of each year, and also upon the occurrence of triggering events. We perform reviews of each of our operating divisions and other consolidated entities (collectively, “reporting units”) that have goodwill balances. Generally, fair value is determined using a multiple of earnings, or discounted projected future cash flows, and we compare fair value to the carrying value of a reporting unit for purposes of identifying potential impairment. We base projected future cash flows on management’s knowledge of the current operating environment and expectations for the future. We recognize goodwill impairment for any excess of a reporting unit’s carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit.

Our annual evaluation of goodwill is performed for our reporting units during the fourth quarter. In 2017, we recorded goodwill impairment for our Kroger Specialty Pharmacy (“KSP”) reporting unit totaling \$110 million, \$74 million net of tax, resulting in a remaining goodwill balance of \$243 million. The 2019 fair value of our KSP reporting unit was estimated using multiple valuation techniques: a discounted cash flow model (income approach), a market multiple model and a comparable mergers and acquisition model (market approaches), with each method weighted in the calculation. The income approach relies on management’s projected future cash flows, estimates of revenue growth rates, margin assumptions and an appropriate discount rate. The market approaches require the determination of an appropriate peer group, which is utilized to derive estimated fair values based on selected market multiples. The annual evaluation of goodwill performed in 2019 and 2018 did not result in impairment for any of our reporting units. Based on current and future expected cash flows, we believe additional goodwill impairments are not reasonably likely. A 10% reduction in fair value of our reporting units would not indicate a potential for impairment of our goodwill balance.

For additional information relating to our results of the goodwill impairment reviews performed during 2019, 2018 and 2017, see Note 3 to the Consolidated Financial Statements.

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

### *Multi-Employer Pension Plans*

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

We recognize expense in connection with these plans as contributions are funded or when commitments are probable and reasonably estimable, in accordance with GAAP. We made cash contributions to these plans of \$461 million in 2019, \$358 million in 2018 and \$954 million in 2017. The increase in 2017, compared to 2019 and 2018 is due to the \$467 million pre-tax payment we made in 2017 to satisfy withdrawal obligations for certain local unions of the Central States Pension Fund and the 2017 UFCW contribution.



We continue to evaluate and address our potential exposure to under-funded multi-employer pension plans as it relates to our associates who are beneficiaries of these plans. These under-fundings are not our liability. When an opportunity arises that is economically feasible and beneficial to us and our associates, we may negotiate the restructuring of under-funded multi-employer pension plan obligations to help stabilize associates' future benefits and become the fiduciary of the restructured multi-employer pension plan. The commitments from these restructurings do not change our debt profile as it relates to our credit rating since these off-balance sheet commitments are typically considered in our investment grade debt rating. We are currently designated as the named fiduciary of the UFCW Consolidated Pension Plan and the International Brotherhood of Teamsters ("IBT") Consolidated Pension Fund and have sole investment authority over these assets. We became the fiduciary of the IBT Consolidated Pension Fund in 2017 due to the ratification of a new labor contract with the IBT that provided for the withdrawal of certain local unions from the Central States Pension Fund. Significant effects of these restructuring agreements recorded in our Consolidated Financial Statements are:

- In 2019, we incurred a \$135 million charge, \$104 million net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension funds.
- In 2018, we incurred a \$155 million charge, \$121 million net of tax, for obligations related to withdrawal liabilities for certain local unions of the Central States multi-employer pension fund.
- In 2017, we incurred a \$550 million charge, \$360 million net of tax, for obligations related to withdrawing from and settlements for withdrawal liabilities for certain multi-employer pension plan obligations, of which \$467 million was contributed to the Central States Pension Fund in 2017.
- In 2017, we contributed an incremental \$111 million, \$71 million net of tax, to the UFCW Consolidated Pension Plan.

As we continue to work to find solutions to under-funded multi-employer pension plans, it is possible we could incur withdrawal liabilities for certain funds.

Based on the most recent information available to us, we believe that the present value of actuarially accrued liabilities in most of the multi-employer plans to which we contribute substantially exceeds the value of the assets held in trust to pay benefits. We have attempted to estimate the amount by which these liabilities exceed the assets, (i.e., the amount of underfunding), as of December 31, 2019. Because we are only one of a number of employers contributing to these plans, we also have attempted to estimate the ratio of our contributions to the total of all contributions to these plans in a year as a way of assessing our "share" of the underfunding. Nonetheless, the underfunding is not a direct obligation or liability of ours or of any employer.

As of December 31, 2019, we estimate our share of the underfunding of multi-employer pension plans to which we contribute was approximately \$2.3 billion, \$1.8 billion net of tax. This represents a decrease in the estimated amount of underfunding of approximately \$800 million, \$600 million net of tax, as of December 31, 2019, compared to December 31, 2018. The decrease in the amount of underfunding is primarily attributable to higher expected returns on assets in the funds during 2019. Our estimate is based on the most current information available to us including actuarial evaluations and other data (that include the estimates of others), and such information may be outdated or otherwise unreliable.

We have made and disclosed this estimate not because, except as noted above, this underfunding is a direct liability of ours. Rather, we believe the underfunding is likely to have important consequences. In the event we were to exit certain markets or otherwise cease making contributions to these plans, we could trigger a substantial withdrawal liability. Any adjustment for withdrawal liability will be recorded when it is probable that a liability exists and can be reasonably estimated, in accordance with GAAP.

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

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

## **NEW ACCOUNTING STANDARDS**

Refer to Note 18 and Note 19 to the Consolidated Financial Statements for recently adopted accounting standards and recently issued accounting standards not yet adopted as of February 1, 2020.

## **LIQUIDITY AND CAPITAL RESOURCES**

### *Cash Flow Information*

#### Net cash provided by operating activities

We generated \$4.7 billion of cash from operations in 2019 compared to \$4.2 billion in 2018. Net earnings including noncontrolling interests, adjusted for non-cash items and other impacts, generated approximately \$4.9 billion of operating cash flow in 2019 compared to \$3.8 billion in 2018. Cash provided (used) by operating activities for changes in working capital was (\$259) million in 2019 compared to \$395 million in 2018. The decrease in cash provided by operating activities for changes in working capital in 2019, compared to 2018, was primarily due to the following:

- The change in prepaid and other current assets decreased in 2019, compared to 2018, due to a decrease in the amount of prepaid medical benefit costs at the end of 2018 compared to the end of 2017;
- Cash flows from income taxes were favorable in 2018, compared to 2019, because of income tax overpayments made in 2017 that reduced payments made in 2018; and
- Payments on operating lease liabilities; partially offset by
- Proceeds from a contract associated with the sale of a business;
- Decreased contributions to the company-sponsored pension plan in 2019, compared to 2018; and
- Higher third-party payor receivables at the end of 2018 due to the timing of third-party payments, which resulted in a reduction in cash provided by operating activities in 2018. Receivable balances were similar in 2019 compared to 2018.

Cash paid for taxes increased in 2019, compared to 2018, primarily due to the payment of estimated taxes on the gain on sale of the You Technology and Turkey Hill Dairy businesses in 2019 and an overpayment of our fourth quarter 2017 estimated taxes that resulted in lower tax payments in 2018.

Cash paid for interest decreased in 2019, compared to 2018, primarily due to an increase in accrued interest related to certain semi-annual senior notes interest payments that were paid subsequent to February 1, 2020.

### Net cash used by investing activities

Investing activities used cash of \$2.6 billion in 2019 compared to \$1.2 billion in 2018. The amount of cash used by investing activities increased in 2019, compared to 2018, primarily due to the following:

- A lower amount of net proceeds from the sale of businesses, since the proceeds from the sale of the convenience store business exceeded the proceeds from the sales of the Turkey Hill Dairy and You Technology businesses;
- A lower amount of net proceeds from the settlement of a financial instrument; partially offset by
- Increased proceeds from the sale of assets due to the sale of an unused warehouse and proceeds from sale leaseback transactions;
- No payments for purchases of Ocado securities in 2019; and
- No acquisitions in 2019.

### Net cash used by financing activities

We used \$2.1 billion of cash for financing activities in 2019 compared to \$2.9 billion during 2018. The amount of cash used for financing activities for 2019, compared to 2018, decreased primarily due to decreased payments on commercial paper and share repurchases, partially offset by increased payments on long-term debt including obligations under finance leases and a reduction of proceeds from the issuance of long-term debt.

### *Debt Management*

Total debt, including both the current and long-term portions of obligations under finance leases, decreased \$1.2 billion to \$14.1 billion as of year-end 2019 compared to 2018. The decrease in 2019, compared to 2018, resulted primarily from payment of \$500 million of senior notes bearing an interest rate of 1.50%, payment of \$750 million of senior notes bearing an interest rate of 6.15% and the repayment of our \$1.0 billion term loan, partially offset by the issuance of \$750 million of senior notes bearing an interest rate of 3.95% and an increase in outstanding commercial paper borrowings of \$350 million at the end of 2019 compared to 2018.

### *Dividends*

The following table provides dividend information (\$ in millions, except per share amounts):

	2019	2018
Cash dividends paid	\$ 486	\$ 437
Cash dividends paid per common share	\$ 0.600	\$ 0.530

### *Liquidity Needs*

We estimate our liquidity needs over the next twelve-month period to approximate \$5.5 billion, which includes anticipated requirements for working capital, capital investments, interest payments and scheduled principal payments of debt and commercial paper, offset by cash and temporary cash investments on hand at the end of 2019. We generally operate with a working capital deficit due to our efficient use of cash in funding operations and because we have consistent access to the capital markets. Based on current operating trends, we believe that cash flows from operating activities and other sources of liquidity, including borrowings under our commercial paper program and bank credit facility, will be adequate to meet our liquidity needs for the next twelve months and for the foreseeable future beyond the next twelve months. We have approximately \$700 million of senior notes and \$1.2 billion of commercial paper maturing in fiscal year 2020, which are included in the \$5.5 billion of estimated liquidity needs. We expect to satisfy these obligations using cash generated from operations and through issuing additional senior notes or commercial paper. We believe we have adequate coverage of our debt covenants to continue to maintain our current investment grade debt ratings and to respond effectively to competitive conditions.

### *Factors Affecting Liquidity*

We can currently borrow on a daily basis approximately \$2.75 billion under our commercial paper program. At February 1, 2020, we had \$1.2 billion of commercial paper borrowings outstanding. Commercial paper borrowings are backed by our credit facility, and reduce the amount we can borrow under the credit facility. If our short-term credit ratings fall, the ability to borrow under our current commercial paper program could be adversely affected for a period of time and increase our interest cost on daily borrowings under our commercial paper program. This could require us to borrow additional funds under the credit facility, under which we believe we have sufficient capacity. However, in the event of a ratings decline, we do not anticipate that our borrowing capacity under our commercial paper program would be any lower than \$500 million on a daily basis. Although our ability to borrow under the credit facility is not affected by our credit rating, the interest cost and applicable margin on borrowings under the credit facility could be affected by a downgrade in our Public Debt Rating. “Public Debt Rating” means, as of any date, the rating that has been most recently announced by either S&P or Moody’s, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Company. On March 18, 2020, we proactively borrowed \$1 billion from our revolving credit facility. This was a precautionary measure in order to preserve financial flexibility, reduce reliance on the commercial paper market and maintain liquidity in response to the coronavirus pandemic. Cash and temporary cash investments immediately following the borrowing were approximately \$2.3 billion. As of March 25, 2020, we had no commercial paper borrowings outstanding.

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

- Our Leverage Ratio (the ratio of Net Debt to Adjusted EBITDA, as defined in the credit facility) was 2.30 to 1 as of February 1, 2020. If this ratio were to exceed 3.50 to 1, we would be in default of our credit facility and our ability to borrow under the facility would be impaired.
- Our Fixed Charge Coverage Ratio (the ratio of Adjusted EBITDA plus Consolidated Rental Expense to Consolidated Cash Interest Expense plus Consolidated Rental Expense, as defined in the credit facility) was 4.39 to 1 as of February 1, 2020. If this ratio fell below 1.70 to 1, we would be in default of our credit facility and our ability to borrow under the facility would be impaired.

Our credit facility is more fully described in Note 6 to the Consolidated Financial Statements. We were in compliance with our financial covenants at year-end 2019.

The tables below illustrate our significant contractual obligations and other commercial commitments, based on year of maturity or settlement, as of February 1, 2020 (in millions of dollars):

	2020	2021	2022	2023	2024	Thereafter	Total
<b>Contractual Obligations<sup>(1)(2)</sup></b>							
Long-term debt <sup>(3)</sup>	\$ 1,926	\$ 804	\$ 894	\$ 594	\$ 495	\$ 8,543	\$ 13,256
Interest on long-term debt <sup>(4)</sup>	488	489	442	421	410	5,301	7,551
Finance lease obligations	84	95	80	86	81	757	1,183
Operating lease obligations	932	884	772	758	637	6,353	10,336
Self-insurance liability <sup>(5)</sup>	216	141	99	66	41	126	689
Construction commitments <sup>(6)</sup>	670	—	—	—	—	—	670
Purchase obligations <sup>(7)</sup>	814	360	163	109	37	10	1,493
<b>Total</b>	<b>\$ 5,130</b>	<b>\$ 2,773</b>	<b>\$ 2,450</b>	<b>\$ 2,034</b>	<b>\$ 1,701</b>	<b>\$ 21,090</b>	<b>\$ 35,178</b>
<b>Other Commercial Commitments</b>							
Standby letters of credit	\$ 347	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 347
Surety bonds	401	—	—	—	—	—	401
<b>Total</b>	<b>\$ 748</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 748</b>

- (1) The contractual obligations table excludes funding of pension and other postretirement benefit obligations, which totaled approximately \$34 million in 2019. This table also excludes contributions under various multi-employer pension plans, which totaled \$461 million in 2019. This table also excludes the March 18, 2020 \$1 billion borrowing under our revolving credit facility since the borrowing occurred subsequent to February 1, 2020.
- (2) The liability related to unrecognized tax benefits has been excluded from the contractual obligations table because a reasonable estimate of the timing of future tax settlements cannot be determined.
- (3) As of February 1, 2020, we had \$1.2 billion of commercial paper and no borrowings under our credit facility.
- (4) Amounts include contractual interest payments using the interest rate as of February 1, 2020, and stated fixed and swapped interest rates, if applicable, for all other debt instruments.
- (5) The amounts included in the contractual obligations table for self-insurance liability related to workers' compensation claims have been stated on a present value basis.
- (6) Amounts include funds owed to third parties for projects currently under construction. These amounts are reflected in other current liabilities in our Consolidated Balance Sheets.
- (7) Amounts include commitments, many of which are short-term in nature, to be utilized in the normal course of business, such as several contracts to purchase raw materials utilized in our food production plants and several contracts to purchase energy to be used in our stores and food production plants. Our obligations also include management fees for facilities operated by third parties and outside service contracts. Any upfront vendor allowances or incentives associated with outstanding purchase commitments are recorded as either current or long-term liabilities in our Consolidated Balance Sheets.

As of February 1, 2020, we maintained a \$2.75 billion (with the ability to increase by \$1 billion), unsecured revolving credit facility that, unless extended, terminates on August 29, 2022. Outstanding borrowings under the credit facility, commercial paper borrowings, and some outstanding letters of credit reduce funds available under the credit facility. As of February 1, 2020, we had \$1.2 billion of outstanding commercial paper and no borrowings under our revolving credit facility. The outstanding letters of credit that reduce funds available under our credit facility totaled \$2 million as of February 1, 2020.

In addition to the available credit mentioned above, as of February 1, 2020, we had authorized for issuance \$4.3 billion of securities remaining under a shelf registration statement filed with the SEC and effective on May 24, 2019.

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

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

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

## SUPPLEMENTAL INFORMATION

### *Sales Reclassification*

Products and services related primarily to Kroger Personal Finance and Media, which were historically accounted for as an offset to OG&A, are classified as a component of sales as of the beginning of fiscal year 2019, except for certain amounts in Media, which are netted against merchandise costs. These prior-year amounts have been reclassified to conform to current-year presentation, which is consistent with our *Restock Kroger* initiative and our view of the products and services as part of our core business strategy. This is also more consistent with industry practice.

The following tables summarize the Company's 2018 sales reclassifications (\$ in millions):

	Fiscal Year Ended		
	Previously Stated February 2, 2019	Reclassification 2018	Reclassified February 2, 2019
Sales	\$ 121,162	\$ 690	\$ 121,852
Operating expenses			
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	94,894	209	95,103
Operating, general and administrative	20,305	481	20,786
Rent	884	—	884
Depreciation and amortization	2,465	—	2,465
Operating profit	<u>\$ 2,614</u>	<u>\$ —</u>	<u>\$ 2,614</u>

The following tables summarize the Company's 2017 sales reclassifications (\$ in millions):

	Fiscal Year Ended		
	Previously Stated February 3, 2018	Reclassification 2017	Reclassified February 3, 2018
Sales	\$ 122,662	\$ 618	\$ 123,280
Operating expenses			
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	95,662	149	95,811
Operating, general and administrative	21,041	469	21,510
Rent	911	—	911
Depreciation and amortization	2,436	—	2,436
Operating profit	<u>\$ 2,612</u>	<u>\$ —</u>	<u>\$ 2,612</u>

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

### *Financial Risk Management*

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

We manage our exposure to interest rates and changes in the fair value of our debt instruments primarily through the strategic use of our commercial paper program, variable and fixed rate debt, and interest rate swaps. Our current program relative to interest rate protection contemplates hedging the exposure to changes in the fair value of fixed-rate debt attributable to changes in interest rates. To do this, we use the following guidelines: (i) use average daily outstanding borrowings to determine annual debt amounts subject to interest rate exposure, (ii) limit the average annual amount subject to interest rate reset and the amount of floating rate debt to a combined total amount that represents 25% of the carrying value of our debt portfolio or less, (iii) include no leveraged products, and (iv) hedge without regard to profit motive or sensitivity to current mark-to-market status.

As of February 1, 2020, we maintained seven forward-starting interest rate swap agreements with a maturity date of January 15, 2021 with an aggregate notional amount totaling \$350 million. A forward-starting interest rate swap is an agreement that effectively hedges the variability in future benchmark interest payments attributable to changes in interest rates on the forecasted issuance of fixed-rate debt. We entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on our forecasted issuances of debt in January 2021. The fixed interest rates for these forward-starting interest rate swaps range from 1.57% to 2.45%. The variable rate component on the forward-starting interest rate swaps is 3 month LIBOR. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of February 1, 2020, the fair value of the interest rate swaps was recorded in "Other long-term liabilities" for \$19 million and accumulated other comprehensive loss for \$17 million, net of tax.

