First Quarter 2014
Investor Conference Call Prepared Remarks
June 19, 2014

Cindy Holmes, Director of Investor Relations:
Good morning and thank you for joining us. Before we begin, I want to remind you that today's discussion will include forward-looking statements. We want to caution you that such statements are predictions, and actual events or results can differ materially. A detailed discussion of the many factors that we believe may have a material effect on our business on an ongoing basis is contained in our SEC filings, but Kroger assumes no obligation to update that information.

Both our first quarter press release and our prepared remarks from this conference call will be available on our website at ir.kroger.com.

After our prepared remarks, we look forward to taking your questions. In order to cover a broad range of topics from as many of you as we can, we ask that you please limit yourself to one question, and one follow-up question, if necessary. Thank you.

I will now turn the call over to Rodney McMullen, Chief Executive Officer of Kroger.

Comments by Rodney McMullen:
Thank you, Cindy. Good morning everyone and thank you for joining us today. With me to review Kroger's first quarter 2014 results are Mike Ellis, Kroger's President and Chief Operating Officer and Mike Schlotman, Senior Vice President and Chief Financial Officer.

Accelerating Growth

Kroger delivered an outstanding first quarter. It is a great start to what we believe will be another exceptional year. Our associates continue to enhance our connection with all customers and achieve key performance measures, which are allowing us to achieve our growth strategy.

- We also achieved our 42nd consecutive quarter of positive identical supermarket sales growth;
- Exceeded our goal to slightly expand FIFO operating margin, without fuel, on a rolling four quarter basis;
- Maintained a steady return on invested capital while increasing capital investment;
- We are achieving synergies from our merger with Harris Teeter.
- And, we returned over $1 billion in cash back to shareholders this quarter through our buyback program.

The staying power of our Customer 1st Strategy and our accelerated growth plan are generating strong momentum. We continue to lower our costs of doing business and to invest those savings both for today's customers and for future growth.

Our strong first quarter results set us up to deliver a 12-15% net earnings per share growth rate for the year, partly due to the benefit of Harris Teeter, compared to our long-term growth rate of 8-11%, plus the dividend.

I am also pleased to report that we continue to take meaningful steps to restructure and help secure our associates' pension obligations for the future. Through two innovative agreements, we plan to move nearly 2,000 associates and retirees to more stable pension plans, and 350 associates to a Kroger-sponsored 401k plan with a match. We intend to continue looking for opportunities to leverage our strong financial flexibility to safeguard our associates' benefits. We are always looking for opportunities that are good for associates, good for Kroger, and good for our shareholders.

Economy and Customer Shopping Behavior

We see growing positive indicators in shopping behavior – our customers have exhibited less cautious spending behavior, for example. Consistent with the rise in the Consumer Confidence Index in May, our own customer research tells us that more customers perceive the economy to be in recovery.

While that is obviously welcome news, the recovery remains fragile, especially for customers on a budget. We intend to keep delivering value and improving our connection with customers across the entire spectrum. Whether through our popular fuel rewards program, our Simple Truth offerings, or a more convenient shopping experience – Kroger is uniquely positioned to deliver on this promise in any economic environment. And against the backdrop of the uneven economic recovery, our team's excellent first quarter performance stands out in even greater contrast.

Now, I'll turn it over to Mike Ellis to outline our operational performance. Mike?

Comments by Mike Ellis:
Thanks, Rodney. Good morning everyone.

I'd like to congratulate the entire Kroger team for executing our Customer 1st Strategy with precision in the first quarter, which is driving growth and improving our perception in the eyes of our customers. We are connecting better with our customers, showing them we care, and making sure they have a great shopping experience, every time.

Loyal Customer Growth

Keeping costs down allowed us to invest strategically and increase customer loyalty. During the first quarter, we grew our number of loyal households at a much faster rate than total household growth, which was also up for the quarter.

We saw inflation increase in the grocery category during the quarter. This, combined with higher inflation in meat, produce and pharmacy, has caused us to adjust our view of inflation for the year. We estimate inflation excluding pharmacy was 1.8% in the first quarter, and 2.1% with pharmacy included. We expect it to be higher than originally anticipated for the rest of the year as well. Even with higher inflation, we saw strong tonnage growth during the first quarter.

