Third Quarter 2013
Investor Conference Call Prepared Remarks
December 5, 2013

Mike Schlotman, Kroger Senior Vice President and Chief Financial Officer:
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 third 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.

Thanks again to those of you who were able to join us for our 2013 Investor Conference in New York on October 30.

I will now turn the call over to Dave Dillon, Chairman and Chief Executive Officer of Kroger.

Comments by Dave Dillon:
Thank you, Cindy. Good morning everyone and thank you for joining us today. With me to review Kroger's third quarter 2013 results are Rodney McMullen, Kroger's President and Chief Operating Officer and soon to be CEO, and Mike Schlotman, Senior Vice President and Chief Financial Officer. Also joining us for the call today is Mike Ellis, Kroger's Senior Vice President and soon to be President and Chief Operating Officer.

Our third quarter results were quite strong and helped ensure that 2013 will be another great year. Team Kroger continues to fuel our accelerated growth by performing with consistency and discipline. The resiliency of our Customer 1st Strategy to deliver for shareholders and customers was on full display during the quarter, even as our internal research showed that customers remain uncertain about the economy.

We expanded rolling four quarter FIFO operating margin, excluding fuel and adjustment items; increased return on invested capital while increasing capital investment; lowered operating costs as a percentage of sales; and, once again this quarter, our associates' disciplined performance resulted in positive identical sales in every operating division and every store department. Overall, our quarterly results show once again that Kroger is uniquely positioned to grow and win in the U.S. food retail industry.

I am most proud, however, of another distinctive achievement: ***Team Kroger's 40th consecutive quarter of positive identical supermarket sales.*** And it is not simply the score card that makes this meaningful – although ten full years without skipping a beat is extraordinary. What makes 40 consecutive quarters of positive identical sales so remarkable is the underlying importance of the metric. For retailers, identical sales are the strongest indication of whether or not we are connecting with our customers over time. Every one of our more than 343,000 associates deserves recognition for their individual work to achieve this unprecedented milestone. Congratulations! And I know our entire team is hard at work to achieve the 41st.

We are pleased with where our business is trending, the growth of our loyal households, and our business during Halloween and the important Thanksgiving holiday – all of which give us the confidence that we will achieve our full year earnings per share and identical supermarket sales guidance.

Looking ahead to 2014, we expect our earnings per share growth rate to be 8 – 11%, excluding the effect of the Harris Teeter merger and tax benefits, which is consistent with our long term growth objective.

Now, I'll hand off to Rodney for more details on our third quarter performance and consumer sentiment.

Comments by Rodney McMullen:
Thank you, Dave, and good morning everyone.

Our associates did a terrific job executing our Customer 1st Strategy in the third quarter. We improved our connection with customers, especially our most loyal shoppers, and are receiving more credit from our customers because of our strong progress to improve our fresh products and customer service. As you know, these areas are important aspects of our Four Keys.

Loyal Customer Growth

Before we discuss our loyal customer growth for the quarter, I want to highlight that Kroger has consistently grown loyal households for the past 10 years. We estimate that since 2003, loyal households have increased by an outstanding 83%. That means that today, compared to a decade ago, 83% more households are shopping with greater frequency and purchasing more from our stores. Focusing on our most loyal customers has been a real key to reaching 40 consecutive quarters of positive identical sales.

In the third quarter, we continued to grow the number of loyal households, and our loyal household count grew at a much faster rate than total household growth, which was also up for the quarter.

We have a tremendous opportunity to increase their spending across our family of stores because on average we only capture 50 cents of every dollar loyal customers' spend on products we sell. In the third quarter, loyal customers drove total sales gains in line with our strategy.

Identical Sales Growth

Our strong identical sales in the quarter were largely driven by the increases in total and loyal households. Total units in the quarter were up compared to last year, although items per trip continues to trend down as it has for the last couple of years. We believe this is reflective of changes in shopping patterns that began with the economic downturn and have now become the norm.

We estimate the rate of product cost inflation at 1.5%, excluding fuel and pharmacy.

Dave mentioned earlier that we had positive identical sales in every department. These sales were exceptionally strong in Produce and Natural Foods. These gains confirm that our Customer 1st investments in our products are working as intended, and creating sustainable competitive advantages for Kroger.

We continue to invest to meet our customers' health & wellness needs, and this is evident in our pharmacy and The Little Clinic businesses. We are very pleased with the strong gains we made when our pharmacy team seized the opportunity created by the dispute between Walgreens and Express Scripts, and even more pleased with the scripts that we have retained. By nearly every measure, our pharmacy team took advantage of that opportunity and ran with it. The Little Clinic likewise continues to see strong growth.