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

The tables below provide information about our underlying debt portfolio as of February 1, 2020 and February 2, 2019. The amounts shown for each year represent the contractual maturities of long-term debt, excluding finance leases, as of February 1, 2020 and February 2, 2019. Interest rates reflect the weighted average rate for the outstanding instruments. The variable rate debt is based on U.S. dollar LIBOR using the forward yield curve as of February 1, 2020 and February 2, 2019. The Fair Value column includes the fair value of our debt instruments as of February 1, 2020 and February 2, 2019. We have no outstanding interest rate derivatives classified as fair value hedges as of February 1, 2020 or February 2, 2019. See Notes 6, 7 and 8 to the Consolidated Financial Statements.

	February 1, 2020							Fair Value
	Expected Year of Maturity						Total	
	2020	2021	2022	2023	2024	Thereafter		
	(in millions)							
<b>Debt</b>								
Fixed rate	\$ (705)	\$ (804)	\$ (894)	\$ (594)	\$ (495)	\$ (8,462)	\$ (11,954)	\$ (13,347)
Average interest rate	4.39 %	4.56 %	4.47 %	4.69 %	4.86 %	4.65 %		
Variable rate	\$ (1,221)	\$ —	\$ —	\$ —	\$ —	\$ (81)	\$ (1,302)	\$ (1,302)
Average interest rate	1.88 %	—	—	—	—	1.65 %		

	February 2, 2019						Total	Fair Value
	Expected Year of Maturity					Thereafter		
	2019	2020	2021	2022	2023			
	(in millions)							
<b>Debt</b>								
Fixed rate	\$ (1,251)	\$ (695)	\$ (793)	\$ (896)	\$ (595)	\$ (8,163)	\$ (12,393)	\$ (12,232)
Average interest rate	4.51 %	4.47 %	4.47 %	4.56 %	4.74 %	4.70 %		
Variable rate	\$ (1,852)	\$ (25)	\$ —	\$ —	\$ —	\$ (81)	\$ (1,958)	\$ (1,958)
Average interest rate	3.09 %	4.26 %	—	—	—	1.75 %		

Based on our year-end 2019 variable rate debt levels, a 10 percent change in interest rates would be immaterial. See Note 7 to the Consolidated Financial Statements for further discussion of derivatives and hedging policies.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Consolidated Financial Statements of The Kroger Co.  
For the Fiscal Year Ended February 1, 2020**

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## **Report of Independent Registered Public Accounting Firm**

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

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of The Kroger Co. and its subsidiaries (the “Company”) as of February 1, 2020 and February 2, 2019, and the related consolidated statements of operations, of comprehensive income, of changes in shareholders' equity and of cash flows for each of the three years in the period ended February 1, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of February 1, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of February 1, 2020 and February 2, 2019, and the results of its operations and its cash flows for each of the three years in the period ended February 1, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of February 1, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

### ***Changes in Accounting Principles***

As discussed in Note 18 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019 and the manner in which it accounts for revenues from contracts with customers in 2018.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

## ***Definition and Limitations of Internal Control over Financial Reporting***

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

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

## ***Critical Audit Matters***

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### *Goodwill Impairment Assessment – Kroger Specialty Pharmacy (“KSP”) Reporting Unit*

As described in Notes 1 and 3 to the consolidated financial statements, the Company's consolidated goodwill balance was \$3.1 billion as of February 1, 2020, and the goodwill associated with the KSP reporting unit was \$243 million. Management reviews goodwill annually for impairment in the fourth quarter of each year, and also upon the occurrence of triggering events. The fair value of a reporting unit is compared to its carrying value for purposes of identifying potential impairment. Goodwill impairment is recognized for any excess of the reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. As disclosed by management, the fair value of the Company's KSP reporting unit was estimated using multiple valuation techniques, a discounted cash flow model (income approach), a market multiple model and comparable mergers and acquisition model (market approaches), with each method weighted in the calculation. The income approach relies on management's estimates of revenue growth rates, margin assumptions, and discount rate to estimate future cash flows. The market approaches require the determination of an appropriate peer group, which is utilized to derive estimated fair values based on selected market multiples.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the KSP reporting unit is a critical audit matter are there was significant judgment by management when developing the fair value measurement of the reporting unit. This in turn led to a high degree of auditor judgment, subjectivity, and effort in performing procedures to evaluate management's cash flow projections and significant assumptions, including revenue growth rates, margin assumptions, discount rate, peer group determination, and market multiple selection. In addition, the audit effort involved the use of professionals with specialized skill and knowledge to assist in performing these procedures and evaluating the audit evidence obtained.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the valuation of the Company's KSP reporting unit. These procedures also included, among others, testing management's process for developing the fair value estimate, evaluating the appropriateness of the income and market approach models, testing the completeness, accuracy, and relevance of the underlying data used in the models and evaluating the significant assumptions used by management, including the revenue growth rates, margin assumptions, discount rate, peer group determination, and market multiple selection. Evaluating management's assumptions relating to revenue growth rates and margin assumptions involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit, (ii) the consistency with external market and industry data, and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Evaluating the Company's peer group determinations included evaluating the appropriateness of the identified peer companies. Professionals with specialized skill and knowledge were used to assist in the evaluation of the Company's discounted cash flow and market models, and certain significant assumptions, including the discount rate, peer group determination, and market multiples.

/s/ PricewaterhouseCoopers LLP  
Cincinnati, Ohio  
April 1, 2020

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

**THE KROGER CO.**  
**CONSOLIDATED BALANCE SHEETS**

(In millions, except par amounts)	February 1, 2020	February 2, 2019
<b>ASSETS</b>		
Current assets		
Cash and temporary cash investments	\$ 399	\$ 429
Store deposits in-transit	1,179	1,181
Receivables	1,706	1,589
FIFO inventory	8,464	8,123
LIFO reserve	(1,380)	(1,277)
Assets held for sale	—	166
Prepaid and other current assets	522	592
Total current assets	10,890	10,803
Property, plant and equipment, net	21,871	21,635
Operating lease assets	6,814	—
Intangibles, net	1,066	1,258
Goodwill	3,076	3,087
Other assets	1,539	1,335
Total Assets	<u>\$ 45,256</u>	<u>\$ 38,118</u>
<b>LIABILITIES</b>		
Current liabilities		
Current portion of long-term debt including obligations under finance leases	\$ 1,965	\$ 3,157
Current portion of operating lease liabilities	597	—
Trade accounts payable	6,349	6,059
Accrued salaries and wages	1,168	1,227
Liabilities held for sale	—	51
Other current liabilities	4,164	3,780
Total current liabilities	14,243	14,274
Long-term debt including obligations under finance leases	12,111	12,072
Noncurrent operating lease liabilities	6,505	—
Deferred income taxes	1,466	1,562
Pension and postretirement benefit obligations	608	494
Other long-term liabilities	1,750	1,881
Total Liabilities	36,683	30,283
Commitments and contingencies see Note 13		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred shares, \$100 par per share, 5 shares authorized and unissued	—	—
Common shares, \$1 par per share, 2,000 shares authorized; 1,918 shares issued in 2019 and 2018	1,918	1,918
Additional paid-in capital	3,337	3,245
Accumulated other comprehensive loss	(640)	(346)
Accumulated earnings	20,978	19,681
Common shares in treasury, at cost, 1,130 shares in 2019 and 1,120 shares in 2018	(16,991)	(16,612)
Total Shareholders' Equity - The Kroger Co.	8,602	7,886
Noncontrolling interests	(29)	(51)
Total Equity	8,573	7,835
Total Liabilities and Equity	<u>\$ 45,256</u>	<u>\$ 38,118</u>

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

**THE KROGER CO.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years Ended February 1, 2020, February 2, 2019 and February 3, 2018

(In millions, except per share amounts)	2019 (52 weeks)	2018 (52 weeks)	2017 (53 weeks)
Sales	\$ 122,286	\$ 121,852	\$ 123,280
<b>Operating expenses</b>			
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	95,294	95,103	95,811
Operating, general and administrative	21,208	20,786	21,510
Rent	884	884	911
Depreciation and amortization	2,649	2,465	2,436
<b>Operating profit</b>	<b>2,251</b>	<b>2,614</b>	<b>2,612</b>
<b>Other income (expense)</b>			
Interest expense	(603)	(620)	(601)
Non-service component of company-sponsored pension plan costs	—	(26)	(527)
Mark to market gain on Ocado securities	157	228	—
Gain on sale of businesses	176	1,782	—
<b>Net earnings before income tax (benefit) expense</b>	<b>1,981</b>	<b>3,978</b>	<b>1,484</b>
<b>Income tax (benefit) expense</b>	<b>469</b>	<b>900</b>	<b>(405)</b>
<b>Net earnings including noncontrolling interests</b>	<b>1,512</b>	<b>3,078</b>	<b>1,889</b>
<b>Net loss attributable to noncontrolling interests</b>	<b>(147)</b>	<b>(32)</b>	<b>(18)</b>
<b>Net earnings attributable to The Kroger Co.</b>	<b>\$ 1,659</b>	<b>\$ 3,110</b>	<b>\$ 1,907</b>
<b>Net earnings attributable to The Kroger Co. per basic common share</b>	<b>\$ 2.05</b>	<b>\$ 3.80</b>	<b>\$ 2.11</b>
<b>Average number of common shares used in basic calculation</b>	<b>799</b>	<b>810</b>	<b>895</b>
<b>Net earnings attributable to The Kroger Co. per diluted common share</b>	<b>\$ 2.04</b>	<b>\$ 3.76</b>	<b>\$ 2.09</b>
<b>Average number of common shares used in diluted calculation</b>	<b>805</b>	<b>818</b>	<b>904</b>

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

**THE KROGER CO.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended February 1, 2020, February 2, 2019 and February 3, 2018

(In millions)	2019 (52 weeks)	2018 (52 weeks)	2017 (53 weeks)
Net earnings including noncontrolling interests	\$ 1,512	\$ 3,078	\$ 1,889
<b>Other comprehensive income (loss)</b>			
Realized gains on available for sale securities, net of income tax <sup>(1)</sup>	—	(4)	4
Change in pension and other postretirement defined benefit plans, net of income tax <sup>(2)</sup>	(105)	147	214
Unrealized gains and losses on cash flow hedging activities, net of income tax <sup>(3)</sup>	(47)	(23)	23
Amortization of unrealized gains and losses on cash flow hedging activities, net of income tax <sup>(4)</sup>	4	5	3
Cumulative effect of accounting change <sup>(5)</sup>	(146)	—	—
<b>Total other comprehensive income (loss)</b>	<b>(294)</b>	<b>125</b>	<b>244</b>
Comprehensive income	1,218	3,203	2,133
Comprehensive loss attributable to noncontrolling interests	(147)	(32)	(18)
Comprehensive income attributable to The Kroger Co.	<u>\$ 1,365</u>	<u>\$ 3,235</u>	<u>\$ 2,151</u>

- (1) Amount is net of tax expense (benefit) of (\$1) in 2018 and \$1 in 2017.  
(2) Amount is net of tax expense (benefit) of (\$33) in 2019, \$45 in 2018 and \$83 in 2017.  
(3) Amount is net of tax expense (benefit) of (\$17) in 2019, (\$8) in 2018 and \$0 in 2017.  
(4) Amount is net of tax expense of \$3 in 2019 and \$3 in 2018 and \$3 in 2017.  
(5) Related to the adoption of Accounting Standards Update (“ASU”) 2018-02, “Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” (see Note 18 for additional details).

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

**THE KROGER CO.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years Ended February 1, 2020, February 2, 2019 and February 3, 2018

(In millions)	2019 (52 weeks)	2018 (52 weeks)	2017 (53 weeks)
<b>Cash Flows from Operating Activities:</b>			
Net earnings including noncontrolling interests	\$ 1,512	\$ 3,078	\$ 1,889
Adjustments to reconcile net earnings including noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization	2,649	2,465	2,436
Asset impairment charge	120	56	71
Operating lease asset amortization	640	—	—
LIFO charge (credit)	105	29	(8)
Stock-based employee compensation	155	154	151
Expense for company-sponsored pension plans	39	76	591
Goodwill impairment charge	—	—	110
Deferred income taxes	(56)	(45)	(694)
Gain on sale of businesses	(176)	(1,782)	—
(Gain) loss on the sale of assets	(158)	2	(31)
Mark to market gain on Ocado securities	(157)	(228)	—
Loss on deconsolidation and impairment of Lucky's Market	412	—	—
Other	(109)	58	39
Changes in operating assets and liabilities net of effects from mergers and disposals of businesses:			
Store deposits in-transit	3	(20)	(265)
Receivables	(36)	(208)	61
Inventories	(351)	(354)	(23)
Prepaid and other current assets	(33)	244	41
Trade accounts payable	342	213	158
Accrued expenses	302	416	(40)
Income taxes receivable and payable	(142)	289	(96)
Contribution to company-sponsored pension plan	—	(185)	(1,000)
Operating lease liabilities	(639)	—	—
Proceeds from contract associated with sale of business	295	—	—
Other	(53)	(94)	23
Net cash provided by operating activities	<u>4,664</u>	<u>4,164</u>	<u>3,413</u>
<b>Cash Flows from Investing Activities:</b>			
Payments for property and equipment, including payments for lease buyouts	(3,128)	(2,967)	(2,809)
Proceeds from sale of assets	273	85	138
Proceeds on settlement of financial instrument	—	235	—
Payments for acquisitions, net of cash acquired	—	(197)	(16)
Purchases of stores	—	(44)	—
Net proceeds from sale of businesses	327	2,169	—
Purchases of Ocado securities	—	(392)	—
Other	(83)	(75)	(20)
Net cash used by investing activities	<u>(2,611)</u>	<u>(1,186)</u>	<u>(2,707)</u>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from issuance of long-term debt	813	2,236	1,523
Payments on long-term debt including obligations under finance leases	(2,304)	(1,372)	(788)
Net proceeds (payments) on commercial paper	350	(1,321)	696
Dividends paid	(486)	(437)	(443)
Proceeds from issuance of capital stock	55	65	51
Treasury stock purchases	(465)	(2,010)	(1,633)
Other	(46)	(57)	(87)
Net cash used by financing activities	<u>(2,083)</u>	<u>(2,896)</u>	<u>(681)</u>
Net (decrease) increase in cash and temporary cash investments	(30)	82	25
<b>Cash and temporary cash investments:</b>			
Beginning of year	429	347	322
End of year	<u>\$ 399</u>	<u>\$ 429</u>	<u>\$ 347</u>
<b>Reconciliation of capital investments:</b>			
Payments for property and equipment, including payments for lease buyouts	\$ (3,128)	\$ (2,967)	\$ (2,809)
Payments for lease buyouts	82	5	13
Changes in construction-in-progress payables	2	(56)	(188)
Total capital investments, excluding lease buyouts	<u>\$ (3,044)</u>	<u>\$ (3,018)</u>	<u>\$ (2,984)</u>
<b>Disclosure of cash flow information:</b>			
Cash paid during the year for interest	\$ 523	\$ 614	\$ 656
Cash paid during the year for income taxes	\$ 706	\$ 600	\$ 348

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



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

Years Ended February 1, 2020, February 2, 2019 and February 3, 2018

(In millions, except per share amounts)	Common Stock		Additional Paid-In Capital		Treasury Stock		Accumulated Other Comprehensive Income (Loss)		Accumulated Earnings		Noncontrolling Interest		Total
	Shares	Amount	Shares	Amount	Shares	Amount	Income (Loss)	Earnings	Interest	Amount	Interest	Total	
Balances at January 28, 2017	1,918	\$ 1,918	\$ 3,070	\$ (13,118)	994	\$ (13,118)	\$ (715)	\$ 15,543	\$ 12	\$ 6,710			
Issuance of common stock:													
Stock options exercised	—	—	—	51	(4)	51	—	—	—	—	51		
Restricted stock issued	—	—	(119)	85	(2)	85	—	—	—	—	(34)		
Treasury stock activity:													
Treasury stock purchases, at cost	—	—	—	(1,567)	58	(1,567)	—	—	—	—	(1,567)		
Stock options exchanged	—	—	—	(66)	2	(66)	—	—	—	—	(66)		
Share-based employee compensation	—	—	151	—	—	—	—	—	—	—	151		
Other comprehensive income net of tax of \$87	—	—	59	(69)	—	(69)	244	—	—	—	244		
Other	—	—	—	—	—	—	—	(443)	—	—	(443)		
Cash dividends declared (\$0.495 per common share)	—	—	—	—	—	—	—	—	—	—	—		
Net earnings (loss) including non-controlling interests	—	—	—	—	—	—	—	1,907	(18)	—	1,889		
Balances at February 3, 2018	1,918	\$ 1,918	\$ 3,161	\$ (14,684)	1,048	\$ (14,684)	\$ (471)	\$ 17,007	\$ (26)	\$ 6,905			
Issuance of common stock:													
Stock options exercised	—	—	—	65	(4)	65	—	—	—	—	65		
Restricted stock issued	—	—	(119)	74	(3)	74	—	—	—	—	(45)		
Treasury stock activity:													
Treasury stock purchases, at cost	—	—	—	(1,927)	76	(1,927)	—	—	—	—	(1,927)		
Stock options exchanged	—	—	—	(83)	3	(83)	—	—	—	—	(83)		
Share-based employee compensation	—	—	154	—	—	—	—	—	—	—	154		
Other comprehensive income net of tax of \$39	—	—	—	—	—	—	125	—	—	—	125		
Other	—	—	49	(57)	—	(57)	—	—	—	—	(1)		
Cash dividends declared (\$0.545 per common share)	—	—	—	—	—	—	—	(436)	—	—	(436)		
Net earnings (loss) including non-controlling interests	—	—	—	—	—	—	—	3,110	(32)	—	3,078		
Balances at February 2, 2019	1,918	\$ 1,918	\$ 3,245	\$ (16,612)	1,120	\$ (16,612)	\$ (346)	\$ 19,681	\$ (51)	\$ 7,835			
Issuance of common stock:													
Stock options exercised	—	—	—	55	(3)	55	—	—	—	—	55		
Restricted stock issued	—	—	(128)	92	(3)	92	—	—	—	—	(36)		
Treasury stock activity:													
Treasury stock purchases, at cost	—	—	—	(400)	14	(400)	—	—	—	—	(400)		
Stock options exchanged	—	—	—	(65)	2	(65)	—	—	—	—	(65)		
Share-based employee compensation	—	—	155	—	—	—	—	—	—	—	155		
Other comprehensive loss net of tax of (\$47)	—	—	—	—	—	—	(294)	—	—	—	(294)		
Cumulative effect of accounting change (see Note 18)	—	—	—	—	—	—	—	146	—	—	146		
Deconsolidation of Lucky's Market	—	—	—	(61)	—	(61)	—	—	—	—	168		
Other	—	—	65	—	—	—	—	(5)	1	—	—		
Cash dividends declared (\$0.62 per common share)	—	—	—	—	—	—	—	(503)	—	—	(503)		
Net earnings (loss) including non-controlling interests	—	—	—	—	—	—	—	1,659	(147)	—	1,512		
Balances at February 1, 2020	1,918	\$ 1,918	\$ 3,337	\$ (16,991)	1,130	\$ (16,991)	\$ (640)	\$ 20,978	\$ (29)	\$ 8,573			

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

### 1. ACCOUNTING POLICIES

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

#### *Description of Business, Basis of Presentation and Principles of Consolidation*

The Kroger Co. (the “Company”) was founded in 1883 and incorporated in 1902. As of February 1, 2020, the Company was one of the largest retailers in the world based on annual sales. The Company also manufactures and processes food for sale by its supermarkets. The accompanying financial statements include the consolidated accounts of the Company, its wholly-owned subsidiaries and other consolidated entities. Intercompany transactions and balances have been eliminated.