Harris Teeter

Our merger with Harris Teeter is going extremely well. We are spending time with Harris Teeter and learning a lot about how they connect with customers. Their store standards and fresh foods are world-class. And our cultures are a great fit, which makes our integration work easy.

We are excited by what we're learning about Harris Teeter's online ordering and store pickup model. It's a program with a lot of promise.

Customer 1st Innovation

A key driver of sustainable growth is Customer 1st Innovation. Each quarter, we are highlighting one or more innovations that are improving our connection with customers and growing our market share. This quarter, I will highlight some of the new, exciting work of our Corporate Brands and Kroger Technology teams.

Corporate Brands

A strategic differentiator for Kroger's Corporate Brands portfolio is our multi-tier offering, which allows us to offer the right price points and product experiences for everyone. In the first quarter we introduced new branding and packaging for our Value products – the "good" tier of our "good, better, best" program. The new design calls out to customers with uplifting packaging and the response so far has been terrific. For fresh products, we have replaced *Kroger Value* with *Heritage Farm*. The name better reflects the inherent quality of the brand, and we are already seeing positive acceptance from our customers.

Corporate Brands had a solid first quarter, accelerating company sales growth and representing approximately 26.2% of total units sold, and 24.5% of sales dollars, excluding fuel and pharmacy.

The Internet of Things

Kroger Technology is our team of technology inventors and innovators. They are implementing a foundational technology that we can leverage to create the “Internet of Things” in the retail environment.

One tangible example of this is real-time temperature monitoring in our supermarkets. Today, temperature checks are performed manually by our associates. But by using interactive sensors that are connected through an in-store network, we can better ensure the freshest foods by allowing for more frequent, real-time temperature checks of produce, meat, deli and frozen food products.

We love these kinds of initiatives because they save money and free up time for our associates to engage with customers. And – most importantly – this technology will help improve our already vigorous food safety efforts. We plan to continue leading the adoption of the Internet of Things in our stores.

Labor Update

Now, I will provide a brief update on labor relations.

We recently agreed to new contracts in both Atlanta and Southern California, as well as for non-food associates in Portland.

We are currently negotiating contracts with the UFCW for store associates in Cincinnati, New Mexico, Toledo, and parts of California, and an agreement with the Teamsters covering several distribution and manufacturing facilities.

Our objective in every negotiation is to find a fair and reasonable balance between competitive costs and compensation packages that provide solid wages, good quality, affordable health care, and retirement benefits for our associates. Kroger’s financial results continue to be pressured by rising health care and pension costs, which some of our competitors do not face. Kroger and the local unions, which represent many of our associates, should have a shared objective – growing Kroger’s business and profitability, which will help us create more jobs and career opportunities, and enhance job security, for our associates.

Now Mike will offer more detail on Kroger’s financial results and update our guidance for 2014. Mike?

Comments by Mike Schlotman:
Thanks, Mike. Good morning everyone.

First Quarter Growth Metrics

We exceeded our expectations for the quarter thanks to our associates performing to deliver growth.

We continue to implement our long-term growth strategy, which includes:

- Targeting capital to grow our business in new and existing markets;
- Leveraging customer insights to solve varied customer needs, through both traditional and digital channels; and
- Continuing to deliver shareholder value through our share buyback program and dividend.

When we outlined our accelerated growth strategy at our October 2012 investor conference, we also identified the key performance targets for shareholders to measure our progress. I'd like to spend a few minutes discussing the results in each metric.

ID Sales

Our first metric is identical supermarket sales without fuel. We are pleased with our first quarter ID sales growth of 4.6%.

This strong performance was supported by ID sales growth in every department and every supermarket division. We continue to see outstanding, double-digit identical sales growth in our Natural Foods department. Our Produce and General Merchandise departments also posted strong ID sales growth, and Kroger's pharmacy department continued its strong performance.

FIFO Operating Margin

Rolling four quarters FIFO operating margin, on a 52-week basis and excluding fuel and pension agreements, increased by 12 basis points. This exceeded our commitment to grow the rate slightly over time on a rolling four quarters basis.

Until we have Harris Teeter in both the current and base years, the expected increase will be higher than our long-term guidance, which is slightly expanding. Over time, we expect our FIFO operating margin growth rate, excluding fuel, to return to slightly expanding on a rolling four quarters basis.

Return on Invested Capital

The third target metric is return on invested capital. We reported a return on invested capital, on a 52-week, rolling four quarters basis, of 13.5%, which is consistent with ROIC during the same period last year.