Economy and Customer Sentiment

Many of our customers are feeling the stress of an economy that is only slowly improving, and they are not immune to the episodic ups and downs that create uncertainty. There are a number of factors impacting an already fragile consumer sentiment, including government gridlock, various concerns about health care, and it remains to be seen how the reduction in SNAP benefits will impact the entire U.S. retail industry. We continue to see high variability in sales comparisons between days and weeks.

What little economic recovery there is remains bifurcated. For some of our customers, the economy has markedly improved, but for others, there has been no noticeable improvement at all.

While these factors are creating more uncertainty than we normally have, we have never been more confident in our business model and we continue to gain market share. This is because of the remarkable consistency of our Customer 1st Strategy. No matter the environment, our customers and shareholders can depend on Kroger to deliver value. Our ability to make constant adjustments based on what we see in the environment and what our customers are facing has defined Kroger, in our customers' eyes, as a place they can rely on, in good times and in tough times.

We continue to personalize and merchandise in ways that solve for the needs of all of our customers. For the customer under stress, we are offering low entry price points on key items and special low prices on seasonal items, especially in Corporate Brands. And all our customers are benefitting from better service and more value through lower prices on organic and natural foods including Simple Truth, as well as our digital promotions, fuel rewards and health & wellness offerings.

Corporate Brands

Corporate Brands continued to gain market share during the third quarter, with Corporate Brands representing approximately 26.1% of total units sold and sales dollars were 24.1%, excluding fuel and pharmacy.

Operating Leverage

Kroger leveraged operating expenses in the third quarter as associates did a good job controlling costs and driving positive identical sales. Our OG&A costs plus rent and depreciation, without fuel and adjustment items for 2012 and 2013, decreased 27 basis points as a percentage of sales compared to the prior year. We are on track to deliver our ninth consecutive year of leveraging operating costs.

Labor

Before I turn it over to Mike, I want to provide a brief update on labor relations. Our store associates ratified new labor agreements covering stores in Little Rock, Dallas, and Seattle.

We are currently negotiating our contract in Cincinnati, which is on extension until March 1.

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. In fact, over the last five years we've added 33,000 jobs.

Now Mike will offer more detail on Kroger's third quarter financial results and our guidance for the year. Mike?

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

Third Quarter 2013 Results
Total Sales

Total sales increased 3.2% to $22.5 billion in the third quarter, compared to $21.8 billion for the same period last year. We know there are estimates out there that are higher than our total sales, but it is important to keep in mind that the retail price per gallon of fuel was down 8% for the quarter. This is why we look at sales excluding fuel, which increased 4.7% in the third quarter over the same period last year.

Net Earnings

Net earnings for the third quarter totaled $299 million, or $0.57 per diluted share.

Both the current and prior year quarters benefited from certain adjustments.

This year's third quarter includes a $0.04 per diluted share benefit that is comprised of $0.05 from certain tax items, partially offset by expenses related to Kroger's pending merger with Harris Teeter.

Last year's third quarter included a $0.14 per share benefit from a settlement with Visa and MasterCard and from a reduction in the company's obligation to fund the UFCW consolidated pension fund created in January 2012. Excluding these adjustments, earnings per share would have been $0.53 per diluted share in the third quarter this year, and $0.46 per diluted share in the third quarter last year.

FIFO Gross Margin
FIFO gross margin, including fuel, was 20.57% of sales for the third quarter. Excluding retail fuel operations, FIFO gross margin decreased 25 basis points from the same period last year.

LIFO Charge

The company recorded a $13 million LIFO charge during the quarter compared to a $15 million LIFO charge in the same quarter last year. The company continues to estimate its full year LIFO charge at $55 million.

FIFO Operating Margin

FIFO operating profit margin – excluding fuel, the 53rd week last year, and the adjustment items in fiscal 2012 and 2013 – on a rolling four quarter basis, increased 11 basis points. On this basis and for the full year, we continue to expect our non-fuel FIFO operating margin to expand slightly.

Retail Fuel Operations
Turning now to retail fuel operations. We disclose many items with and without fuel due to its effect on operating costs and gross rates, but we view fuel as a core department that is expected to contribute to earnings per share growth. About half of our supermarkets have fuel centers today. In the third quarter, our supermarket fuel centers'

rolling four quarter margin per gallon was approximately 14.1 cents compared to 13.3 cents a year ago. Total gallons sold showed solid growth.

Return on Invested Capital

We increased our return on invested capital on a rolling four quarter 52-week basis, recording a 13.42% return on invested capital this year compared to 13.34% during the same period last year. As we increase capital, 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.