Refer to Note 18 for a description of changes to the Consolidated Balance Sheet for recently adopted accounting standards regarding the recognition of lease agreements and reclassification of stranded tax effects.

Products and services related primarily to Kroger Personal Finance and Media, which were historically accounted for as an offset to operating, general and administrative expenses (“OG&A”), are classified as a component of sales as of the beginning of fiscal year 2019, except for certain amounts in Media, which are netted against merchandise costs. These prior-year amounts have been reclassified to conform to current-year presentation.

#### *Fiscal Year*

The Company’s fiscal year ends on the Saturday nearest January 31. The last three fiscal years consist of the 52-week period ended February 1, 2020, 52-week period ended February 2, 2019 and 53-week period ended February 3, 2018.

#### *Pervasiveness of Estimates*

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

#### *Cash, Temporary Cash Investments and Book Overdrafts*

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

#### *Deposits In-Transit*

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

### *Inventories*

Inventories are stated at the lower of cost (principally on a last-in, first-out “LIFO” basis) or market. In total, approximately 91% of inventories in 2019 and 90% of inventories in 2018 were valued using the LIFO method. The remaining inventories, including substantially all fuel inventories, are stated at the lower of cost (on a FIFO basis) or net realizable value. Replacement cost was higher than the carrying amount by \$1,380 at February 1, 2020 and \$1,277 at February 2, 2019. The Company follows the Link-Chain, Dollar-Value LIFO method for purposes of calculating its LIFO charge or credit.

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

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

### *Property, Plant and Equipment*

Property, plant and equipment are recorded at cost or, in the case of assets acquired in a business combination, at fair value. Depreciation and amortization expense, which includes the depreciation of assets recorded under finance leases, is computed principally using the straight-line method over the estimated useful lives of individual assets. Buildings and land improvements are depreciated based on lives varying from 10 to 40 years. All new purchases of store equipment are assigned lives varying from three to nine years. Leasehold improvements are amortized over the shorter of the lease term to which they relate, which generally varies from four to 25 years, or the useful life of the asset. Food production plant and distribution center equipment is depreciated over lives varying from three to 15 years. Information technology assets are generally depreciated over three to five years. Depreciation and amortization expense was \$2,649 in 2019, \$2,465 in 2018 and \$2,436 in 2017.

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

### *Leases*

The Company leases certain store real estate, warehouses, distribution centers, office space and equipment. The Company determines if an arrangement is a lease at inception. Finance and operating lease assets and liabilities are recognized at the lease commencement date. Finance and operating lease liabilities represent the present value of minimum lease payments not yet paid. Operating lease assets represent the right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepayments, lease incentives and impairment, if any. To determine the present value of lease payments, the Company estimates an incremental borrowing rate which represents the rate used for a secured borrowing of a similar term as the lease.

Lease terms generally range from 10 to 20 years with options to renew for varying terms at the Company's sole discretion. The lease term includes the initial contractual term as well as any options to extend the lease when it is reasonably certain that the Company will exercise that option. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Certain leases include escalation clauses or payment of executory costs such as property taxes, utilities or insurance and maintenance. Operating lease payments are charged on a straight-line basis to rent expense over the lease term and finance lease payments are charged to interest expense and depreciation and amortization expense over the lease term. Assets under finance leases are amortized in accordance with the Company's normal depreciation policy for owned assets or over the lease term, if shorter. The Company's lease agreements do not contain any residual value guarantees or material restrictive covenants. For additional information on leases, see Note 10 to the Consolidated Financial Statements.

### *Goodwill*

The Company reviews goodwill for impairment during the fourth quarter of each year, and also upon the occurrence of a triggering event. The Company performs reviews of each of its operating divisions and other consolidated entities (collectively, "reporting units") that have goodwill balances. Generally, fair value is determined using a market multiple model, or discounted projected future cash flows, and is compared to the carrying value of a reporting unit for purposes of identifying potential impairment. Projected future cash flows are based on management's knowledge of the current operating environment and expectations for the future. Goodwill impairment is recognized for any excess of the reporting unit's carrying value over its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. Results of the goodwill impairment reviews performed during 2019, 2018 and 2017 are summarized in Note 3.

### *Impairment of Long-Lived Assets*

The Company monitors the carrying value of long-lived assets for potential impairment each quarter based on whether certain triggering events have occurred. These events include current period losses combined with a history of losses or a projection of continuing losses or a significant decrease in the market value of an asset. When a triggering event occurs, an impairment calculation is performed, comparing projected undiscounted future cash flows, utilizing current cash flow information and expected growth rates related to specific stores, to the carrying value for those stores. If the Company identifies impairment for long-lived assets to be held and used, the Company compares the assets' current carrying value to the assets' fair value. Fair value is based on current market values or discounted future cash flows. The Company records impairment when the carrying value exceeds fair market value. With respect to owned property and equipment held for disposal, the value of the property and equipment is adjusted to reflect recoverable values based on previous efforts to dispose of similar assets and current economic conditions. Impairment is recognized for the excess of the carrying value over the estimated fair market value, reduced by estimated direct costs of disposal. The Company recorded asset impairments totaling \$120 in 2019, including \$70 of operating lease assets. This 2019 impairment charge includes 35 planned store closures across the Company's footprint in 2020. The Company recorded asset impairments in the normal course of business totaling \$56 and \$71 in 2018 and 2017, respectively. Costs to reduce the carrying value of long-lived assets for each of the years presented have been included in the Consolidated Statements of Operations as Operating, general and administrative ("OG&A") expense.

### *Accounts Payable*

The Company has an agreement with a third party to provide an accounts payable tracking system which facilitates participating suppliers' ability to finance payment obligations from the Company with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not affected by suppliers' decisions to finance amounts under this arrangement.

### *Contingent Consideration*

The Company's Home Chef business combination involves potential payment of future consideration that is contingent upon the achievement of certain performance milestones. The Company records contingent consideration at fair value at the date of acquisition based on the consideration expected to be transferred, estimated as the probability-weighted future cash flows, discounted back to present value using a discount rate determined in accordance with accepted valuation methods. The liability for contingent consideration is remeasured to fair value at each reporting period using Level 3 inputs, and the change in fair value, including accretion for the passage of time, is recognized in earnings until the contingency is resolved. In 2019, an adjustment to decrease the contingent consideration liability as of year-end 2019 was recorded for (\$69) in OG&A expense. In 2018, an adjustment to increase the contingent consideration liability as of year-end 2018 was recorded for \$33 in OG&A expense.

### *Store Closing Costs*

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

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

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

### *Interest Rate Risk Management*

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

### *Benefit Plans and Multi-Employer Pension Plans*

The Company recognizes the funded status of its retirement plans on the Consolidated Balance Sheets. Actuarial gains or losses, prior service costs or credits and transition obligations that have not yet been recognized as part of net periodic benefit cost are required to be recorded as a component of Accumulated Other Comprehensive Income ("AOCI"). The Company has elected to measure defined benefit plan assets and obligations as of January 31, which is the month-end that is closest to its fiscal year-ends, which were February 1, 2020 for fiscal 2019 and February 2, 2019 for fiscal 2018.

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

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

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

#### *Share Based Compensation*

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

#### *Deferred Income Taxes*

Deferred income taxes are recorded to reflect the tax consequences of differences between the tax basis of assets and liabilities and their financial reporting basis. Refer to Note 5 for the types of differences that give rise to significant portions of deferred income tax assets and liabilities.

#### *Uncertain Tax Positions*

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

Various taxing authorities periodically audit the Company's income tax returns. These audits include questions regarding the Company's tax filing positions, including the timing and amount of deductions and the allocation of income to various tax jurisdictions. In evaluating the exposures connected with these tax filing positions, including state and local taxes, the Company records allowances for probable exposures. A number of years may elapse before a particular matter, for which an allowance has been established, is audited and fully resolved. As of February 1, 2020, the Internal Revenue Service had concluded its examination of all federal tax returns up to and including the return for the year ending January 30, 2016.

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

#### *Self-Insurance Costs*

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

The following table summarizes the changes in the Company's self-insurance liability through February 1, 2020.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 696	\$ 695	\$ 682
Expense	209	229	247
Claim payments	<u>(216)</u>	<u>(228)</u>	<u>(234)</u>
Ending balance	689	696	695
Less: Current portion	<u>(216)</u>	<u>(228)</u>	<u>(234)</u>
Long-term portion	<u>\$ 473</u>	<u>\$ 468</u>	<u>\$ 461</u>

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

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

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

#### *Revenue Recognition*

##### Sales

The Company recognizes revenues from the retail sale of products, net of sales taxes, at the point of sale. Pharmacy sales are recorded when the product is provided to the customer. Digital channel originated sales are recognized either upon pickup in store or upon delivery to the customer and may include shipping revenue. Discounts provided to customers by the Company at the time of sale, including those provided in connection with loyalty cards, are recognized as a reduction in sales as the products are sold. Discounts provided by vendors, usually in the form of coupons, are not recognized as a reduction in sales provided the coupons are redeemable at any retailer that accepts coupons. The Company records a receivable from the vendor for the difference in sales price and cash received. For merchandise sold in one of the Company's stores or online, tender is accepted at the point of sale. The Company acts as principal in certain vendor arrangements where the purchase and sale of inventory are virtually simultaneous. The Company records revenue and related costs on a gross basis for these arrangements. Effective February 4, 2018, the Company prospectively reclassified certain pharmacy fees of \$250 for 2018 from merchandise costs to be recorded as a reduction to sales on the Company's Consolidated Statements of Operations. For pharmacy sales, collection of third party receivables is typically expected within three months or less from the time of purchase. The third-party receivables from pharmacy sales are recorded in Receivables in the Company's Consolidated Balance Sheets and were \$646 as of February 1, 2020 and \$645 as of February 2, 2019.

##### Gift Cards and Gift Certificates

The Company does not recognize a sale when it sells its own gift cards and gift certificates (collectively "gift cards"). Rather, it records a deferred revenue liability equal to the amount received. A sale is then recognized when the gift cards are redeemed to purchase the Company's products. The Company's gift cards do not expire. While gift cards are generally redeemed within 12 months, some are never fully redeemed. The Company recognizes gift card breakage under the proportional method, where recognition of breakage income is based upon the historical run-off rate of unredeemed gift cards. The Company's gift card deferred revenue liability was \$114 as of February 1, 2020 and \$100 as of February 2, 2019.

## Disaggregated Revenues

The following table presents sales revenue by type of product for the year-ended February 1, 2020, February 2, 2019, and February 3, 2018:

	2019		2018		2017	
	Amount	% of total	Amount	% of total	Amount	% of total
Non Perishable <sup>(1)(5)</sup>	\$ 61,464	50.3 %	\$ 60,649	49.8 %	\$ 60,872	49.4 %
Fresh <sup>(2)(5)</sup>	29,452	24.1 %	29,089	23.9 %	29,141	23.6 %
Supermarket Fuel	14,052	11.5 %	14,903	12.2 %	13,177	10.7 %
Pharmacy <sup>(5)</sup>	11,015	9.0 %	10,617	8.7 %	10,724	8.7 %
Convenience Stores <sup>(3)</sup>	—	- %	944	0.8 %	4,515	3.7 %
Other <sup>(4)(5)(6)</sup>	6,303	5.1 %	5,650	4.6 %	4,851	3.9 %
<b>Total Sales</b>	<b>\$ 122,286</b>	<b>100 %</b>	<b>\$ 121,852</b>	<b>100 %</b>	<b>\$ 123,280</b>	<b>100 %</b>

- (1) Consists primarily of grocery, general merchandise, health and beauty care and natural foods.
- (2) Consists primarily of produce, floral, meat, seafood, deli, bakery and fresh prepared.
- (3) The Company completed the sale of its convenience store business unit during the first quarter of 2018.
- (4) Consists primarily of sales related to food production plants to outside parties, data analytic services, third party media revenue, other consolidated entities, specialty pharmacy, in-store health clinics, digital coupon services and other online sales not included in the categories above.
- (5) Digital sales, primarily including Pickup, Delivery and pharmacy e-commerce sales, grew approximately 29%, 58% and 90% in 2019, 2018 and 2017, respectively, adjusted to remove the impact of the 53<sup>rd</sup> week in 2017. These sales are included in the non perishable, fresh, pharmacy, and other line items above.
- (6) Products and services related primarily to Kroger Personal Finance and Media, which were historically accounted for as an offset to OG&A, are classified as a component of sales as of the beginning of fiscal year 2019, except for certain amounts in Media, which are netted against merchandise costs. These prior-year amounts have been reclassified to conform to current-year presentation.

### Merchandise Costs

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

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

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

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



### *Advertising Costs*

The Company's advertising costs are recognized in the periods the related expenses are incurred and are included in the "Merchandise costs" line item of the Consolidated Statements of Operations. The Company's advertising costs totaled \$854 in 2019, \$752 in 2018 and \$707 in 2017. The Company does not record vendor allowances for co-operative advertising as a reduction of advertising expense.

### *Operating, General and Administrative Expenses*

OG&A expenses consist primarily of employee-related costs such as wages, healthcare benefit costs, retirement plan costs, utilities, and credit card fees. Rent expense, depreciation and amortization expense and interest expense are shown separately in the Consolidated Statement of Operations.

### *Consolidated Statements of Cash Flows*

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

### *Segments*

The Company operates supermarkets and multi-department stores throughout the United States. The Company's retail operations, which represent 97% of the Company's consolidated sales, are its only reportable segment. The Company aggregated its operating divisions into one reportable segment due to the operating divisions having similar economic characteristics with similar long-term financial performance. In addition, the Company's operating divisions offer customers similar products, have similar distribution methods, operate in similar regulatory environments, purchase the majority of the merchandise for retail sale from similar (and in many cases identical) vendors on a coordinated basis from a centralized location, serve similar types of customers, and are allocated capital from a centralized location. Operating divisions are organized primarily on a geographical basis so that the operating division management team can be responsive to local needs of the operating division and can execute company strategic plans and initiatives throughout the locations in their operating division. This geographical separation is the primary differentiation between these retail operating divisions. The geographical basis of organization reflects how the business is managed and how the Company's Chief Executive Officer, who acts as the Company's chief operating decision maker, assesses performance internally. All of the Company's operations are domestic.

## **2. MERGERS AND PARTNERSHIP AGREEMENTS**

### *Merger Agreement*

On June 22, 2018, the Company finalized the merger with Home Chef, a meal kit delivery company. The merger allows the Company to increase the availability of meal kits and expand its offerings to customers. The Company completed the merger by purchasing 100% of the ownership interest in Home Chef, for \$197 net of cash and cash equivalents of \$30, in addition to future earnout payments of up to \$500 over five years that are contingent on achieving certain milestones. The contingent consideration is based on future performance of both the online and offline business and the related customer engagement. The fair value of the earnout liability in the amount of \$91 recognized on the acquisition date was measured using unobservable (Level 3) inputs and was included in "Other long-term liabilities" within the Consolidated Balance Sheet. The Company estimated the fair value of the earnout liability by applying a Monte-Carlo simulation method using the Company's projection of future operating results for both the online and offline businesses related to the Home Chef merger and the estimated probability of achievement of the earnout target metrics. The Monte-Carlo simulation is a generally accepted statistical technique used to generate a defined number of valuation paths in order to develop a reasonable estimate of the fair value of the earnout liability. Changes in the fair value of the earnout liability in future periods will be recorded in the Company's results in the period of the change, refer to Note 8 for additional details.

The merger was accounted for under the purchase method of accounting and was financed through the issuance of commercial paper. In a business combination, the purchase price is allocated to assets acquired and liabilities assumed based on their fair values, with any excess of purchase price over fair value recognized as goodwill. In addition to recognizing assets and liabilities on the acquired company's balance sheet, the Company reviews supply contracts, leases, financial instruments, employment agreements and other significant agreements to identify potential assets or liabilities that require recognition in connection with the application of acquisition accounting under Accounting Standards Codification ("ASC") 805. Intangible assets are recognized apart from goodwill when the asset arises from contractual or other legal rights, or are separable from the acquired entity such that they may be sold, transferred, licensed, rented or exchanged either on a standalone basis or in combination with a related contract, asset or liability.

The Company's purchase price allocation was finalized in the second quarter of 2019. The changes in the fair values assumed from the preliminary amounts determined as of June 22, 2018 were an increase of goodwill of \$8 and an increase of deferred income tax liability of \$8. The table summarizes the final fair values of the assets acquired and liabilities assumed at the acquisition date.

