NAME OF REGISTRANT: Kroger Corp.
NAME OF PERSON RELYING ON EXEMPTION: As You Sow
ADDRESS OF PERSON RELYING ON EXEMPTION: 1611 Telegraph Ave., Suite 1450, Oakland, CA 94612
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Shareholder Proposal Item #6 on Kroger Proxy Statement:
Vote Yes: Feasibility Study on Adopting a Renewable Energy Target
Symbol: KR
Filed by: As You Sow
Annual Meeting: June 23, 2016
Contact: atimbers@asyousow.org

SUMMARY

This proposal asks the company to assess the environmental and economic value and feasibility of increasing its use of renewable energy. There is a growing movement of corporations sourcing their own renewable energy to mitigate risk, reduce costs, and add long term value. An organization, RE100, has secured total or partial commitments from 58 companies, many in the Fortune 500, to move towards 100% renewable energy sourcing, and RE100 reflects only a partial list of companies moving quickly towards renewable adoption. In contrast to its peers, Kroger Corporation is not making forward progress on reducing its carbon impact or improving shareholder value through renewable energy adoption. Kroger significantly trails peers on renewable energy adoption, and its existing reporting offers investors no transparency on whether Kroger will be growing its renewable energy portfolio in the future. This shareholder resolution requests that Kroger take just the first step towards renewable energy adoption by **creating a report for shareholders on the feasibility of Kroger's adopting a renewable energy target**. The Proponents urge a "Yes" vote on the proposal.

RESOLVE CLAUSE:

Shareholders request that Kroger produce a report, by year end 2016, assessing the climate benefits and feasibility of adopting enterprise-wide, quantitative, time bound targets for increasing Kroger's renewable energy sourcing. The report should be produced at reasonable cost and exclude proprietary information.

Supporting Statement: Shareholders request that the report include an analysis of options and scenarios for achieving renewable energy targets, for example by using on-site distributed energy, off-site generation, power purchases, and renewable energy credits, or other opportunities management would like to consider, at its discretion.

RATIONALE FOR YES VOTE

1. **Kroger, which generates a high level of carbon emissions, significantly trails peers on sustainability overall and specifically on renewable energy adoption, raising shareholder concern about carbon risk.** Kroger emits significant carbon dioxide emissions, and its 2014 emissions rose from the previous year. Kroger's renewable energy adoption is negligible, and the Company offers no plan for the future. Accelerating renewable energy adoption is critical to Kroger protecting shareholder value into the future, as intensifying climate change incurs greater costs on Kroger's regulatory costs, supply chain, physical assets, and therefore shareholders.
2. **Kroger's climate performance is poor; renewable energy could help it reduce carbon risk.** Kroger's environmental performance trails peers; adopting a renewable energy target is the first step to fixing its laggard position.
3. **Kroger fails to offer information that would allow shareholders to assess how the company is managing the risks and opportunities pertaining to the development of its renewable energy portfolio**

and how renewables affect shareholder value. Kroger's reporting on renewable energy is vague, brief, and contradictory at times.

4. **Kroger has been unresponsive to shareholders on this proposal and has failed to act on prior sustainability proposals.** Kroger's failure to respond to shareholder outreach seeking to discuss or resolve this proposal suggests the company's management team does not recognize the serious risks its environmental underperformance poses to the Company's reputation, branding, supply chain, regulatory risk, relevance, and ongoing competitiveness.