Financial Strategy

Our planned uses of cash remain unchanged:

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

Net total debt was $8.2 billion, a decrease of $525 million from a year ago. On a rolling four quarter 52-week basis, Kroger's net total debt to adjusted EBITDA ratio was 1.86 compared to 2.08 during the same period last year.

Share Repurchase & Dividends

During the third quarter, Kroger repurchased 3.6 million common shares for a total investment of $148 million.

Over the last four quarters, Kroger has returned more than $752 million to shareholders through share buybacks and dividends as a result of our strong financial position.

Capital Investment

Capital investment, excluding purchases of leased property, totaled $641 million for the third quarter, compared to $474 million for the same period last year. Year to date, we have spent $1.8 billion. We expect full-year capital investments to be approximately $2.4 billion.

As you know, we plan to continue increasing capital investment over time. This will take the form of adding square footage in markets where we believe our business model is already resonating with customers. With a better presence we can grow our market share and ROIC. This fill-in strategy is a continuation of efforts that have been underway for some time, and include a new focus on markets such as Dallas, TX and the State of Michigan. Stores we have opened in the earlier fill-in markets are producing results in line with our expectations, giving us the confidence to add new fill-in markets. Additionally, we continue to narrow our focus on markets where we do not currently operate, with the intention of selecting one to enter organically.

Harris Teeter Update

Next, I would like to update you on our pending merger with Harris Teeter. To say we are excited about the prospects of our companies joining together would be an understatement. We know this is going to be an outstanding combination that will benefit our customers, associates and shareholders.

The merger is proceeding as planned. Both Kroger and Harris Teeter are having productive conversations with FTC staff. We believe we are still on track to close the transaction before the end of Kroger's fiscal year 2013.

Updated Guidance for Fiscal 2013

Now I'll update our guidance for the remainder of the fiscal year.

For the fourth quarter of fiscal 2013, Kroger expects identical supermarket sales growth, excluding fuel, of approximately 3.0% to 3.5%.

Excluding certain tax items and expenses related to our pending merger with Harris Teeter, and assuming a LIFO charge consistent with our current estimate, we expect EPS for the year to end up in the range of $2.73 to $2.80 per diluted share. This is consistent with our long term growth rate guidance of 8 – 11%, based on our fiscal 2012 adjusted earnings per share of $2.52, and shareholder return will be further enhanced by a dividend that we expect to grow over time.

While these are fairly large ranges with one quarter to go, several factors including the reduced SNAP benefits, shorter holiday selling season and slow economic recovery make it a little more difficult to precisely predict the fourth quarter. Regardless of where in the ranges we finish, it will be a very strong year demonstrating the strength of our Customer 1st Strategy. I want to echo Dave and Rodney's thanks to all of our associates for your hard work to deliver what will turn out to be a very good year.

We realize such a wide range of potential earnings per share results this late in the year could be somewhat confusing. It could also raise questions about our trends going into next year.

We remain very confident in our ability to deliver 2014 results in line with our 8 – 11 % EPS growth targets. This is why Dave discussed 2014 expectations. Normally we would not talk about this until our year-end release in March, but felt it was important to be clear about the underlying confidence we have in our team and the future.

Now, I will turn it back to Dave.

Comments by Dave Dillon:
Thanks, Mike.

As you can see, Kroger delivered strong across-the-board performance in the third quarter. More importantly, we demonstrated the consistency of our Customer 1st Strategy to deliver for customers and shareholders alike.

Before we turn to your questions, I'd like to take a moment to thank our investors.

As you know, Rodney will become CEO on January 1st. And while I will continue to serve as chairman through the end of next year, Rodney will take the lead on the call next quarter.

I have appreciated our dialogue through the years. You have made me a better retailer as we have envisioned our future. I hope you will continue to invest in Kroger in the years to come.

I could not be more confident in Kroger's future, knowing that our entire leadership team and Rodney McMullen will guide Kroger to even higher levels of performance.

Now, we look forward to your questions.

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Comments by Dave Dillon:

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

Ten years of positive identical sales growth is simply amazing, and I am proud to be a part of an organization that is committed to serving our customers and enriching the lives of others. As I said earlier, each of us had a role to play in reaching this milestone – it is one you should be proud of.

And thank you for all that you do to make our stores the best place to shop during the holiday season. Remember that little things like a smile and friendly greeting always make a customer's day better. I hope each of you celebrate the holidays with family and friends – Merry Christmas and Happy New Year!

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 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 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; 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; and the success of our future growth plans. 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.

- During the first three quarters of the year, our LIFO charge and the recognition of LIFO expense will be affected primarily by estimated year-end changes in product costs. Our LIFO charge for the year will be affected primarily by changes in product costs at year-end.

- 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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