	June 22, 2018
<b>ASSETS</b>	
Total current assets	\$ 36
Property, plant and equipment	6
Other assets	1
Intangibles	143
Total Assets, excluding Goodwill	186
<b>LIABILITIES</b>	
Total current liabilities	(28)
Other long-term liabilities	(94)
Deferred income taxes	(8)
Total Liabilities	(130)
Total Identifiable Net Assets	56
Goodwill	171
Total Purchase Price	\$ 227

Of the \$143 allocated to intangible assets, the Company recorded \$99 and \$44 related to customer relationships and the trade name, respectively. The Company will amortize the customer relationships, using the cash flow trended method over seven years. The goodwill recorded as part of the merger was attributable to the assembled workforce of Home Chef and operational synergies expected from the merger. The merger was treated as a 30% stock purchase and 70% partnership interest purchase for income tax purposes. The tax basis of the assets acquired and liabilities assumed for the portion of the transaction treated as a partnership interest purchase was stepped up, and the related goodwill is deductible for tax purposes. The assets acquired and liabilities assumed for the portion treated as a stock purchase did not result in a step up of tax basis, and goodwill is not expected to be deductible for tax purposes. The Company determined the Home Chef results of operations are not material. Therefore, the pro forma information is not required for fiscal year 2018 and 2017.

#### Partnership Agreement

On May 17, 2018, the Company entered into a Partnership Framework Agreement with Ocado International Holdings Limited and Ocado Group plc ("Ocado"). Under this agreement, Ocado will partner exclusively with the Company in the U.S., enhancing the Company's digital and robotics capabilities in its distribution networks. As part of the agreement, the Company provided a letter of credit for \$180, which supports its commitment to contract with Ocado to build a number of fulfilment centers. The balance of the letter of credit will reduce over time with the construction of each fulfilment center.

In addition, on May 17, 2018, the Company entered into a Share Subscription Agreement with Ocado, pursuant to which the Company agreed to purchase 33.1 million ordinary shares of Ocado for an aggregate purchase price of \$243. The Company completed the purchase of these 33.1 million shares on May 29, 2018. This is in addition to 8.1 million Ocado shares purchased earlier in the first quarter of 2018, and 6.5 million additional shares purchased in the second quarter of 2018. The equity investment in Ocado is measured at fair value through earnings. The fair value of all shares owned, which is measured using Level 1 inputs, was \$776 as of February 1, 2020 and \$620 as of February 2, 2019 and is included in “Other assets” in the Company’s Consolidated Balance Sheets. The Company recorded an unrealized gain of \$157 in 2019 and \$228 in 2018, none of which was realized during the period as the Company did not sell any Ocado securities.

### 3. GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the changes in the Company’s net goodwill balance through February 1, 2020.

	2019	2018
Balance beginning of year		
Goodwill	\$ 5,729	\$ 5,567
Accumulated impairment losses	(2,642)	(2,642)
Subtotal	<u>3,087</u>	<u>2,925</u>
Activity during the year		
Mergers	8	163
Impairment losses	(19)	—
Held for sale adjustment	—	(1)
Balance end of year		
Goodwill	5,737	5,729
Accumulated impairment losses	(2,661)	(2,642)
Total Goodwill	<u>\$ 3,076</u>	<u>\$ 3,087</u>

In 2019, the Company finalized the purchase accounting for the Home Chef acquisition (see Note 2) resulting in an increase of goodwill and deferred taxes of \$8. The Company also recorded an impairment charge of \$19 as a result of the Lucky’s Market impairment.

In 2018, the Company acquired all of the outstanding shares of Home Chef (see Note 2) resulting in additional goodwill totaling \$163. Certain assets and liabilities including goodwill totaling \$1 for 2018 was classified as held for sale in the Consolidated Balance Sheet (see Note 17).

Testing for impairment must be performed annually, or on an interim basis upon the occurrence of a triggering event or a change in circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The annual evaluation of goodwill and indefinite-lived intangible assets was performed during the fourth quarter of 2019 and 2018 and did not result in impairment.

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

The following table summarizes the Company's intangible assets balance through February 1, 2020.

	2019		2018	
	Gross carrying amount	Accumulated amortization <sup>(1)</sup>	Gross carrying amount	Accumulated amortization <sup>(1)</sup>
Definite-lived favorable leasehold interests <sup>(2)</sup>	\$ —	\$ —	\$ 160	\$ (47)
Definite-lived pharmacy prescription files	320	(133)	316	(92)
Definite-lived customer relationships	186	(120)	186	(88)
Definite-lived other	106	(68)	103	(55)
Indefinite-lived trade name	685	—	685	—
Indefinite-lived liquor licenses	90	—	90	—
<b>Total</b>	<b>\$ 1,387</b>	<b>\$ (321)</b>	<b>\$ 1,540</b>	<b>\$ (282)</b>

- (1) Favorable leasehold interests are amortized to rent expense, pharmacy prescription files are amortized to merchandise costs, customer relationships are amortized to depreciation and amortization expense and other intangibles are amortized to OG&A expense and depreciation and amortization expense.
- (2) Due to the adoption of ASU 2016-02 "Leases," favorable leasehold interests were reclassified and included in the measurement of new lease assets, refer to Note 10 and 18 for further description of the impact of adoption.

In 2018, the Company acquired definite and indefinite lived intangible assets totaling approximately \$143, excluding goodwill, as a result of the merger with Home Chef (see Note 2). Additionally, the majority of the Company's pharmacy prescription file purchases for 2018 were completed in a single transaction for \$75.

Amortization expense associated with intangible assets totaled approximately \$85, \$80 and \$59, during fiscal years 2019, 2018 and 2017, respectively. Future amortization expense associated with the net carrying amount of definite-lived intangible assets for the years subsequent to 2019 is estimated to be approximately:

2020	\$ 73
2021	58
2022	51
2023	42
2024	39
Thereafter	28
<b>Total future estimated amortization associated with definite-lived intangible assets</b>	<b>\$ 291</b>

#### 4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net consists of:

	2019	2018
Land	\$ 3,299	\$ 3,254
Buildings and land improvements	12,553	12,245
Equipment	15,031	14,277
Leasehold improvements	10,832	10,306
Construction-in-progress	3,166	2,716
Leased property under finance leases	966	1,066
<b>Total property, plant and equipment</b>	<b>45,847</b>	<b>43,864</b>
<b>Accumulated depreciation and amortization</b>	<b>(23,976)</b>	<b>(22,229)</b>
<b>Property, plant and equipment, net</b>	<b>\$ 21,871</b>	<b>\$ 21,635</b>

Accumulated depreciation and amortization for leased property under finance leases was \$276 at February 1, 2020 and \$345 at February 2, 2019. This decrease was primarily related to the reclassification of certain finance leases to operating leases due to the adoption of ASU 2016-02 "Leases."

Approximately \$162 and \$169, net book value, of property, plant and equipment collateralized certain mortgages at February 1, 2020 and February 2, 2019, respectively.

## 5. TAXES BASED ON INCOME

The provision for taxes based on income consists of:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal			
Current	\$ 454	\$ 775	\$ 309
Deferred	(50)	(3)	(747)
Subtotal federal	404	772	(438)
State and local			
Current	70	108	15
Deferred	(5)	20	18
Subtotal state and local	65	128	33
Total	<u>\$ 469</u>	<u>\$ 900</u>	<u>\$ (405)</u>

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Statutory rate	21.0 %	21.0 %	33.7 %
State income taxes, net of federal tax benefit	2.6	2.6	1.7
Credits	(1.5)	(1.3)	(2.5)
Resolution of issues	(0.1)	0.5	—
Domestic manufacturing deduction	—	—	(1.1)
Excess tax benefits from share-based payments	(0.2)	(0.3)	(0.4)
Effect of Tax Cuts and Jobs Act	—	—	(60.8)
Impairment of goodwill	—	—	2.3
Impairment losses attributable to noncontrolling interest	1.2	—	—
Other changes, net	0.7	0.1	(0.2)
	<u>23.7 %</u>	<u>22.6 %</u>	<u>(27.3)%</u>

The 2019 tax rate differed from the federal statutory rate primarily due to the effect of state income taxes and Lucky's Market losses attributable to the noncontrolling interest which reduced pre-tax income but did not impact tax expense, partially offset by the utilization of tax credits and deductions.

The 2018 tax rate differed from the federal statutory rate primarily due to the effect of state income taxes and an IRS audit that resulted in a reduction of prior year tax deductions at pre-Tax Act rates and an increase in future tax deductions at post-Tax Act rates. These 2018 items were partially offset by the utilization of tax credits and deductions, the remeasurement of uncertain tax positions and adjustments to provisional amounts that increased prior year deductions at pre-Tax Act rates and decreased future deductions at post-Tax Act rates.

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

	2019	2018
<b>Deferred tax assets:</b>		
Compensation related costs	\$ 406	\$ 350
Lease liabilities	1,872	81
Closed store reserves	55	41
Net operating loss and credit carryforwards	100	110
Deferred Income	172	84
Allowance for uncollectible receivables	93	18
Other	—	9
Subtotal	2,698	693
Valuation allowance	(55)	(54)
<b>Total deferred tax assets</b>	<b>2,643</b>	<b>639</b>
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	(1,942)	(1,850)
Operating lease assets	(1,782)	—
Insurance related costs	(28)	(38)
Inventory related costs	(252)	(257)
Equity investments in excess of tax basis	(94)	(56)
Other	(11)	—
<b>Total deferred tax liabilities</b>	<b>(4,109)</b>	<b>(2,201)</b>
<b>Deferred taxes</b>	<b>\$ (1,466)</b>	<b>\$ (1,562)</b>

At February 1, 2020, the Company had net operating loss carryforwards for state income tax purposes of \$1,197. These net operating loss carryforwards expire from 2020 through 2039. The utilization of certain of the Company's state net operating loss carryforwards may be limited in a given year. Further, based on the analysis described below, the Company has recorded a valuation allowance against some of the deferred tax assets resulting from its state net operating losses.

At February 1, 2020, the Company had state credit carryforwards of \$47, most of which expire from 2020 through 2027. The utilization of certain of the Company's credits may be limited in a given year. Further, based on the analysis described below, the Company has recorded a valuation allowance against some of the deferred tax assets resulting from its state credits.

The Company regularly reviews all deferred tax assets on a tax filer and jurisdictional basis to estimate whether these assets are more likely than not to be realized based on all available evidence. This evidence includes historical taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Projected future taxable income is based on expected results and assumptions with respect to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based on current tax law and the Company's tax methods of accounting. Unless deferred tax assets are more likely than not to be realized, a valuation allowance is established to reduce the carrying value of the deferred tax asset until such time that realization becomes more likely than not. Increases and decreases in these valuation allowances are included in "Income tax expense" in the Consolidated Statements of Operations. As of February 1, 2020, February 2, 2019 and February 3, 2018 the total valuation allowance was \$55, \$54 and \$62, respectively.

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

	2019	2018	2017
Beginning balance	\$ 174	\$ 180	\$ 177
Additions based on tax positions related to the current year	13	7	11
Reductions based on tax positions related to the current year	—	(1)	(1)
Additions for tax positions of prior years	8	23	6
Reductions for tax positions of prior years	(1)	(22)	(8)
Settlements	(19)	(10)	—
Lapse of statute	(1)	(3)	(5)
Ending balance	<u>\$ 174</u>	<u>\$ 174</u>	<u>\$ 180</u>

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

As of February 1, 2020, February 2, 2019 and February 3, 2018 the amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate was \$74, \$72 and \$88, respectively.

To the extent interest and penalties would be assessed by taxing authorities on any underpayment of income tax, such amounts have been accrued and classified as a component of income tax expense. During the years ended February 1, 2020, February 2, 2019 and February 3, 2018, the Company recognized approximately \$7, \$2 and \$8, respectively, in interest and penalties. The Company had accrued approximately \$30, \$30 and \$28 for the payment of interest and penalties as of February 1, 2020, February 2, 2019 and February 3, 2018.

As of February 1, 2020, the Internal Revenue Service had concluded its examination of all federal tax returns up to and including the return for the year ended January 30, 2016.

## 6. DEBT OBLIGATIONS

Long-term debt consists of:

	February 1, 2020	February 2, 2019
1.50% to 8.00% Senior Notes due through 2049	\$ 11,598	\$ 12,097
5.63% to 12.75% Mortgages due through 2027	12	14
1.77% to 2.63% Commercial paper borrowings due through February 2020	1,150	800
3.37% Term Loan	—	1,000
Other	496	440
Total debt, excluding obligations under finance leases	13,256	14,351
Less current portion	(1,926)	(3,103)
Total long-term debt, excluding obligations under finance leases	<u>\$ 11,330</u>	<u>\$ 11,248</u>

In 2019, the Company issued \$750 of senior notes due in fiscal year 2049 bearing an interest rate of 3.95%. In connection with the senior note issuances, the Company also terminated forward-starting interest rate swap agreements with an aggregate notional amount of \$300. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the fourth quarter of 2019. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized loss of \$12, \$10 net of tax, has been deferred in Accumulated Other Comprehensive Loss and will continue to amortize to earnings as the interest payments are made. The Company repaid \$750 of senior notes bearing an interest rate of 6.15%, with proceeds from the senior notes issuances. During 2019, the Company also repaid, upon maturity, \$1,000 term loan bearing an interest rate of 3.37% and \$500 of senior notes bearing an interest rate of 1.50%, using cash generated by operations and proceeds from issuing commercial paper.

In 2018, the Company issued \$600 of senior notes due in fiscal year 2029 bearing an interest rate of 4.50% and \$600 of senior notes due in fiscal year 2049 bearing an interest rate of 5.40%. In connection with the senior note issuances, the Company also terminated forward-starting interest rate swap agreements with an aggregate notional amount of \$750. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the fourth quarter of 2018. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized gain of \$39, \$30 net of tax, has been deferred in Accumulated Other Comprehensive Loss and will continue to amortize to earnings as the interest payments are made. The Company also repaid, upon maturity, \$300 of senior notes bearing an interest rate of 6.80%, \$300 of senior notes bearing an interest rate of 2.00%, \$200 of senior notes bearing an interest rate of 7.00% and \$500 of senior notes bearing an interest rate of 2.30%, with proceeds from the senior notes issuances.

In 2018, the Company obtained a \$1,000 term loan with a maturity date of March 16, 2019. The funds were drawn on March 26, 2018 and were used to reduce outstanding commercial paper borrowings. Under the terms of the agreement, interest rates are adjusted monthly based on the Company's Public Debt Rating and prevailing LIBOR rates. On March 15, 2019, the Company paid the \$1,000 term loan through increased commercial paper borrowings.

On August 29, 2017, the Company entered into an amended, extended and restated \$2,750 unsecured revolving credit facility (the "Credit Agreement"), with a termination date of August 29, 2022, unless extended as permitted under the Credit Agreement. This Credit Agreement amended the Company's \$2,750 credit facility that would otherwise have terminated on June 30, 2019. The Company has the ability to increase the size of the Credit Agreement by up to an additional \$1,000, subject to certain conditions.

Borrowings under the Credit Agreement bear interest, at the Company's option, at either (i) LIBOR plus a market spread, based on the Company's Public Debt Rating or (ii) the base rate, defined as the highest of (a) the Federal Funds Rate plus 0.5%, (b) the Bank of America prime rate, and (c) one-month LIBOR plus 1.0%, plus a market rate spread based on the Company's Public Debt Rating. The Company will also pay a Commitment Fee based on its Public Debt Rating and Letter of Credit fees equal to a market rate spread based on the Company's Public Debt Rating. "Public Debt Rating" means, as of any date, the rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Company.

The Credit Agreement contains covenants, which, among other things, require the maintenance of a Leverage Ratio of not greater than 3.50:1.00 and a Fixed Charge Coverage Ratio of not less than 1.70:1.00. The Company may repay the Credit Agreement in whole or in part at any time without premium or penalty. The Credit Agreement is not guaranteed by the Company's subsidiaries.

As of February 1, 2020, the Company had \$1,150 of commercial paper borrowings, with a weighted average interest rate of 1.77% and no borrowings under the Credit Agreement. As of February 2, 2019, the Company had \$800 of commercial paper borrowings, with a weighted average interest rate of 2.63% and no borrowings under the Credit Agreement.

As of February 1, 2020, the Company had outstanding letters of credit in the amount of \$362, of which \$2 reduces funds available under the Credit Agreement. As of February 2, 2019, the Company had outstanding letters of credit in the amount of \$363, of which \$3 reduces funds available under the Credit Agreement. The letters of credit are maintained primarily to support performance, payment, deposit or surety obligations of the Company.

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



The aggregate annual maturities and scheduled payments of long-term debt, as of year-end 2019, and for the years subsequent to 2019 are:

2020	\$ 1,926
2021	804
2022	894
2023	594
2024	495
Thereafter	8,543
Total debt	<u>\$ 13,256</u>

## 7. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

### *Interest Rate Risk Management*

The Company is exposed to market risk from fluctuations in interest rates. The Company manages its exposure to interest rate fluctuations through the use of a commercial paper program, interest rate swaps (fair value hedges) and forward-starting interest rate swaps (cash flow hedges). The Company's current program relative to interest rate protection contemplates hedging the exposure to changes in the fair value of fixed-rate debt attributable to changes in interest rates. To do this, the Company uses the following guidelines: (i) use average daily outstanding borrowings to determine annual debt amounts subject to interest rate exposure, (ii) limit the average annual amount subject to interest rate reset and the amount of floating rate debt to a combined total amount that represents 25% of the carrying value of the Company's debt portfolio or less, (iii) include no leveraged products, and (iv) hedge without regard to profit motive or sensitivity to current mark-to-market status.

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

### Fair Value Interest Rate Swaps

The Company did not have any outstanding interest rate derivatives classified as fair value hedges as of February 1, 2020 and February 2, 2019.

## Cash Flow Forward-Starting Interest Rate Swaps

As of February 1, 2020, the Company had seven forward-starting interest rate swap agreements with a maturity date of January 2021 with an aggregate notional amount totaling \$350. A forward-starting interest rate swap is an agreement that effectively hedges the variability in future benchmark interest payments attributable to changes in interest rates on the forecasted issuance of fixed-rate debt. The Company entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on its forecasted issuance of debt in January 2021. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of February 1, 2020, the fair value of the interest rate swaps was recorded in other long-term liabilities for \$19 and accumulated other comprehensive loss for \$17 net of tax.