DISCUSSION

1. Kroger, which generates a high level of carbon emissions, significantly trails peers on sustainability overall and specifically on renewable energy adoption, raising shareholder concern about carbon risk.
Kroger is a globally significant company, as the third largest global retailer, and 20th on the Fortune 500.[1] Despite its size and prominence, Kroger has adopted a very minimal amount of renewable energy compared to peers. Only 10 of Kroger's 3,806 stores, plants, and distribution centers have installed renewable energy—**a strikingly low 0.2%**.[2] This is especially minimal compared to Costco and Walmart, the companies Kroger is most easily compared to; see the chart below:

	Properties powered by renewables (solar, wind, geothermal; PPAs included)	MW of Installed Renewables (solar, wind, geothermal)
Wal-Mart	1200 [3]	141.99[4]
Costco	Not reported	50.74[5]
Kroger	10[6]	6.3[7]

At present **Walmart has installed over 22 times as much solar energy as Kroger**. Walmart has also made a public commitment to 100% renewable energy sourcing by 2020.[8] Costco has installed over 8 times as much solar as Kroger has adopted total renewable energy. The benefits of installing renewable energy such as solar include permanent energy price stability, enhanced reputation among customers, and reduced regulatory uncertainty from climate change regulations that are likely to impact operations and/or future fossil fuel energy costs. The feasibility study requested by the proposal, is a key first step to Kroger's improving its rate of renewable energy adoption and exploring the potential benefits associated with such adoption. Accelerating renewable energy adoption is critical to Kroger protecting shareholder value into the future, as intensifying climate change incurs greater costs on Kroger's supply chain, physical assets, and stakeholders.

2. Kroger's climate performance is poor; renewable energy could help it reduce carbon risk. What we know about Kroger's carbon emissions indicates that they are globally significant. Based on its 2014 data, which is all Kroger has disclosed, Kroger has a carbon footprint larger than the 2012 carbon footprint (the most recent year

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[1] Kroger 2016 10k; "*Global Powers of Retailing 2016 Navigating the new digital divide*", Deloitte 2016. Available at: https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cb-global-powers-of-retailing-2016.pdf ; Fortune 500, Fortune 2016. Available at: http://fortune.com/fortune500/ .
[2] "2015 Sustainability Report: Improving Today to Protect Tomorrow" Kroger. Available at: http://sustainability.kroger.com/dl/Kroger-2015CSR.pdf .
[3] "Walmart 2014 Corporate Responsibility Report", p.7. Available at: http://cdn.corporate.walmart.com/db/e1/b551a9db42fd99ea24141f76065f/2014-global-responsibility-report.pdf.
[4] "Solar Means Business 2015: Top Commercial Solar Users", SEIA 2016, p. 5. Available at: http://www.seia.org/research-resources/solar-means-business-2015-top-us-corporate-solar-users.
[5] *Id.*
[6] Kroger 2016 Proxy
[7] Kroger 2016 Proxy
[8] "The Companies", RE100. Available at: http://there100.org/companies.

of data available) for dozens of respective countries.[9] Kroger's 2014 carbon footprint is larger than the 2012 carbon footprint of El Salvador; than of Cambodia; than of Nicaragua; than of Iceland; than of Paraguay; than of many island nations, and several any African nations. *Further, as of 2014, Kroger notes that their carbon dioxide emissions are rising*.[10] In its sustainability report –not yet updated with 2015 data -- Kroger states that though its net carbon emissions are rising, its emissions by sales and per square foot are declining.[11] This is irrelevant; it simply means that Kroger's rate of emissions growth is outpaced the rate of physical enterprise growth. Similarly, Kroger does note carbon reductions, but from 2010; this 6 year time scale is so long that it is likely result in emissions reductions due to normal upgrades of outdated or broken equipment to units that have become more efficient by law. Reductions from 2010 may not indicate proactive gains as much as "business as usual". Similarly, Kroger notes energy reductions- but from 2010; again, the long time frame utilized in these statistics is unhelpful to investors seeking to understand Kroger's progress.

The fact remains: Kroger's net emissions appear to be increasing. If Kroger's net emissions are increasing, its carbon risk and liability is increasing as well, creating escalating regulatory risks to shareholders. Kroger fails to report year over year data about its carbon emissions, which is now provided by most major brands on the Fortune 500. This lack of data makes it difficult for shareholders to assess growing carbon risk associated with the company's operations, especially in comparison to other similar companies.