As we increase capital investments, it will be more difficult to grow ROIC in the near term; however, as these investments mature, we expect them to be accretive to ROIC.

Harris Teeter Integration Update

As Mike and Rodney have said, our integration with Harris Teeter is well underway and we are achieving synergies on multiple fronts. One great example is combining insurance programs, which has reduced our annual premiums by $6 million already.

First Quarter 2014 Results

Now, I'll share our first quarter 2014 results in more detail.

Please note that this is the first period that includes Harris Teeter in Kroger's statement of operations. Year-over-year percentage comparisons are affected as a result.

First Quarter Net Earnings
In the first quarter, our net earnings totaled $501 million, or $0.98 per diluted share.

This includes charges related to the restructuring of certain pension obligations to help stabilize associates' future benefits, as described in yesterday's press release. Excluding the effect of these charges, Kroger's adjusted net earnings were $557 million, or $1.09 per diluted share, for the first quarter.

Net earnings in the same period last year were $481 million, or $0.92 per diluted share.

First Quarter LIFO
As Mike said, we are seeing higher inflation than anticipated. We recorded a $28 million LIFO charge during the quarter compared to a $17 million LIFO charge in the same quarter last year. We are increasing our LIFO estimate for the year to $90 million. Our previous LIFO guidance for the fiscal year was a charge of $55 million.

First Quarter FIFO Gross Margin
FIFO gross margin increased 1 basis point from the same period last year, excluding retail fuel operations.

First Quarter OG&A Expenses
Strong identical sales and cost controls allowed Kroger to leverage operating expenses as a rate of sales in the first quarter. Operating, general and administrative costs plus

rent and depreciation, excluding retail fuel operations and pension agreements, declined 9 basis points as a percent of sales compared to the prior year's first quarter.

Retail Fuel Operations
Now for retail fuel operations. About half of our supermarkets have fuel centers today. In the first quarter, our cents per gallon fuel margin was approximately 13.1¢ compared to 11.6¢ in the same quarter last year.

Financial Strategy

Our long term financial strategy continues to be to:

1. Maintain our current investment grade debt rating,
2. Repurchase shares,
3. Have an increasing dividend, and
4. Fund increasing capital investments.

Maintain Current Investment Grade Debt Rating
Kroger remains committed to achieving a 2.00 – 2.20 net debt to EBITDA ratio by mid-to-late 2015. Kroger took on debt to finance the Harris Teeter merger, and realized no incremental EBITDA in fiscal 2013 because the transaction closed late in the fiscal year. This has a material effect on the company's net total debt to adjusted EBITDA ratio, which is 2.42, compared to 1.85 during the same period last year. As we get a full year of Harris Teeter EBITDA in the calculation, we expect to be closer to 2.20 by year end.

Kroger's net total debt is $11.3 billion, an increase of $3.4 billion from a year ago. This is a result of the debt related to the Harris Teeter transaction and Kroger's share repurchase activity.

Share Repurchases
Kroger's strong financial position has allowed the company to return more than $1.9 billion to shareholders through share buybacks and dividends over the last four quarters.

During the first quarter, Kroger repurchased 25.7 million common shares for a total investment of $1.1 billion.

Capital investments
Capital investments, excluding mergers, acquisitions and purchases of leased facilities, totaled $709 million for the first quarter, compared to $640 million for the same period last year. We continue to expect capital investments to be in the $2.8 to $3.0 billion range, including Harris Teeter, for fiscal 2014.

Updated Fiscal 2014 Guidance

Now I'd like to update our growth objectives for fiscal 2014.

Based on our strong first quarter results, we raised and narrowed our adjusted net earnings guidance to a range of $3.19 to $3.27 per diluted share for fiscal 2014. The original guidance was $3.14 to $3.25 per diluted share.

The company's long-term net earnings per diluted share growth rate guidance remains 8 – 11%. Shareholder return will be further enhanced by a dividend expected to increase over time.

We raised identical supermarket sales growth guidance, excluding fuel, to 3.0% to 4.0% for fiscal 2014, including Harris Teeter. The original guidance was 2.5% to 3.5%.

Now, I will turn it back to Rodney.

Comments by Rodney McMullen:
Thanks, Mike.