As of February 2, 2019, the Company had five forward-starting interest rate swap agreements with a maturity date of January 2020 with an aggregate notional amount totaling \$250. The Company entered into these forward-starting interest rate swaps in order to lock in fixed interest rates on its forecasted issuance of debt in January 2020. Accordingly, the forward-starting interest rate swaps were designated as cash-flow hedges as defined by GAAP. As of February 2, 2019, the fair value of the interest rate swaps was recorded in other assets for \$33 and accumulated other comprehensive income for \$20 net of tax.

During 2019, the Company terminated six forward-starting interest rate swaps with maturity dates of January 2020 with an aggregate notional amount totaling \$300. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the fourth quarter of 2019. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized loss of \$12, \$10 net of tax, has been deferred in AOCI and will be amortized to earnings as the interest payments are made.

During 2018, the Company terminated nine forward-starting interest rate swaps with maturity dates of January 2019 with an aggregate notional amount totaling \$750. These forward-starting interest rate swap agreements were hedging the variability in future benchmark interest payments attributable to changing interest rates on the forecasted issuance of fixed-rate debt issued during the fourth quarter of 2018. Since these forward-starting interest rate swap agreements were classified as cash flow hedges, the unamortized gain of \$39, \$30 net of tax, has been deferred in AOCI and will be amortized to earnings as the interest payments are made.

The following table summarizes the effect of the Company's derivative instruments designated as cash flow hedges for 2019, 2018 and 2017:

Derivatives in Cash Flow Hedging Relationships	Year-To-Date						Location of Gain/(Loss) Reclassified into Income (Effective Portion)
	Amount of Gain/(Loss) in AOCI on Derivative (Effective Portion)			Amount of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)			
	2019	2018	2017	2019	2018	2017	
Forward-Starting Interest Rate Swaps, net of tax*	\$ (42)	\$ 6	\$ 24	\$ (4)	\$ (5)	\$ (3)	Interest expense

\* The amounts of Gain/(Loss) in AOCI on derivatives include unamortized proceeds and payments from forward-starting interest rate swaps once classified as cash flow hedges that were terminated prior to end of 2019, 2018 and 2017, respectively.

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

Collateral is generally not required of the counterparties or of the Company under these master netting agreements. As of February 1, 2020 and February 2, 2019, no cash collateral was received or pledged under the master netting agreements.

The effect of the net settlement provisions of these master netting agreements on the Company's derivative balances upon an event of default or termination event is as follows as of February 1, 2020 and February 2, 2019:

February 1, 2020	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral	Net Amount
<b>Liabilities</b>						
Cash Flow Forward-Starting Interest Rate Swaps	\$ 19	\$ —	\$ 19	\$ —	\$ —	\$ 19

February 2, 2019	Gross Amount Recognized	Gross Amounts Offset in the Balance Sheet	Net Amount Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet		
				Financial Instruments	Cash Collateral	Net Amount
<b>Assets</b>						
Cash Flow Forward-Starting Interest Rate Swaps	\$ 33	\$ —	\$ 33	\$ —	\$ —	\$ 33

## 8. FAIR VALUE MEASUREMENTS

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

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

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

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

For items carried at (or adjusted to) fair value in the consolidated financial statements, the following tables summarize the fair value of these instruments at February 1, 2020 and February 2, 2019:

### February 1, 2020 Fair Value Measurements Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading Securities	\$ 840	\$ —	\$ —	\$ 840
Other Investment	—	—	41	41
Interest Rate Hedges	—	(19)	—	(19)
Total	\$ 840	\$ (19)	\$ 41	\$ 862

### February 2, 2019 Fair Value Measurements Using

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Trading Securities	\$ 671	\$ —	\$ —	\$ 671
Other Investment	—	—	22	22
Interest Rate Hedges	—	33	—	33
Total	\$ 671	\$ 33	\$ 22	\$ 726

In 2018, realized gains on Level 1, available-for-sale securities totaled \$5.

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

Fair value measurements of non-financial assets and non-financial liabilities are primarily used in the impairment analysis of goodwill, other intangible assets, long-lived assets and in the valuation of store lease exit costs. The Company reviews goodwill and indefinite-lived intangible assets for impairment annually, during the fourth quarter of each fiscal year, and as circumstances indicate the possibility of impairment. See Note 3 for further discussion related to the Company's carrying value of goodwill. Long-lived assets and store lease exit costs were measured at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. See Note 1 for further discussion of the Company's policies and recorded amounts for impairments of long-lived assets and valuation of store lease exit costs. In 2019, long-lived assets with a carrying amount of \$152 were written down to their fair value of \$32, resulting in an impairment charge of \$120, which included the 35 planned store closures. In 2018, long-lived assets with a carrying amount of \$85 were written down to their fair value of \$29, resulting in an impairment charge of \$56. In 2018, the Company entered into an agreement with a third party. As part of the consideration for entering the agreement, the Company received a financial instrument of \$22.

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

### **Fair Value of Other Financial Instruments**

#### *Current and Long-term Debt*

The fair value of the Company's long-term debt, including current maturities, was estimated based on the quoted market prices for the same or similar issues adjusted for illiquidity based on available market evidence. If quoted market prices were not available, the fair value was based upon the net present value of the future cash flow using the forward interest rate yield curve in effect at respective year-ends. At February 1, 2020, the fair value of total debt excluding obligation under finance leases was \$14,649 compared to a carrying value of \$13,256. At February 2, 2019, the fair value of total debt excluding obligation under finance leases was \$14,190 compared to a carrying value of \$14,351.

#### *Contingent Consideration*

As a result of the Home Chef merger, the Company recognized a contingent liability of \$91 on the acquisition date. The contingent consideration was measured using unobservable (Level 3) inputs and is included in "Other long-term liabilities" within the Consolidated Balance Sheet. The liability is remeasured to fair value at each reporting period, and the change in fair value, including accretion for the passage of time, is recognized in net earnings until the contingency is resolved. In 2019, an adjustment to decrease the contingent consideration liability as of year-end 2019 was recorded for (\$69) in OG&A expense. In 2018, an adjustment to increase the contingent consideration liability as of year-end 2018 was recorded for \$33 in OG&A expense.

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

The carrying amounts of these items approximated fair value.

## Other Assets

In 2016, the Company entered into agreements with a third party. As part of the consideration for entering these agreements, the Company received a financial instrument that derives its value from the third party's business operations. The Company used the Monte-Carlo simulation method to determine the fair value of this financial instrument. The Monte-Carlo simulation is a generally accepted statistical technique used to generate a defined number of valuation paths in order to develop a reasonable estimate of the fair value of this financial instrument. The assumptions used in the Monte-Carlo simulation are classified as Level 3 inputs. The financial instrument was valued at \$335 and recorded in "Other assets" within the Consolidated Balance Sheets. As the financial instrument was obtained in exchange for certain obligations, the Company also recognized offsetting deferred revenue liabilities in "Other current liabilities" and "Other long-term liabilities" within the Consolidated Balance Sheets. The deferred revenue will be amortized to "Sales" within the Consolidated Statements of Operations over the term of the agreements. Post inception, the Company received a distribution of \$58, which was recorded as a reduction of the cost method investment. In the fourth quarter of 2018, a transaction occurred that resulted in the settlement of the financial instrument. As a result of the settlement, the Company received cash proceeds of \$235. The Company recognized an impairment of financial instrument of \$42 in OG&A in the fourth quarter of 2018.

The fair values of certain investments recorded in "other assets" within the Consolidated Balance Sheets were estimated based on quoted market prices for those or similar investments, or estimated cash flows, if appropriate. At February 1, 2020 and February 2, 2019, the carrying and fair value of long-term investments for which fair value is determinable was \$278 and \$155, respectively. At February 1, 2020 and February 2, 2019, the carrying value of notes receivable for which fair value is determinable was \$210 and \$146, respectively.

## 9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table represents the changes in AOCI by component for the years ended February 1, 2020 and February 2, 2019:

	Cash Flow Hedging Activities <sup>(1)</sup>	Available for sale Securities <sup>(1)</sup>	Pension and Postretirement Defined Benefit Plans <sup>(1)</sup>	Total <sup>(1)</sup>
Balance at February 3, 2018	\$ 24	\$ 4	\$ (499)	\$ (471)
OCI before reclassifications <sup>(2)</sup>	(23)	(4)	104	77
Amounts reclassified out of AOCI <sup>(3)</sup>	5	—	43	48
Net current-period OCI	(18)	(4)	147	125
Balance at February 2, 2019	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ (352)</u>	<u>\$ (346)</u>
Balance at February 2, 2019	\$ 6	\$ —	\$ (352)	\$ (346)
Cumulative effect of accounting change <sup>(4)</sup>	(5)	—	(141)	(146)
OCI before reclassifications <sup>(2)</sup>	(47)	—	(134)	(181)
Amounts reclassified out of AOCI <sup>(3)</sup>	4	—	29	33
Net current-period OCI	(48)	—	(246)	(294)
Balance at February 1, 2020	<u>\$ (42)</u>	<u>\$ —</u>	<u>\$ (598)</u>	<u>\$ (640)</u>

(1) All amounts are net of tax.

(2) Net of tax of \$(8), \$(1) and \$32 for cash flow hedging activities, available for sale securities and pension and postretirement defined benefit plans, respectively, as of February 2, 2019. Net of tax of \$(17) and \$(42) for cash flow hedging activities and pension and postretirement defined benefit plans, respectively, as of February 1, 2020.

(3) Net of tax of \$13 and \$3 for pension and postretirement defined benefit plans and cash flow hedging activities, respectively, as of February 2, 2019. Net of tax of \$9 and \$3 for pension and postretirement defined benefit plans and cash flow hedging activities, respectively, as of February 1, 2020.

(4) Related to the adoption of ASU 2018-02, "Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income," (see Note 18 for additional details).

The following table represents the items reclassified out of AOCI and the related tax effects for the years ended February 1, 2020, February 2, 2019 and February 3, 2018:

	<u>For the year ended February 1, 2020</u>	<u>For the year ended February 2, 2019</u>	<u>For the year ended February 3, 2018</u>
<b>Cash flow hedging activity items</b>			
Amortization of gains and losses on cash flow hedging activities <sup>(1)</sup>	\$ 7	\$ 8	\$ 6
Tax expense	(3)	(3)	(3)
Net of tax	<u>4</u>	<u>5</u>	<u>3</u>
<b>Pension and postretirement defined benefit plan items</b>			
Amortization of amounts included in net periodic pension cost <sup>(2)</sup>	38	56	69
Tax expense	(9)	(13)	(20)
Net of tax	<u>29</u>	<u>43</u>	<u>49</u>
Total reclassifications, net of tax	<u>\$ 33</u>	<u>\$ 48</u>	<u>\$ 52</u>

(1) Reclassified from AOCI into interest expense.

(2) Reclassified from AOCI into non-service component of company-sponsored pension plan costs. These components are included in the computation of net periodic pension expense.

## 10. LEASES AND LEASE-FINANCED TRANSACTIONS

The Company leases certain store real estate, warehouses, distribution centers, office space and equipment. While the Company's current strategy emphasizes ownership of store real estate, the Company operates in leased facilities in approximately half of its store locations. Lease terms generally range from 10 to 20 years with options to renew for varying terms at the Company's sole discretion. Certain leases also include options to purchase the leased property. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Certain leases include escalation clauses or payment of executory costs such as property taxes, utilities or insurance and maintenance. Rent expense for leases with escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Certain properties or portions thereof are subleased to others for periods generally ranging from one to 20 years.

The following table provides supplemental balance sheet classification information related to leases:

	Classification	February 1, 2020	February 2, 2019
<b>Assets</b>			
Operating	Operating lease assets	\$ 6,814	\$ —
Finance	Property, plant and equipment, net <sup>(1)</sup>	690	721
Total leased assets		<u>\$ 7,504</u>	<u>\$ 721</u>
<b>Liabilities</b>			
Current			
Operating	Current portion of operating lease liabilities	\$ 597	\$ —
Finance	Current portion of long-term debt including obligations under finance leases	39	54
Noncurrent			
Operating	Noncurrent operating lease liabilities	6,505	—
Finance	Long-term debt including obligations under finance leases	781	824
Total lease liabilities		<u>\$ 7,922</u>	<u>\$ 878</u>

(1) Finance lease assets are recorded net of accumulated amortization of \$276 and \$345 as of February 1, 2020 and February 2, 2019.

The following table provides the components of lease cost:

Lease Cost	Classification	Year-To-Date February 1, 2020	
Operating lease cost <sup>(1)</sup>	Rent Expense	\$	1,000
Sublease and other rental income	Rent Expense		(116)
Finance lease cost			
Amortization of leased assets	Depreciation and Amortization		53
Interest on lease liabilities	Interest Expense		48
Net lease cost		<u>\$</u>	<u>985</u>

(1) Includes short-term leases and variable lease costs, which are immaterial.

Maturities of operating and finance lease liabilities are listed below. Amounts in the table include options to extend lease terms that are reasonably certain of being exercised.

	Operating Leases	Finance Leases	Total
2020	\$ 932	\$ 84	\$ 1,016
2021	884	95	979
2022	772	80	852
2023	758	86	844
2024	637	81	718
Thereafter	<u>6,353</u>	<u>757</u>	<u>7,110</u>
Total lease payments	10,336	1,183	<u>\$ 11,519</u>
Less amount representing interest	<u>3,234</u>	<u>363</u>	
Present value of lease liabilities <sup>(1)</sup>	<u>\$ 7,102</u>	<u>\$ 820</u>	

(1) Includes the current portion of \$597 for operating leases and \$39 for finance leases.

Total future minimum rentals under non-cancellable subleases at February 1, 2020 were \$296.

The following table provides the weighted-average lease term and discount rate for operating and finance leases:

	February 1, 2020
Weighted-average remaining lease term (years)	
Operating leases	16.0
Finance leases	15.3
Weighted-average discount rate	
Operating leases	4.3 %
Finance leases	5.4 %

The following table provides supplemental cash flow information related to leases:

	Year-To-Date February 1, 2020
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 942
Operating cash flows from finance leases	48
Financing cash flows from finance leases	45
Leased assets obtained in exchange for new operating lease liabilities	849
Leased assets obtained in exchange for new finance lease liabilities	233
Net gain recognized from sale and leaseback transactions <sup>(1)</sup>	58
Impairment of operating lease assets <sup>(2)</sup>	81
Impairment of finance lease assets	40

(1) In 2019, the Company entered into sale leaseback transactions related to nine properties, which resulted in total proceeds of \$113.

(2) Impairment of operating lease assets includes \$11 related to Lucky's Market.



The Company adopted new lease accounting guidance in the first quarter of 2019 as discussed in Note 1 and Note 18, and as required, the following disclosure is provided for periods prior to adoption. Minimum annual rentals and payments under capital leases and lease-financed transactions for the five years subsequent to February 2, 2019 and in the aggregate are listed below. Amounts in the table below only include payments through the noncancelable lease term.

	Capital Leases	Operating Leases	Lease- Financed Transactions
2019	\$ 103	\$ 948	\$ 5
2020	89	880	6
2021	86	773	5
2022	82	649	5
2023	81	556	5
Thereafter	766	3,197	17
Total	1,207	\$ 7,003	\$ 43
Less estimated executory costs included in capital leases	—		
Net minimum lease payments under capital leases	1,207		
Less amount representing interest	372		
Present value of net minimum lease payments under capital leases	\$ 835		

## 11. EARNINGS PER COMMON SHARE

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

(in millions, except per share amounts)	For the year ended February 1, 2020			For the year ended February 2, 2019			For the year ended February 3, 2018		
	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount	Earnings (Numerator)	Shares (Denominator)	Per Share Amount
Net earnings attributable to The Kroger Co. per basic common share	\$ 1,640	799	\$ 2.05	\$ 3,076	810	\$ 3.80	\$ 1,890	895	\$ 2.11
Dilutive effect of stock options		6			8			9	
Net earnings attributable to The Kroger Co. per diluted common share	\$ 1,640	805	\$ 2.04	\$ 3,076	818	\$ 3.76	\$ 1,890	904	\$ 2.09

The Company had combined undistributed and distributed earnings to participating securities totaling \$19, \$34 and \$17 in 2019, 2018 and 2017, respectively.

The Company had stock options outstanding for approximately 18.4 million, 10.1 million and 15.6 million shares, respectively, for the years ended February 1, 2020, February 2, 2019, and February 3, 2018, which were excluded from the computations of net earnings per diluted common share because their inclusion would have had an anti-dilutive effect on net earnings per diluted share.

## 12. STOCK-BASED COMPENSATION

The Company recognizes compensation expense for all share-based payments granted. The Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award based on the fair value at the date of the grant.

The Company grants options for common shares (“stock options”) to employees under various plans at an option price equal to the fair market value of the stock option at the date of grant. The Company accounts for stock options under the fair value recognition provisions. Stock options typically expire 10 years from the date of grant. Stock options vest between one and five years from the date of grant.

In addition to the stock options described above, the Company awards restricted stock to employees and nonemployee directors under various plans. The restrictions on these awards generally lapse between one and five years from the date of the awards. The Company determines the fair value for restricted stock awards in an amount equal to the fair market value of the underlying shares on the grant date of the award.

At February 1, 2020, approximately 58 million common shares were available for future options or restricted stock grants under the 2011, 2014, and 2019 Long-Term Incentive Plans (the “Plans”). Options granted reduce the shares available under the Plans at a ratio of one to one. Restricted stock grants reduce the shares available under the Plans at a ratio of 2.83 to one.

Equity awards granted are based on the aggregate value of the award on grant date. This can affect the number of shares granted in a given year as equity awards. Excess tax benefits related to equity awards are recognized in the provision for income taxes. Equity awards may be approved at one of four meetings of its Board of Directors occurring shortly after the Company’s release of quarterly earnings. The 2019 primary grants were made in conjunction with the March and June meetings of the Company’s Board of Directors.