This resolution asks Kroger to conduct a feasibility study considering the adoption of a renewable energy target; that is all. Adopting a renewable energy target would facilitate Kroger in orienting the Company toward enterprise-wide carbon reductions, and thus a reduction in the Company's carbon risk and liability, helping to protect investors from climate related regulatory risk. Kroger previously sought third party assistance in setting priorities for its environmental activity; its sustainability report states that it hired consultants to conduct a "sustainability strategy review." The posted results of this review, however, fail to address the Company's enormous carbon footprint. While the 'strategy review' does purportedly address energy, it is unclear what steps – if any -- Kroger is taking on energy in the future because its sustainability reporting on energy is both minimal and problematic. Kroger's sustainability materials, brief as they are, do not identify any path or aspiration for carbon reductions going forward.

3. Kroger fails to offer information that would allow shareholders to assess how the company is managing the risks and opportunities pertaining to the development of its renewable energy portfolio and how renewables affect shareholder value. For one of the largest retailors on planet earth, Kroger's sustainability reporting on energy and climate lacks depth, including partial carbon data from 2014 only as noted above. Its sustainability reporting overall covers just a few sustainability areas, and its energy reporting is focused on energy efficiency. Its reporting on renewable energy describes a fragmented group of one-off renewable energy projects, reflecting the need for a cohesive, enterprise wide renewable energy adoption program.

Kroger's Carbon Disclosure Report ("CDP"), while good, is also brief; just 17 pages, where Wal-Mart's 2015 CDP report is 34 pages long, twice the length of Kroger's, reflecting deeper disclosure and sustainability activity.[12] Like the rest of its sustainability materials, Kroger's CDP report also lacks, and is nearly absent a discussion of renewable energy. The only renewable energy discussed in the CDP report is the company's single biogas

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9 Emissions data: "2015 Sustainability Report: Improving Today to Protect Tomorrow" Kroger, p. 51. Available at: http://sustainability.kroger.com/dl/Kroger-2015CSR.pdf. Country emissions data: "*International Energy Statistics*" U.S. EIA. Raw data, sorted; all countries below 6.4 MMT. Available at: http://www.eia.gov/cfapps/ipdbproject/IEDIndex3.cfm?tid=90&pid=44&aid=8.

10 "2015 Sustainability Report: Improving Today to Protect Tomorrow" Kroger. Available at: http://sustainability.kroger.com/dl/Kroger-2015CSR.pdf.

11 Id.

12 Kroger's 2015 Climate CDP Report. Available at: https://www.cdp.net/sites/2015/31/10331/Climate%20Change%202015/Pages/DisclosureView.aspx. Wal-Mart's 2015 CDP Report. Available at: https://www.cdp.net/sites/2015/02/20402/Climate%20Change%202015/Pages/DisclosureView.aspx

digester system.[13] This is technology is beneficial in terms of helping to avoid the emissions of landfill disposal of waste food. However the digester is only debatably classified as renewable; biogas it is technology that generates methane which creates greenhouse gas emissions when burned.

Consistent, higher caliber reporting would assist shareholders in understanding the value and risk of investing in Kroger. Kroger's materials lack a forward looking plan for renewable energy development, which means the company is sacrificing the savings and risk management benefits an enterprise-wide program of renewable energy adoption creates. The reporting requested by the proposal, a study considering the feasibility of Kroger's adopting a renewable energy adoption target, is an important first step in assuring investors that our company is working to remedy its climate risk.

3. Kroger is unresponsive to shareholders on this proposal; failed to act on prior sustainability proposals. Investors have been concerned with Kroger's sustainability performance for many years. Kroger received sustainability related shareholder proposals pushing the company on improved waste management for 5 years including in 2016. Those resolutions have received strong support; the most recent shareholder resolution on Kroger's waste management received the support of over 30% of shareholders.[14] Despite the support from over one in three of Kroger's shareholders in 2015, Kroger has been unresponsive to dialogues with shareholders regarding its inferior environmental performance.