What a terrific start to our year. Our merger with Harris Teeter is going exceptionally well. We are learning a lot from Harris Teeter associates and our business is performing well. We are even more excited about Harris Teeter's people and the opportunities today than we were when we first merged.

Across the company, our associates' remarkably consistent execution continues to generate consistently remarkable results for our shareholders. We will continue building on this resilient foundation to grow aggressively into the future.

Now, we look forward to your questions.

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Comments by Rodney McMullen:

Before we end today's call, I'd like to share some additional thoughts with our associates listening in today.

Earlier this month, we introduced the Taste of México event in all of our stores. We hope our associates are enjoying this fun celebration of Mexican food with our customers, including in-store sampling, creative displays and special activities. I have enjoyed visiting our stores across the country and seeing the creativity, passion and enthusiasm from our associates for the Taste of México. This special event is the first in our series of celebrations of foods of the world in our stores and runs through June 24.

Our associates' passion for doing good is evident in the way we serve our customers and neighbors in the communities where we live and work. This month, we honor our associates' efforts in serving our communities and those in need. We are pleased to recognize in our 2013 annual report 28 associates across the company for their outstanding volunteer service as recipients of Kroger's 2013 Community Service Award. These women and men give their time and talent to honor veterans, feed the homeless, raise money to fight cancer, and bring music to the mentally-challenged – among many other causes. We are grateful for their commitment.

A big heartfelt thank you to all of our associates who volunteer. Mike and I are proud of the work you do – you make a big difference for so many others and our communities we call home. Thank you!

That completes our call today. Thanks for joining.

The remarks contain certain forward-looking statements about the future performance of the Company. These statements are based on management's assumptions and beliefs in light of the information currently available to it. Such statements are indicated by words or phrases such as "expect," "objective," "will," "guidance," "continue," "believe," "committed," and "plan." Various uncertainties and other factors could cause actual results to differ materially from those contained in the forward-looking statements. These include the specific risk factors identified in "Risk Factors" and "Outlook" in our annual report on Form 10-K for our last fiscal year and any subsequent filings, as well as the following:

- 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 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 use free cash flow to continue to maintain our investment grade debt rating and to reward our shareholders could be affected by unanticipated increases in net total debt, our inability to generate free cash flow at the levels anticipated, and our failure to generate expected earnings.

- Our ability to achieve identical sales, earnings and cash flow goals may be affected by: labor negotiations or disputes; changes in the types and numbers of businesses that compete with us; pricing and promotional activities of existing and new competitors, including non-traditional competitors, and the aggressiveness of that competition; our response to these actions; the state of the economy, including interest rates, the inflationary and deflationary trends in certain commodities, and the unemployment rate;

the effect that fuel costs have on consumer spending; volatility of fuel margins; changes in government-funded benefit programs; manufacturing commodity costs; diesel fuel costs related to our logistics operations; trends in consumer spending; the extent to which our customers exercise caution in their purchasing in response to economic conditions; the inconsistent pace of the economic recovery; changes in inflation or deflation in product and operating costs; stock repurchases; the effect of brand prescription drugs going off patent; our ability to retain additional pharmacy sales from third party payors; natural disasters or adverse weather conditions; the success of our future growth plans; and the successful integration of Harris Teeter. The extent to which the adjustments we are making to our strategy create value for our shareholders will depend primarily on the reaction of our customers and our competitors to these adjustments, as well as operating conditions, including inflation or deflation, increased competitive activity, and cautious spending behavior of our customers. Our ability to achieve sales and earnings goals may also be affected by our ability to manage the factors identified above.

- Our capital investments could differ from our estimate if we are unsuccessful in acquiring suitable sites for new stores, if development costs vary from those budgeted, if our logistics and technology or store projects are not completed on budget or within the time frame projected, or if economic conditions fail to improve, or worsen.

- If actual results differ significantly from anticipated future results for certain reporting units including variable interest entities, an impairment loss for any excess of the carrying value of the reporting units' goodwill over the implied fair value would have to be recognized.

- 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.

- The actual amount of automatic and matching cash contributions to our 401(k) Retirement Savings Account Plan will depend on the number of participants, savings rate, compensation as defined by the plan, and length of service of participants.

- Changes in our product mix may negatively affect certain financial indicators. For example, we continue to add supermarket fuel centers to our store base. Since gasoline generates low profit margins, we expect to see our FIFO gross profit margins decline as gasoline sales increase.

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