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

### *Stock Options*

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

	Shares subject to option (in millions)	Weighted- average exercise price
Outstanding, year-end 2016	34.3	\$ 21.32
Granted	7.0	\$ 23.00
Exercised	(3.8)	\$ 14.08
Canceled or Expired	(0.8)	\$ 28.29
Outstanding, year-end 2017	36.7	\$ 22.23
Granted	2.7	\$ 27.88
Exercised	(4.4)	\$ 15.34
Canceled or Expired	(0.9)	\$ 28.05
Outstanding, year-end 2018	34.1	\$ 23.42
Granted	3.1	\$ 24.63
Exercised	(4.0)	\$ 14.17
Canceled or Expired	(1.0)	\$ 28.87
Outstanding, year-end 2019	<u>32.2</u>	\$ 24.52

A summary of options outstanding, exercisable and expected to vest at February 1, 2020 follows:

	<u>Number of shares</u> (in millions)	<u>Weighted-average remaining contractual life</u> (in years)	<u>Weighted-average exercise price</u>	<u>Aggregate intrinsic value</u> (in millions)
Options Outstanding	32.2	5.35	\$ 24.52	153
Options Exercisable	22.5	4.24	\$ 23.50	134
Options Expected to Vest	9.5	7.90	\$ 26.89	19

#### *Restricted stock*

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

	<u>Restricted shares outstanding (in millions)</u>	<u>Weighted-average grant-date fair value</u>
Outstanding, year-end 2016	7.4	\$ 32.09
Granted	5.8	\$ 23.04
Lapsed	(3.6)	\$ 31.05
Canceled or Expired	(0.4)	\$ 29.26
Outstanding, year-end 2017	9.2	\$ 26.78
Granted	4.6	\$ 27.99
Lapsed	(4.4)	\$ 25.93
Canceled or Expired	(0.6)	\$ 26.57
Outstanding, year-end 2018	8.8	\$ 27.86
Granted	5.4	\$ 22.72
Lapsed	(4.1)	\$ 28.07
Canceled or Expired	(0.8)	\$ 25.68
Outstanding, year-end 2019	9.3	\$ 24.85

The weighted-average grant date fair value of stock options granted during 2019, 2018 and 2017 was \$6.00, \$6.78 and \$4.71, respectively. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option-pricing model, based on the assumptions shown in the table below. The Black-Scholes model utilizes accounting judgment and financial estimates, including the term option holders are expected to retain their stock options before exercising them, the volatility of the Company's share price over that expected term, the dividend yield over the term and the number of awards expected to be forfeited before they vest. Using alternative assumptions in the calculation of fair value would produce fair values for stock option grants that could be different than those used to record stock-based compensation expense in the Consolidated Statements of Operations. The decrease in the fair value of the stock options granted during 2019, compared to 2018, resulted primarily from a decrease in the Company's share price, partially offset by an increase in the weighted average expected volatility. The increase in the fair value of the stock options granted during 2018, compared to 2017, resulted primarily from an increase in the Company's share price, which decreased the expected dividend yield, an increase in the weighted average expected volatility and the weighted average risk-free interest rate also contributed to the increase in fair value.

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Weighted average expected volatility	25.37 %	24.50 %	22.78 %
Weighted average risk-free interest rate	2.54 %	2.82 %	2.21 %
Expected dividend yield	2.00 %	2.00 %	2.20 %
Expected term (based on historical results)	7.2 years	7.2 years	7.2 years

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

Total stock compensation recognized in 2019, 2018 and 2017 was \$155, \$154 and \$151, respectively. Stock option compensation recognized in 2019, 2018 and 2017 was \$24, \$25 and \$32, respectively. Restricted shares compensation recognized in 2019, 2018 and 2017 was \$131, \$129 and \$119, respectively.

The total intrinsic value of stock options exercised was \$51, \$58 and \$55 in 2019, 2018 and 2017, respectively. The total amount of cash received in 2019 by the Company from the exercise of stock options granted under share-based payment arrangements was \$55. As of February 1, 2020, there was \$194 of total unrecognized compensation expense remaining related to non-vested share-based compensation arrangements granted under Plans. This cost is expected to be recognized over a weighted-average period of approximately two years. The total fair value of options that vested was \$26, \$30 and \$29 in 2019, 2018 and 2017, respectively.

Shares issued as a result of stock option exercises may be newly issued shares or reissued treasury shares. Proceeds received from the exercise of options, and the related tax benefit, may be utilized to repurchase the Company's common shares under a stock repurchase program adopted by the Company's Board of Directors. During 2019, the Company repurchased approximately two million common shares in such a manner.

### 13. COMMITMENTS AND CONTINGENCIES

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

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

The principal contingencies are described below:

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

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

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

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

## 14. STOCK

### *Preferred Shares*

The Company has authorized five million shares of voting cumulative preferred shares; two million shares were available for issuance at February 1, 2020. The shares have a par value of \$100 per share and are issuable in series.

### *Common Shares*

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

### *Common Stock Repurchase Program*

The Company maintains stock repurchase programs that comply with Rule 10b5-1 of the Securities Exchange Act of 1934 to allow for the orderly repurchase of The Kroger Co. common shares, from time to time. The Company made open market purchases totaling \$400, \$727 and \$1,567 under these repurchase programs in 2019, 2018 and 2017, respectively.

On April 20, 2018 the Company entered and funded a \$1,200 accelerated stock repurchase (“ASR”) program to reacquire shares in privately negotiated transactions. The final delivery under the ASR program occurred during the second quarter of 2018, which included the settlement of the remaining 2.3 million Kroger Common shares. In total, the Company invested \$1,200 to repurchase 46.3 million Kroger common shares at an average price of \$25.91 per share.

In addition to these repurchase programs, in December 1999, the Company began a program to repurchase common shares to reduce dilution resulting from its employee stock option plans. This program is solely funded by proceeds from stock option exercises and the related tax benefit. The Company repurchased approximately \$65, \$83 and \$66 under the stock option program during 2019, 2018 and 2017, respectively.

## 15. COMPANY- SPONSORED BENEFIT PLANS

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

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

The Company recognizes the funded status of its retirement plans on the Consolidated Balance Sheets. Actuarial gains or losses, prior service costs or credits and transition obligations that have not yet been recognized as part of net periodic benefit cost are required to be recorded as a component of AOCI. The Company has elected to measure defined benefit plan assets and obligations as of January 31, which is the month-end that is closest to its fiscal year-ends, which were February 1, 2020 for fiscal 2019 and February 2, 2019 for fiscal 2018.

Amounts recognized in AOCI as of February 1, 2020 and February 2, 2019 consists of the following (pre-tax):

	Pension Benefits		Other Benefits		Total	
	2019	2018	2019	2018	2019	2018
Net actuarial loss (gain)	\$ 955	\$ 837	\$ (109)	\$ (130)	\$ 846	\$ 707
Prior service credit	—	—	(68)	(66)	(68)	(66)
Total	<u>\$ 955</u>	<u>\$ 837</u>	<u>\$ (177)</u>	<u>\$ (196)</u>	<u>\$ 778</u>	<u>\$ 641</u>

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

	Pension Benefits	Other Benefits	Total
	2020	2020	2020
Net actuarial loss (gain)	\$ 35	\$ (9)	\$ 26
Prior service credit	—	(12)	(12)
Total	<u>\$ 35</u>	<u>\$ (21)</u>	<u>\$ 14</u>

Other changes recognized in other comprehensive income (loss) in 2019, 2018 and 2017 were as follows (pre-tax):

	Pension Benefits			Other Benefits			Total		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Incurring net actuarial loss (gain)	\$ 179	\$ (126)	\$ 322	\$ 9	\$ (10)	\$ (20)	\$ 188	\$ (136)	\$ 302
Amortization of prior service credit	—	—	—	11	11	8	11	11	8
Amortization of net actuarial gain (loss)	(61)	(77)	(88)	12	10	11	(49)	(67)	(77)
Settlement recognition of net actuarial loss	—	—	(502)	—	—	—	—	—	(502)
Other	(1)	—	—	(12)	—	(28)	(13)	—	(28)
Total recognized in other comprehensive income (loss)	<u>117</u>	<u>(203)</u>	<u>(268)</u>	<u>20</u>	<u>11</u>	<u>(29)</u>	<u>137</u>	<u>(192)</u>	<u>(297)</u>
Total recognized in net periodic benefit cost and other comprehensive income (loss)	<u>\$ 165</u>	<u>\$ (127)</u>	<u>\$ 323</u>	<u>\$ 11</u>	<u>\$ 5</u>	<u>\$ (30)</u>	<u>\$ 176</u>	<u>\$ (122)</u>	<u>\$ 293</u>

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

	Pension Benefits					
	Qualified Plans		Non-Qualified Plans		Other Benefits	
	2019	2018	2019	2018	2019	2018
Change in benefit obligation:						
Benefit obligation at beginning of fiscal year	\$ 2,994	\$ 3,235	\$ 298	\$ 328	\$ 200	\$ 202
Service cost	32	35	1	2	6	7
Interest cost	124	124	12	12	8	8
Plan participants' contributions	—	—	—	—	13	13
Actuarial (gain) loss	545	(134)	41	(13)	9	(9)
Plan curtailments	—	(92)	—	(6)	—	—
Benefits paid	(180)	(174)	(21)	(24)	(26)	(21)
Other	3	—	(3)	(1)	(12)	—
<b>Benefit obligation at end of fiscal year</b>	<b>\$ 3,518</b>	<b>\$ 2,994</b>	<b>\$ 328</b>	<b>\$ 298</b>	<b>\$ 198</b>	<b>\$ 200</b>
Change in plan assets:						
Fair value of plan assets at beginning of fiscal year	\$ 3,010	\$ 2,943	\$ —	\$ —	\$ —	\$ —
Actual return on plan assets	590	46	—	—	—	—
Employer contributions	—	185	21	25	13	8
Plan participants' contributions	—	—	—	—	13	13
Benefits paid	(180)	(174)	(21)	(24)	(26)	(21)
Other	2	10	—	(1)	—	—
<b>Fair value of plan assets at end of fiscal year</b>	<b>\$ 3,422</b>	<b>\$ 3,010</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Funded status and net asset and liability recognized at end of fiscal year</b>	<b>\$ (96)</b>	<b>\$ 16</b>	<b>\$ (328)</b>	<b>\$ (298)</b>	<b>\$ (198)</b>	<b>\$ (200)</b>

As of February 1, 2020, other assets and other current liabilities include \$19 and \$33, respectively, of the net asset and liability recognized for the above benefit plans. As of February 2, 2019, other assets and other current liabilities include \$47 and \$35, respectively, of the net asset and liability recognized for the above benefit plans.

In 2018, the Company contributed \$185, \$117 net of tax, to the company-sponsored pension plan. This contribution was designated to the 2017 tax year in order to deduct the contributions at the previous year tax rate. The Company announced changes to certain non-union company-sponsored pension plans. The Company froze the compensation and service periods used to calculate pension benefits for active employees who participate in the affected pension plans as of December 31, 2019. Beginning January 1, 2020, the affected active employees no longer accrue additional benefits for future service and eligible compensation received under these plans.

As of February 1, 2020 and February 2, 2019, pension plan assets do not include common shares of The Kroger Co.

Weighted average assumptions	Pension Benefits			Other Benefits		
	2019	2018	2017	2019	2018	2017
Discount rate — Benefit obligation	3.01 %	4.23 %	4.00 %	2.97 %	4.19 %	3.93 %
Discount rate — Net periodic benefit cost	4.23 %	4.00 %	4.25 %	4.19 %	3.93 %	4.18 %
Expected long-term rate of return on plan assets	6.00 %	5.90 %	7.50 %			
Rate of compensation increase — Net periodic benefit cost	3.04 %	3.03 %	3.07 %			
Rate of compensation increase — Benefit obligation	3.03 %	3.04 %	3.03 %			

The Company's discount rate assumptions were intended to reflect the rates at which the pension benefits could be effectively settled. They take into account the timing and amount of benefits that would be available under the plans. The Company's policy is to match the plan's cash flows to that of a hypothetical bond portfolio whose cash flow from coupons and maturities match the plan's projected benefit cash flows. The discount rates are the single rates that produce the same present value of cash flows. The selection of the 3.01% and 2.97% discount rates as of year-end 2019 for pension and other benefits, respectively, represents the hypothetical bond portfolio using bonds with an AA or better rating constructed with the assistance of an outside consultant. A 100 basis point increase in the discount rate would decrease the projected pension benefit obligation as of February 1, 2020, by approximately \$401.

The Company's 2019 assumed pension plan investment return rate was 6.00% compared to 5.90% in 2018 and 7.50% in 2017. The value of all investments in the company-sponsored defined benefit pension plans during the calendar year ended December 31, 2019, net of investment management fees and expenses, increased 18.3% and for fiscal year 2019 investments increased 19.7%. Historically, the Company's pension plans' average rate of return was 7.6% for the 10 calendar years ended December 31, 2019, net of all investment management fees and expenses. For the past 20 years, the Company's pension plans' average annual rate of return has been 6.70%. At the beginning of 2018, to determine the expected rate of return on pension plan assets held by the Company for 2018, the Company considered current and forecasted plan asset allocations as well as historical and forecasted rates of return on various asset categories.

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

On February 1, 2020, the Company adopted an updated assumption for generational mortality improvement, based on additional years of published mortality experience.

The pension benefit unfunded status increased in 2019, compared to 2018, due to the decrease in discount rate from 2018 to 2019, assumption changes related to the Company's experience study, partially offset by higher than anticipated asset returns.



The following table provides the components of the Company's net periodic benefit costs for 2019, 2018 and 2017:

	Pension Benefits								
	Qualified Plans			Non-Qualified Plans			Other Benefits		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Components of net periodic benefit cost:									
Service cost	\$ 32	\$ 35	\$ 53	\$ 1	\$ 2	\$ 2	\$ 6	\$ 7	\$ 8
Interest cost	124	124	163	12	12	13	8	8	9
Expected return on plan assets	(182)	(174)	(233)	—	—	—	—	—	—
Amortization of:									
Prior service credit	—	—	—	—	—	—	(11)	(11)	(8)
Actuarial (gain) loss	55	69	79	6	8	9	(12)	(10)	(11)
Settlement loss recognized	—	—	502	—	—	—	—	—	—
Other	—	—	—	—	—	3	—	—	1
Net periodic benefit cost	<u>\$ 29</u>	<u>\$ 54</u>	<u>\$ 564</u>	<u>\$ 19</u>	<u>\$ 22</u>	<u>\$ 27</u>	<u>\$ (9)</u>	<u>\$ (6)</u>	<u>\$ (1)</u>

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

	Qualified Plans		Non-Qualified Plans	
	2019	2018	2019	2018
PBO at end of fiscal year	\$ 3,272	\$ 295	\$ 328	\$ 298
ABO at end of fiscal year	\$ 3,271	\$ 293	\$ 328	\$ 291
Fair value of plan assets at end of year	\$ 3,157	\$ 263	\$ —	\$ —

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

	Pension Benefits	Other Benefits
2020	\$ 208	\$ 12
2021	\$ 215	\$ 12
2022	\$ 224	\$ 13
2023	\$ 213	\$ 13
2024	\$ 217	\$ 13
2025 — 2029	\$1,104	\$ 69

The following table provides information about the target and actual pension plan asset allocations as of February 1, 2020.

	Target allocations	Actual Allocations	
	2019	2019	2018
Pension plan asset allocation			
Global equity securities	2.0 %	4.3 %	4.2 %
Emerging market equity securities	1.0	2.3	2.3
Investment grade debt securities	80.0	77.8	73.2
High yield debt securities	4.0	2.9	3.5
Private equity	10.0	8.1	9.5
Hedge funds	—	2.8	4.5
Real estate	3.0	1.8	2.8
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

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

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

The target allocations shown for 2019 were established in 2019 in conjunction with the continuation of the Company’s transition to a LDI strategy, which began in 2017. A LDI strategy focuses on maintaining a close to fully-funded status over the long-term with minimal funded status risk. This is achieved by investing more of the plan assets in fixed income instruments to more closely match the duration of the plan liability. This LDI strategy will be phased in over time as the Company is able to transition out of illiquid investments. During this transition, the Company’s target allocation will change by increasing the Company’s fixed income instruments. Cash flow from employer contributions and redemption of plan assets to fund participant benefit payments can be used to fund underweight asset classes and divest overweight asset classes, as appropriate. The Company expects that cash flow will be sufficient to meet most rebalancing needs.

The Company did not make any contributions to its company-sponsored pension plans in 2019 and the Company is not required to make any contributions to these plans in 2020. If the Company does make any contributions in 2020, the Company expects these contributions will decrease its required contributions in future years. Among other things, investment performance of plan assets, the interest rates required to be used to calculate the pension obligations, and future changes in legislation, will determine the amounts of any contributions. The Company expects 2020 benefit costs for company-sponsored pension plans to be approximately (\$16).

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The Company used a 5.70% initial health care cost trend rate, which is assumed to decrease on a linear basis to a 4.50% ultimate health care cost trend rate in 2037, to determine its expense. A one-percentage-point change in the assumed health care cost trend rates would have the following effects:

	<u>1% Point Increase</u>	<u>1% Point Decrease</u>
Effect on total of service and interest cost components	\$ 2	\$ (1)
Effect on postretirement benefit obligation	\$ 22	\$ (18)

The following tables, set forth by level, within the fair value hierarchy, the Qualified Plans' assets at fair value as of February 1, 2020 and February 2, 2019:

Assets at Fair Value as of February 1, 2020

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets Measured at NAV	Total
Cash and cash equivalents	\$ 186	\$ —	\$ —	\$ —	\$ 186
Corporate Stocks	78	—	—	—	78
Corporate Bonds	—	1,157	—	—	1,157
U.S. Government Securities	—	194	—	—	194
Mutual Funds	305	—	—	—	305
Collective Trusts	—	—	—	945	945
Hedge Funds	—	—	43	51	94
Private Equity	—	—	—	275	275
Real Estate	—	—	43	17	60
Other	—	128	—	—	128
<b>Total</b>	<b>\$ 569</b>	<b>\$ 1,479</b>	<b>\$ 86</b>	<b>\$ 1,288</b>	<b>\$ 3,422</b>

Assets at Fair Value as of February 2, 2019

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets Measured at NAV	Total
Cash and cash equivalents	\$ 126	\$ —	\$ —	\$ —	\$ 126
Corporate Stocks	66	—	—	—	66
Corporate Bonds	—	896	—	—	896
U.S. Government Securities	—	240	—	—	240
Mutual Funds	257	—	—	—	257
Collective Trusts	—	—	—	805	805
Hedge Funds	—	—	49	85	134
Private Equity	—	—	—	285	285
Real Estate	—	—	67	19	86
Other	—	115	—	—	115
<b>Total</b>	<b>\$ 449</b>	<b>\$ 1,251</b>	<b>\$ 116</b>	<b>\$ 1,194</b>	<b>\$ 3,010</b>

Certain investments that are measured at fair value using the NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented for these investments in the preceding tables are intended to permit reconciliation of the fair value hierarchies to the total fair value of plan assets.