Kroger's silence suggests a management team's failure to recognize the serious risks its environmental underperformance poses to the Company's reputation, branding, supply chain, regulatory risk, relevance, and ongoing competitiveness with more efficient, environmentally conscious peers. With supply chains that stretch across the globe, Kroger's operations are extremely vulnerable to the risks of climate change. Failing to address climate impacts poses a variety of problems that could affect commodity production patterns, property damage, increased energy costs, regulatory penalties, and more.

Retailers like Walmart and Costco have already recognized the material costs that climate change has on their business. In its 10-K Costco acknowledged that *"*climate change could affect our ability to procure needed commodities at costs and in quantities we currently experience."[15] Unlike many companies today, besides this proposal, neither Kroger's 2016 annual report nor its proxy statement mention climate change, climate risk, or consider the risk related to its energy sourcing. Kroger is not only behind other companies on climate change, carbon impacts and renewable energy - it is unclear how seriously the Board is taking these issues. This is baffling as climate change affects Kroger and its shareholders, and because Kroger's carbon emissions are worsening climate change; yet Kroger's management appears to be taking slow, meek action in response, in contrast to peers that are setting records on renewable energy installation.

4. Kroger has been unresponsive to shareholders on this proposal and has failed to act on prior sustainability proposals. Research from the Carbon Disclosure Project and Ceres demonstrate that carbon management yields financial performance. When corporations track, manage, and reduce carbon impacts, various financial indicators improve, including improved return on equity, stronger dividends, lower earnings volatility, reduced emissions, and reduced *regulatory* risk.[16] The same report identifies business benefits of carbon reduction including power price certainty, customer demand for low carbon solutions, reduced overhead, and performing on climate commitments. Another report shows that companies which demonstrate environmental responsibility also accrue meaningful benefits that boost shareholder and customer loyalty, social capital, and

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[13] Kroger's 2015 Climate CDP Report, p. 3 & 10. Available at: https://www.cdp.net/sites/2015/31/10331/Climate%20Change%202015/Pages/DisclosureView.aspx.
[14] "Our Work: Resolutions- Kroger", As You Sow. Available at: http://www.asyousow.org/our-work/current-resolutions/?program=&ays_year=&initiative=&company=&keyword=Kroger.
[15] Costco, 2016 10k, p. 12. http://investor.costco.com/mobile.view?c=83830&v=200&d=3&id=9848129
[16] "CDP S&P500 Leaders Report, 2014", Carbon Disclosure Project. Available at: https://www.cdp.net/CDPResults/CDP-SP500-leaders-report-2014.pdf.

investor diversity.[17]An analysis of corporate environmental governance confirms that "firms with stronger ESG policies also enjoy increased efficiency and higher valuations than their peers."[18]

So it comes as no surprise that major brands including Coca-Cola, Walmart, Nestle, Nike, Johnson & Johnson, and Starbucks have made commitments toward 100% Renewable Energy.[19] The Executive Chairman of Google, Eric Schmidt, explained: "Much of corporate America is buying renewable energy [...] not just to be sustainable, because it makes business sense, helping companies diversify their power supply, hedge against fuel risks, and support innovation in an increasingly cost-competitive way."[20]

CONCLUSION

The reporting requested by this proposal is the first important step toward addressing growing climate risk and accruing benefits that will add value to the company. *Proponents request a "YES" vote on this proposal.*

[17] Saravanakumar.S, Sakthi Aiswariya .K. "The Impact of CSR Initiatives on Consumer Behaviour", International Research Journal of Business and Management, VII, December 2014, Issue 12, p15. Available at: http://irjbm.org/irjbm2013/Dec2014/spaper3.pdf.

[18] University of Pittsburg (Gillan, Hartzell, Koch, Starks). Firm's Environmental, Social and Governance (ESG) Choices, Performance and Managerial Motivation 2020. http://business.pitt.edu/katz/sites/default/files/koch3.pdf

[19] See note 8.

[20] "*Google's commitment to sustainability*", Google Green Blog, Sept 24, 2014. Available at: http://googlegreenblog.blogspot.com/2014/09/googles-commitment-to-sustainability.html