For measurements using significant unobservable inputs (Level 3) during 2019 and 2018, a reconciliation of the beginning and ending balances is as follows:

	<b>Hedge Funds</b>	<b>Real Estate</b>
Ending balance, February 3, 2018	\$ 56	68
Contributions into Fund	—	9
Realized gains	1	12
Unrealized losses	4	(5)
Distributions	(16)	(15)
Other	4	(2)
Ending balance, February 2, 2019	49	67
Contributions into Fund	2	3
Realized gains	(2)	23
Unrealized gains	—	(17)
Distributions	(11)	(33)
Other	5	—
Ending balance, February 1, 2020	<u>\$ 43</u>	<u>\$ 43</u>

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

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

- Cash and cash equivalents: The carrying value approximates fair value.
- Corporate Stocks: The fair values of these securities are based on observable market quotations for identical assets and are valued at the closing price reported on the active market on which the individual securities are traded.
- Corporate Bonds: The fair values of these securities are primarily based on observable market quotations for similar bonds, valued at the closing price reported on the active market on which the individual securities are traded. When such quoted prices are not available, the bonds are valued using a discounted cash flow approach using current yields on similar instruments of issuers with similar credit ratings, including adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- U.S. Government Securities: Certain U.S. Government securities are valued at the closing price reported in the active market in which the security is traded. Other U.S. government securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for similar securities, the security is valued under a discounted cash flow approach that maximizes observable inputs, such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.
- Mutual Funds: The fair values of these securities are based on observable market quotations for identical assets and are valued at the closing price reported on the active market on which the individual securities are traded.
- Collective Trusts: The collective trust funds are public investment vehicles valued using a Net Asset Value (NAV) provided by the manager of each fund. These assets have been valued using NAV as a practical expedient.

- **Hedge Funds:** The Hedge funds classified as Level 3 include investments that are not readily tradeable and have valuations that are not based on readily observable data inputs. The fair value of these assets is estimated based on information provided by the fund managers or the general partners. Therefore, these assets are classified as Level 3. Certain other hedge funds are private investment vehicles valued using a NAV provided by the manager of each fund. These assets have been valued using NAV as a practical expedient.
- **Private Equity:** Private Equity investments are valued based on the fair value of the underlying securities within the fund, which include investments both traded on an active market and not traded on an active market. For those investments that are traded on an active market, the values are based on the closing price reported on the active market on which those individual securities are traded. For investments not traded on an active market, or for which a quoted price is not publicly available, a variety of unobservable valuation methodologies, including discounted cash flow, market multiple and cost valuation approaches, are employed by the fund manager to value investments. Fair values of all investments are adjusted annually, if necessary, based on audits of the private equity fund financial statements; such adjustments are reflected in the fair value of the plan's assets.
- **Real Estate:** Real estate investments include investments in real estate funds managed by a fund manager. These investments are valued using a variety of unobservable valuation methodologies, including discounted cash flow, market multiple and cost valuation approaches. The valuations for these investments are not based on readily observable inputs and are classified as Level 3 investments. Certain other real estate investments are valued using a NAV provided by the manager of each fund. These assets have been valued using NAV as a practical expedient.

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

The Company contributed and expensed \$264, \$263 and \$219 to employee 401(k) retirement savings accounts in 2019, 2018 and 2017, respectively. The 401(k) retirement savings account plans provide to eligible employees both matching contributions and automatic contributions from the Company based on participant contributions, compensation as defined by the plan and length of service.

In 2019, the Company approved and implemented a plan to reorganize certain portions of its division management structure. This reorganization is expected to increase operational effectiveness and reduce overhead costs while maintaining a high quality customer experience. The Company recorded a charge for severance and related benefits of \$80, \$61 net of tax, in 2019, which is included in the OG&A caption within the Consolidated Statements of Operations. Of the total charge, \$42 remains unpaid as of February 1, 2020 and is included in Other Current Liabilities within the Consolidated Balance Sheet.

## **16. MULTI-EMPLOYER PENSION PLANS**

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

The Company recognizes expense in connection with these plans as contributions are funded or when commitments are probable and reasonably estimable, in accordance with GAAP. The Company made cash contributions to these plans of \$461 in 2019, \$358 in 2018 and \$954 in 2017. The increase in 2017, compared to 2019 and 2018, is primarily due to the \$467 pre-tax payment to satisfy withdrawal obligations of certain local unions of the Central States Pension Fund and the 2017 United Food and Commercial Workers ("UFCW") contribution.

The Company continues to evaluate and address potential exposure to under-funded multi-employer pension plans as it relates to the Company's associates who are beneficiaries of these plans. These under-fundings are not a liability of the Company. When an opportunity arises that is economically feasible and beneficial to the Company and its associates, the Company may negotiate the restructuring of under-funded multi-employer pension plan obligations to help stabilize associates' future benefits and become the fiduciary of the restructured multi-employer pension plan. The commitments from these restructurings do not change the Company's debt profile as it relates to its credit rating since these off balance sheet commitments are typically considered in the Company's investment grade debt rating.

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

- In 2019, the Company incurred a \$135 charge, \$104 net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension plan funds.
- In 2018, the Company incurred a \$155 charge, \$121 net of tax, for obligations related to withdrawal liabilities for certain local unions of the Central States multi-employer pension plan fund.
- In 2017, the Company incurred a \$550 charge, \$360 net of tax, for obligations related to withdrawals from and settlements of withdrawal liabilities for certain multi-employer pension plan funds, of which \$467 was contributed to the Central States Pension Plan in 2017.
- In 2017, the Company contributed \$111, \$71 net of tax, to the UFCW Consolidated Pension Plan.

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

- a. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan allocable to such withdrawing employer may be borne by the remaining participating employers.
- c. If the Company stops participating in some of its multi-employer pension plans, the Company may be required to pay those plans an amount based on its allocable share of the unfunded vested benefits of the plan, referred to as a withdrawal liability.

The Company's participation in multi-employer plans is outlined in the following tables. The EIN / Pension Plan Number column provides the Employer Identification Number ("EIN") and the three-digit pension plan number. The most recent Pension Protection Act Zone Status available in 2019 and 2018 is for the plan's year-end at December 31, 2018 and December 31, 2017, respectively. Among other factors, generally, plans in the red zone are less than 65 percent funded, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent funded. The FIP/RP Status Pending / Implemented Column indicates plans for which a funding improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. Unless otherwise noted, the information for these tables was obtained from the Forms 5500 filed for each plan's year-end at December 31, 2018 and December 31, 2017. The multi-employer contributions listed in the table below are the Company's multi-employer contributions made in fiscal years 2019, 2018 and 2017.

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

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status	Multi-Employer Contributions			Surcharge Imposed <sup>(5)</sup>
		2019	2018	Pending/ Implemented	2019	2018	2017	
SO CA UFCW Unions & Food Employers Joint Pension Trust Fund <sup>(1)(2)</sup>	95-1939092 - 001	Yellow	Yellow	Implemented	\$ 75	\$ 71	\$ 66	No
Desert States Employers & UFCW Unions Pension Plan <sup>(1)</sup>	84-6277982 - 001	Green	Green	No	19	19	18	No
Sound Retirement Trust (formerly Retail Clerks Pension Plan) <sup>(1)(5)</sup>	91-6069306 - 001	Yellow	Green	Implemented	25	23	20	No
Rocky Mountain UFCW Unions and Employers Pension Plan <sup>(1)</sup>	84-6045986 - 001	Green	Green	No	23	20	19	No
Oregon Retail Employees Pension Plan <sup>(1)</sup>	93-6074377 - 001	Green	Green	No	9	9	9	No
Bakery and Confectionary Union & Industry International Pension Fund <sup>(1)</sup>	52-6118572 - 001	Red	Red	Implemented	10	11	11	No
Retail Food Employers & UFCW Local 711 Pension <sup>(1)</sup>	51-6031512 - 001	Yellow	Yellow	Implemented	10	10	10	No
United Food & Commercial Workers Intl Union — Industry Pension Fund <sup>(1)(4)</sup>	51-6055922 - 001	Green	Green	No	32	32	33	No
Western Conference of Teamsters Pension Plan	91-6145047 - 001	Green	Green	No	34	34	34	No
Central States, Southeast & Southwest Areas Pension Plan	36-6044243 - 001	Red	Red	Implemented	—	18	492	No
UFCW Consolidated Pension Plan <sup>(1)</sup>	58-6101602 - 001	Green	Green	No	174	55	201	No
IBT Consolidated Pension Plan <sup>(1)(6)</sup>	82-2153627 - 001	N/A	N/A	No	33	37	—	No
Other <sup>(7)</sup>					17	19	41	
Total Contributions					<u>\$ 461</u>	<u>\$ 358</u>	<u>\$ 954</u>	

- (1) The Company's multi-employer contributions to these respective funds represent more than 5% of the total contributions received by the pension funds.
- (2) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at March 31, 2019 and March 31, 2018.
- (3) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at September 30, 2018 and September 30, 2017.
- (4) The information for this fund was obtained from the Form 5500 filed for the plan's year-end at June 30, 2018 and June 30, 2017.
- (5) Under the Pension Protection Act, a surcharge may be imposed when employers make contributions under a collective bargaining agreement that is not in compliance with a rehabilitation plan. As of February 1, 2020, the collective bargaining agreements under which the Company was making contributions were in compliance with rehabilitation plans adopted by the applicable pension fund.
- (6) The plan was formed after 2006, and therefore is not subject to zone status certifications.
- (7) The increase in 2017, compared to 2019 and 2018, in the "Other" funds is due primarily to withdrawal settlement payments for certain multi-employer funds in 2017.

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

Pension Fund	Expiration Date of Collective Bargaining Agreements	Count	Most Significant Collective Bargaining Agreements <sup>(1)</sup>
			(not in millions) Expiration
SO CA UFCW Unions & Food Employers Joint Pension Trust Fund	June 2020 to March 2022	2	June 2020 to March 2022
UFCW Consolidated Pension Plan	March 2020 to May 2023	4	April 2020 to August 2022
Desert States Employers & UFCW Unions Pension Plan	October 2020 to February 2022	1	October 2020
Sound Retirement Trust (formerly Retail Clerks Pension Plan)	April 2020 to February 2023	4	May 2022 to August 2022
Rocky Mountain UFCW Unions and Employers Pension Plan	January 2022	1	January 2022
Oregon Retail Employees Pension Plan <sup>(2)</sup>	August 2021 to March 2023	3	August 2021 to July 2022
Bakery and Confectionary Union & Industry International Pension Fund	December 2019 (2) to July 2022	4	May 2020 to October 2021
Retail Food Employers & UFCW Local 711 Pension	June 2017 (2) to April 2020	1	March 2019 (2)
United Food & Commercial Workers Intl Union — Industry Pension Fund	November 2019 (2) to August 2023	2	July 2023 to August 2023
Western Conference of Teamsters Pension Plan	September 2020 to April 2022	4	September 2020 to April 2022
International Brotherhood of Teamsters Consolidated Pension Fund	September 2019 (2) to September 2022	3	September 2019 (2) to September 2022

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

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

The Company also contributes to various other multi-employer benefit plans that provide health and welfare benefits to active and retired participants. Total contributions made by the Company to these other multi-employer health and welfare plans were approximately \$1,252 in 2019, \$1,282 in 2018 and \$1,247 in 2017.

## 17. HELD FOR SALE AND DISPOSAL OF BUSINESS

During the second quarter of 2018, the Company announced that as a result of a review of its assets, the Company had decided to explore strategic alternatives for its Turkey Hill Dairy business, including a potential sale. Additionally during the fourth quarter of 2018, the Company announced that it had entered into a definitive agreement to sell its You Technology business.



The following table presents information related to the major classes of assets and liabilities of all business that were classified as assets and liabilities held for sale in the Consolidated Balance Sheet as of February 2, 2019:

(In millions)	February 2, 2019
<b>Assets held for sale:</b>	
Cash and temporary cash investments	\$ 1
Receivables	64
FIFO inventory	21
LIFO reserve	(1)
Prepaid and other current assets	3
Property, plant and equipment, net	77
Goodwill	1
<b>Total assets held for sale</b>	<b>\$ 166</b>
<b>Liabilities held for sale:</b>	
Trade accounts payable	\$ 26
Accrued salaries and wages	8
Other current liabilities	17
<b>Total liabilities held for sale</b>	<b>\$ 51</b>

On March 13, 2019, the Company completed the sale of its You Technology business to Inmar for total consideration of \$565, including \$396 of cash and \$64 of preferred equity received upon closing. The Company is also entitled to receive other cash payments of \$105 over five years. The transaction includes a long-term service agreement for Inmar to provide the Company digital coupon services. The sale resulted in a gain of \$70, \$52 net of tax, which is included in “Gain on sale of businesses” in the Consolidated Statement of Operations. The Company recorded the fair value of the long-term service agreement of \$358 in “Other current liabilities” and “Other long-term liabilities” in the Consolidated Balance Sheets and such amount is being recorded as sales over the 10-year agreement.

On April 26, 2019, the Company completed the sale of its Turkey Hill Dairy business to an affiliate of Peak Rock Capital for total proceeds of \$225. The sale resulted in a gain of \$106, \$80 net of tax, which is included in “Gain on sale of businesses” in the Consolidated Statements of Operations.

In the third quarter of 2019, as a result of a portfolio review, the Company decided to divest its interest in Lucky’s Market. The Company recognized an impairment charge of \$238 in the third quarter of 2019, which is included in OG&A in the Consolidated Statements of Operations. The impairment charge consists of property, plant and equipment of \$200, which includes \$40 of finance lease assets; goodwill of \$19; operating lease assets of \$11; and other charges of \$8. The amount of the impairment charge attributable to The Kroger Co. is \$131, \$100 net of tax, with the remaining amount attributable to the minority interest. Subsequently, the decision was made by Lucky’s Market to file for bankruptcy in January 2020, which led the Company to fully write off the value of its investment and deconsolidate Lucky’s Market from the consolidated financial statements. This resulted in an additional non-cash charge of \$174, \$125 net of tax, in the fourth quarter of 2019, which is included in OG&A in the Consolidated Statements of Operations. The amount of the total 2019 charge attributable to The Kroger Co. is \$305, \$225 net of tax. The Company maintains liabilities associated with certain property related guarantees that will result in the Company making payments to settle these over time.

## 18. RECENTLY ADOPTED ACCOUNTING STANDARDS

On February 4, 2018, the Company adopted ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” which superseded previous revenue recognition guidance. Topic 606 is a comprehensive new revenue recognition model that requires a company to recognize revenue when goods and services are transferred to the customer in an amount that is proportionate to what has been delivered at that point and that reflects the consideration to which the company expects to be entitled for those goods or services. The Company adopted the standard using a modified retrospective approach with the adoption primarily involving the evaluation of whether the Company acts as principal or agent in certain vendor arrangements where the purchase and sale of inventory are virtually simultaneous. The Company will continue to record revenue and related costs on a gross basis for the arrangements. The adoption of the standard did not have a material effect on the Company’s Consolidated Statements of Operations, Consolidated Balance Sheets or Consolidated Statements of Cash Flows.

On February 3, 2019, the Company adopted ASU 2016-02, “Leases,” which provides guidance for the recognition of lease agreements. The Company adopted the standard using the modified retrospective approach, which provides a method for recording existing leases at adoption that approximates the results of a full retrospective approach. In addition, the Company elected the transition package of practical expedients permitted within the standard, which allowed it to carry forward the historical lease classification, and applied the transition option which does not require application of the guidance to comparative periods in the year of adoption.

The adoption of the standard resulted in the recognition of operating lease assets and operating lease liabilities of approximately \$6,800 and \$7,000, respectively, as of February 3, 2019. Included in the measurement of the new lease assets is the reclassification of certain balances including those historically recorded as prepaid or deferred rent and favorable and unfavorable leasehold interests. Several other asset and liability line items in the Consolidated Balance Sheets were also impacted by immaterial amounts. The adoption of this standard also resulted in a change in naming convention for leases classified historically as capital leases. These leases are now referred to as finance leases. The adoption of this standard did not materially affect the Company’s consolidated net earnings or cash flows.

In February 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-02, “Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.” This amendment allows companies to reclassify stranded tax effects resulting from the Tax Act from accumulated other comprehensive income (AOCI) to retained earnings. The Company adopted ASU 2018-02 on February 3, 2019, which resulted in a decrease to AOCI and an increase to accumulated earnings of \$146, primarily related to deferred taxes previously recorded for pension and other postretirement benefits and cash flow hedges. The adoption of this standard did not have an effect on the Company’s consolidated results of operations or cash flows.

## 19. RECENTLY ISSUED ACCOUNTING STANDARDS

In August 2018, the FASB issued ASU 2018-15, “Intangibles – Goodwill and Other – Internal-Use Software: Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” Under the new standard, implementation costs related to a cloud computing arrangement will be deferred or expensed as incurred, in accordance with the existing internal-use software guidance for similar costs. The new standard also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense. This guidance will be effective for the Company in the first quarter of the Company’s fiscal year ending January 30, 2021. The amendments may be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is currently assessing the impact that adoption of this guidance will have on its Consolidated Financial Statements and related disclosures.

## 20. QUARTERLY DATA (UNAUDITED)

The two tables that follow reflect the unaudited results of operations for 2019 and 2018.

2019	Quarter				Total Year (52 Weeks)
	First (16 Weeks)	Second (12 Weeks)	Third (12 Weeks)	Fourth (12 Weeks)	
Sales	\$ 37,251	\$ 28,168	\$ 27,974	\$ 28,893	\$ 122,286
<b>Operating Expenses</b>					
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	28,983	22,007	21,798	22,507	95,294
Operating, general and administrative	6,314	4,811	5,097	4,985	21,208
Rent	274	200	201	209	884
Depreciation and amortization	779	591	624	655	2,649
Operating profit	901	559	254	537	2,251
<b>Other income (expense)</b>					
Interest expense	(197)	(130)	(137)	(140)	(603)
Non-service component of company sponsored pension plan costs	3	(4)	(1)	2	—
Mark to market gain (loss) on Ocado securities	106	(45)	106	(9)	157
Gain on sale of business	176	—	—	—	176
Net earnings before income tax expense	989	380	222	390	1,981
Income tax expense	226	93	79	71	469
Net earnings including noncontrolling interests	763	287	143	319	1,512
Net loss attributable to noncontrolling interests	(9)	(10)	(120)	(8)	(147)
Net earnings attributable to The Kroger Co.	\$ 772	\$ 297	\$ 263	\$ 327	\$ 1,659
Net earnings attributable to The Kroger Co. per basic common share	\$ 0.96	\$ 0.37	\$ 0.32	\$ 0.40	\$ 2.05
Average number of shares used in basic calculation	798	800	802	797	799
Net earnings attributable to The Kroger Co. per diluted common share	\$ 0.95	\$ 0.37	\$ 0.32	\$ 0.40	\$ 2.04
Average number of shares used in diluted calculation	805	805	807	804	805
Dividends declared per common share	\$ 0.14	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.62

Annual amounts may not sum due to rounding.

Net earnings for the first quarter of 2019 include charges to OG&A expenses of \$59, \$44 net of tax, for obligations related to withdrawal liabilities for certain local unions of the Central States multi-employer pension fund and a reduction to OG&A of \$24, \$18 net of tax, for the revaluation of Home Chef contingent consideration. Gains in other income of \$106, \$80 net of tax, related to the sale of Turkey Hill Dairy; \$70, \$52 net of tax, related to the sale of You Technology; and \$106, \$80 net of tax, for the mark to market gain on Ocado Group plc (“Ocado”) securities.

Net earnings for the second quarter of 2019 include charges to OG&A of \$27, \$22 net of tax, for obligations related to withdrawal liabilities for a certain multi-employer pension fund and \$2, \$2 net of tax, for the revaluation of Home Chef contingent consideration. A charge in other income (expense) of \$45, \$36 net of tax, for the mark to market loss on Ocado securities.

Net earnings for the third quarter of 2019 include a charge to OG&A of \$45, \$35 net of tax, for obligations related to withdrawal liabilities for a certain multi-employer pension fund; \$80, \$61 net of tax, for a severance charge and related benefits; \$238 including \$131 attributable to the Kroger Co., \$100 net of tax, for impairment of Lucky's Market; and \$4, \$3 net of tax, for the revaluation of Home Chef contingent consideration. A gain in other income of \$106, \$81 net of tax, for the mark to market gain on Ocado securities.

Net earnings for the fourth quarter of 2019 include charges to OG&A of \$4, \$3 net of tax, for obligations related to withdrawal liabilities for certain multi-employer pension funds; \$174, \$125 net of tax, for deconsolidation and impairment of Lucky's Market; \$52, \$37 net of tax, for transformation costs, primarily including 35 planned store closures; and a reduction to OG&A of \$51, \$36 net of tax, for the revaluation of Home Chef contingent consideration. Loss in other income (expense) of \$9, \$6 net of tax, for the mark to market loss on Ocado securities.

2018	Quarter				Total Year (52 Weeks)
	First (16 Weeks)	Second (12 Weeks)	Third (12 Weeks)	Fourth (12 Weeks)	
Sales	\$ 37,722	\$ 28,014	\$ 27,831	\$ 28,286	\$ 121,852
<b>Operating Expenses</b>					
Merchandise costs, including advertising, warehousing, and transportation, excluding items shown separately below	29,419	21,976	21,753	21,955	95,103
Operating, general and administrative	6,257	4,711	4,661	5,155	20,786
Rent	276	204	200	204	884
Depreciation and amortization	741	574	570	581	2,465
Operating profit	1,029	549	647	391	2,614
<b>Other income (expense)</b>					
Interest expense	(192)	(144)	(142)	(142)	(620)
Non-service component of company sponsored pension plan costs	(10)	(4)	(6)	(7)	(26)
Mark to market gain (loss) on Ocado securities	36	216	(100)	75	228
Gain on sale of business	1,771	11	—	—	1,782
Net earnings before income tax expense	2,634	628	399	317	3,978
Income tax expense	616	127	91	66	900
Net earnings including noncontrolling interests	2,018	501	308	251	3,078
Net loss attributable to noncontrolling interests	(8)	(7)	(9)	(8)	(32)
Net earnings attributable to The Kroger Co.	\$ 2,026	\$ 508	\$ 317	\$ 259	\$ 3,110
Net earnings attributable to The Kroger Co. per basic common share	\$ 2.39	\$ 0.63	\$ 0.39	\$ 0.32	\$ 3.80
Average number of shares used in basic calculation	839	797	797	798	810
Net earnings attributable to The Kroger Co. per diluted common share	\$ 2.37	\$ 0.62	\$ 0.39	\$ 0.32	\$ 3.76
Average number of shares used in diluted calculation	846	805	807	806	818
Dividends declared per common share	\$ 0.125	\$ 0.140	\$ 0.140	\$ 0.140	\$ 0.545

Annual amounts may not sum due to rounding.

Net earnings for the first quarter of 2018 include a reduction to OG&A expenses of \$13, \$10 net of tax, for adjustments to obligations related to certain local unions withdrawing from the Central States multi-employer pension fund, a reduction to depreciation and amortization expenses of \$14, \$11 net of tax, related to held for sale assets, gains in other income (expense) of \$1,771, \$1,352 net of tax, related to the sale of the convenience store business unit and \$36, \$27 net of tax, for the mark to market gain on Ocado securities.

Net earnings for the second quarter of 2018 include gains in other income (expense) of \$11, \$8 net of tax, related to the sale of the convenience store business unit and \$216, \$164 net of tax, for the mark to market gain on Ocado securities.

Net earnings for the third quarter of 2018 include a loss in other income (expense) of \$100, \$77 net of tax, for the mark to market loss on Ocado securities.

Net earnings for the fourth quarter of 2018 include charges to OG&A expenses of \$168, \$131 net of tax, for obligations related to certain local unions withdrawing from the Central States multi-employer pension fund, \$33, \$26 net of tax, for the revaluation of contingent consideration and \$42, \$33 net of tax, for an impairment of financial instrument, a gain in other income (expense) of \$75, \$59 net of tax, for the mark to market gain on Ocado securities.

## **21. SUBSEQUENT EVENTS**

On March 18, 2020, the Company proactively borrowed \$1,000 from the revolving credit facility. This was a precautionary measure in order to preserve financial flexibility, reduce reliance on the commercial paper market and maintain liquidity in response to the coronavirus pandemic. Cash and temporary cash investments immediately following the borrowing were approximately \$2,336.

In anticipation of future debt refinancing, the Company, subsequent to February 1, 2020, entered into three forward-starting interest rate swap agreements with a maturity date of January 2021 with an aggregate notional amount totaling \$150.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES.**

As of February 1, 2020, our Chief Executive Officer and Chief Financial Officer, together with a disclosure review committee appointed by the Chief Executive Officer, evaluated the Company's disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of February 1, 2020.

**CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There was no change in our internal control over financial reporting during the fiscal quarter ended February 1, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of the Chief Executive Officer and the Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in *Internal Control — Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the evaluation, management has concluded that the Company's internal control over financial reporting was effective as of February 1, 2020.

The effectiveness of the Company's internal control over financial reporting as of February 1, 2020, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which can be found in Item 8 of this Form 10-K.

**ITEM 9B. OTHER INFORMATION.**

None.

## PART III

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

The information required by this Item 10 with respect to executive officers is included within Item 1 in Part I of this Annual Report on Form 10-K under the caption “Information about our Executive Officers.” The information required by this Item not otherwise set forth in Part I above is set forth under the headings Election of Directors, Information Concerning the Board of Directors- Committees of the Board, Information Concerning the Board of Directors- Audit Committee, Information Concerning the Board of Directors- Code of Ethics and Section 16(a) Beneficial Ownership Reporting Compliance in the definitive proxy statement to be filed by the Company with the Securities and Exchange Commission within 120 days after the end of the fiscal year 2019 (the “2020 proxy statement”) and is hereby incorporated by reference into this Form 10-K.

### ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is set forth in the sections entitled Compensation Discussion and Analysis, Compensation Committee Report, and Compensation Tables in the 2020 proxy statement and is hereby incorporated by reference into this Form 10-K.

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

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

#### Equity Compensation Plan Information

Plan Category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (1)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	35,135,064	\$ 24.52	57,586,095
Equity compensation plans not approved by security holders	—	\$ —	—
Total	35,135,064	\$ 24.52	57,586,095

(1) The total number of securities reported includes the maximum number of common shares, 2,936,351, that may be issued under performance units granted under our long-term incentive plans. The nature of the awards is more particularly described in the Compensation Discussion and Analysis section of the definitive 2020 proxy statement and is hereby incorporated by reference into this Form 10-K. The weighted-average exercise price in column (b) does not take these performance unit awards into account. Based on historical data, or in the case of the awards made in 2017 through 2019 and earned in 2019 the actual payout percentage, our best estimate of the number of common shares that will be issued under the performance unit grants is approximately 2,024,683.

The remainder of the information required by this Item is set forth in the section entitled Beneficial Ownership of Common Stock in the 2020 proxy statement and is hereby incorporated by reference into this Form 10-K.

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

This information required by this Item is set forth in the sections entitled Related Person Transactions and Information Concerning the Board of Directors-Independence in the 2020 proxy statement and is hereby incorporated by reference into this Form 10-K.



**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by this Item is set forth in the section entitled Ratification of the Appointment of Kroger's Independent Auditor in the 2020 proxy statement and is hereby incorporated by reference into this Form 10-K.

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

- (a)1. Financial Statements:  
Report of Independent Registered Public Accounting Firm  
Consolidated Balance Sheets as of February 1, 2020 and February 2, 2019  
Consolidated Statements of Operations for the years ended February 1, 2020, February 2, 2019 and February 3, 2018  
Consolidated Statements of Comprehensive Income for the years ended February 1, 2020, February 2, 2019 and February 3, 2018  
Consolidated Statements of Cash Flows for the years ended February 1, 2020, February 2, 2019 and February 3, 2018  
Consolidated Statement of Changes in Shareholders' Equity for the years ended February 1, 2020, February 2, 2019 and February 3, 2018  
Notes to Consolidated Financial Statements
- (a)2. Financial Statement Schedules:  
There are no Financial Statement Schedules included with this filing for the reason that they are not applicable or are not required or the information is included in the financial statements or notes thereto.
- (a)3.(b) Exhibits
- 3.1 Amended Articles of Incorporation are hereby incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 22, 2010, as amended by the Amendment to Amended Articles of Incorporation, which is hereby incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 23, 2015.
- 3.2 The Company's Regulations are hereby incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the SEC on June 27, 2019.
- 4.1 Instruments defining the rights of holders of long-term debt of the Company and its subsidiaries are not filed as Exhibits because the amount of debt under each instrument is less than 10% of the consolidated assets of the Company. The Company undertakes to file these instruments with the SEC upon request.
- 4.2 Description of Securities
- 10.1\* The Kroger Co. Deferred Compensation Plan for Independent Directors. Incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.
- 10.2\* The Kroger Co. Executive Deferred Compensation Plan. Incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended January 29, 2005.
- 10.3\* The Kroger Co. 401(k) Retirement Savings Account Restoration Plan. Incorporated by reference to Exhibit 10.4 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.
- 10.4\* The Kroger Co. Supplemental Retirement Plans for Certain Retirement Benefit Plan Participants. Incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.
- 10.5\* The Kroger Co. Employee Protection Plan dated January 13, 2017. Incorporated by reference to Exhibit 10.5 of the Company's Annual Report on Form 10-K for the fiscal year ended January 28, 2017.
- 10.6 Amended and Restated Credit Agreement dated August 29, 2017, among The Kroger Co., the initial lenders named therein, and Bank of America, N.A. and Wells Fargo Bank National Association, as co-administrative agents, Citibank, N.A., as syndication agent, and Mizuho Bank, Ltd. and U.S. Bank National Association, as co-documentation agents, incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed with the SEC on August 29, 2017.
- 10.7\* The Kroger Co. 2008 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company's Form S-8 filed with the SEC on June 26, 2008.

- 10.8\* The Kroger Co. 2011 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company's Form S-8 filed with the SEC on June 23, 2011.
- 10.9\* The Kroger Co. 2014 Long-Term Incentive and Cash Bonus Plan. Incorporated by reference to Exhibit 4.2 of the Company's Form S-8 filed with the SEC on July 29, 2014.
- 10.10\* The Kroger Co. 2019 Long-Term Incentive Plan. Incorporated by reference to Exhibit 99.1 of the Company's Form S-8 filed with the SEC on June 28, 2019.
- 10.11\* Form of Restricted Stock Grant Agreement under Long-Term Incentive Cash Bonus Plans.
- 10.12\* Form of Restricted Stock Grant Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the fiscal year ended February 3, 2007.
- 10.13\* Form of Non-Qualified Stock Option Grant Agreement under Long-Term Incentive and Cash Bonus Plan.
- 10.14\* Form of Non-Qualified Stock Option Grant Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 24, 2008.
- 10.15\* Form of Performance Unit Award Agreement under Long-Term Incentive and Cash Bonus Plans.
- 10.16\* Form of Performance Unit Award Agreement under Long-Term Incentive and Cash Bonus Plans. Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended August 12, 2017.
- 10.17\* Form of Performance Unit Award Under Long-Term Incentive Plans. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended August 18, 2018.
- 10.18\* The Kroger Co. 2015 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 23, 2015.
- 10.19\* The Kroger Co. 2016 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 2016.
- 10.20\* The Kroger Co. 2017 Long-Term Cash Bonus Plan. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended May 20, 2017.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 24.1 Powers of Attorney.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification.
- 32.1 Section 1350 Certifications.
- 101.INS XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH XBRL Taxonomy Extension Schema Document.
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

104 Cover Page Interactive Data File - The cover page interactive data file does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

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\* Management contract or compensatory plan or arrangement.

## **ITEM 16. FORM 10-K SUMMARY**

Not Applicable.

## SIGNATURES

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

THE KROGER CO.

Dated: April 1, 2020

/s/ W. Rodney McMullen

W. Rodney McMullen  
Chairman of the Board and Chief Executive Officer  
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated on the 1<sup>st</sup> April 2020.

/s/ Gary Millerchip

Gary Millerchip

Senior Vice President and Chief Financial Officer  
(principal financial officer)

/s/ Todd A. Foley

Todd A Foley

Vice President & Corporate Controller  
(principal accounting officer)

\*

Nora A. Aufreiter

Director

\*

Anne Gates

Director

\*

Susan J. Kropf

Director

\*

Karen Hoguet

Director

\*

W. Rodney McMullen

Chairman of the Board and Chief Executive Officer

\*

Jorge P. Montoya

Director

\*

Clyde R. Moore

Director

\*

James A. Runde

Director

\*

Ronald L. Sargent

Director

\*

Bobby S. Shackouls

Director

\*

Mark S. Sutton

Director

\*

Ashok Vemuri

Director

\* By: /s/ Christine S. Wheatley

Christine S. Wheatley

Attorney-in-fact

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SHAREHOLDERS: EQ Shareowner Services is Registrar and Transfer Agent for Kroger's common shares. For questions concerning payment of dividends, changes of address, etc., individual shareholders should contact:

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

Shareholder questions and requests for forms available on the Internet should be directed to: [www.shareowneronline.com](http://www.shareowneronline.com).

FINANCIAL INFORMATION: Call (513) 762-1220 (option "1") to request printed financial information, including Kroger's most recent report on Form 10-Q or 10-K, or press release. Written inquiries should be addressed to Shareholder Relations, The Kroger Co., 1014 Vine Street, Cincinnati, Ohio 45202-1100. Information also is available on Kroger's corporate website at [ir.kroger.com](http://ir.kroger.com).

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

Computershare Plan Managers  
PO Box 505039  
Louisville, KY 40233-5039  
Phone 800 872 3307

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

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## EXECUTIVE OFFICERS

**Mary Ellen Adcock**  
Senior Vice President

**Stuart Aitken**  
Senior Vice President

**Robert W. Clark**  
Senior Vice President

**Yael Cosset**  
Senior Vice President and  
Chief Information Officer

**Michael J. Donnelly**  
Executive Vice President  
and Chief Operating Officer

**Carin L. Fike**  
Vice President and Treasurer

**Todd A. Foley**  
Vice President and Controller

**Joseph A. Grieshaber, Jr.**  
Senior Vice President

**Calvin J. Kaufman**  
Senior Vice President

**Timothy A. Massa**  
Senior Vice President

**Stephen M. McKinney**  
Senior Vice President

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

**Gary Millerchip**  
Senior Vice President and  
Chief Financial Officer

**Erin S. Sharp**  
Group Vice President

**Mark C. Tuffin**  
Senior Vice President

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

## OPERATING UNIT HEADS

**Chris Albi**  
QFC

**Rodney C. Antolock**  
Harris Teeter

**Timothy F. Brown**  
Atlanta Division

**Steve Burnham**  
King Soopers/City Market

**Ken DeLuca**  
Michigan Division

**Steve Dreher**  
Dillons Food Stores

**Peter M. Engel**  
Fred Meyer Jewelers

**Monica Garnes**  
Fry's Food & Drug

**Dennis R. Gibson**  
Fred Meyer Stores

**Paula Ginnett**  
Mid-Atlantic Division

**Scott Hays**  
Cincinnati Division

**Sonya Hostetler**  
Nashville Division

**Colleen Juergensen**  
Central Division

**Bryan H. Kaltenbach**  
Food 4 Less

**Joe Kelley**  
Houston Division

**Kenneth C. Kimball**  
Smith's

**Colleen R. Lindholz**  
Pharmacy and The Little Clinic

**Michael Marx**  
Roundy's

**Thomas L. Schwilke**  
Ralphs

**Ann M. Reed**  
Louisville Division

**Adam Wampler**  
Dallas Division

**Victor Smith**  
Delta Division

**Nicholas Tranchina**  
Murray's Cheese

**Kate Ward**  
Kroger Personal Finance

**Dana Zurcher**  
Columbus Division



[www.thekrogerco.com](http://www.thekrogerco.com)

The Kroger Co.

1014 Vine Street · Cincinnati, Ohio 45202 · 513-762-4000

