**Fourth Quarter and Full Year 2014**
**Investor Conference Call Prepared Remarks**
**March 5, 2015**

***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 fourth quarter press release, which includes a reconciliation of certain non-GAAP measures discussed today, 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, Kroger's Chairman and Chief Executive Officer. Rodney?

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

## 2014 Results

2014 was an outstanding year for Kroger.

First, let me say how proud I am to work with such an outstanding team of associates. Each of them deserves a round of applause for improving our connection with all customers and growing our core business – right in line with our growth strategy.

Second, I am pleased to report that we kept our commitments to you, our shareholders. As you know, the growth plan we first outlined in October 2012 includes four key performance indicators: positive identical supermarket sales growth, slightly expanding non-fuel FIFO operating margin, growing return on invested capital and annual market share growth. In 2014, we met or exceeded each of these metrics. At the end of the year, we:

- Achieved an industry-leading 45th consecutive quarter of positive identical supermarket sales growth, without fuel;
- Exceeded our goal to slightly expand FIFO operating margin, without fuel, on a rolling four quarters basis;
- Improved return on invested capital even as we increased capital investment; and
- Captured incremental market share for the 10th consecutive year.

Strong performance means strong shareholder returns. We exceeded our long-term, net earnings per diluted share growth rate of 8-11% in fiscal 2014, and we increased our dividend for the eighth consecutive year, since we reinstated our dividend.

Because we've been delivering this level of high performance, consistently and for so long, it can start to look easy or be taken for granted. It is important to know that our associates are committed to our continued success today and for the future.

**Accelerating Growth**

We made progress on the other key elements of our growth plan as well.

We are innovating to grow.

- We expanded our digital capabilities to deepen our relationship with customers in new and exciting ways. More customers than ever before are engaging on our digital properties. The learnings from both our Vitacost and Harris Teeter mergers are allowing us to build an experience that gives our customers the ability to interact with us when, where and how they want.
- Our Corporate Brands team keeps pushing the boundaries on what customers can expect from store brands. Our leading natural and organics brand, Simple Truth, hit $1 billion in annual sales for the first time.

We are investing to grow in both new and existing markets.

- We continue to pursue our fill-in markets strategy and are making good progress.
- Our mergers with Harris Teeter and Vitacost.com have opened new markets that present meaningful growth opportunities for Kroger.
- We continue to create jobs. Today, we proudly employ nearly 25,000 more associates than we did last year at this time. Every day we are creating opportunities for both new and current employees.

## Investment in The Kroger Co. Foundation

Our strong, across-the-board results during fiscal 2014 allowed us to make a strategic and significant contribution to The Kroger Company Foundation this year. We use our foundation dollars to support causes that our customers consistently tell us they care about, enhancing our reputation as a locally-connected retailer. We are very proud that Forbes magazine previously recognized our work by naming us the “most generous company in America”. This contribution will allow Kroger to continue to support our key priorities, including hunger relief, breast cancer awareness, the military and their families, and local community organizations. We are pleased to make this investment to continue our efforts to support our customers and the communities that support our growth.

## Economy and Customer Sentiment

Kroger customers are increasingly positive about the economy since the start of the new year. They are feeling more comfortable with their discretionary spending, in part due to the low retail price of fuel.

Even so, how our customers are doing today depends on the stability of their family’s finances. Customers’ perceptions of economic recovery are still very much divided. And yet, we continue to deepen loyalty with all of our customers. That is because whatever external factors are at play at a given time – be it inflation in certain commodities, fluctuating fuel prices, or unemployment – we adjust to win with the customer.

So while inflation affected food costs through 2014, our personalized offers, weekly promotions and price investments helped customers stretch their dollar. We are currently investing $3.5 billion annually in lower prices. Even though natural and organic foods have been notoriously out of reach for many customers, we used our merchandising expertise, manufacturing base and buying power to make them affordable and accessible to all customers through Simple Truth, which continues to see double-digit sales growth. And while customers will always have evolving expectations for convenience, we have improved our prepared foods offering to meet their changing needs.

Like a great meal, there is no single characteristic that makes Kroger great; rather, it is the sum of its parts. It is the combination of food and drink, people and atmosphere, surprise and delight that makes a great meal, great. And it is that combination of factors that our associates bring together – the sum of our parts – that explains why Kroger is so successful.

Before I turn it over to Mike Ellis, I wanted to let you know that both the Harris Teeter and Vitacost mergers are going very well thanks to the incredible people at both. Mike will have more to say about these and our operational performance. Mike?

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

This was a great quarter, capping off a great year. Our associates make everything happen, and they knocked it out of the park this year on several fronts.

**Positive Identical Supermarket Sales Growth**

We achieved an outstanding fourth quarter identical sales growth without fuel of 6.0%.

As Rodney pointed out in our press release this morning, while improved fuel margins contributed significantly to our reported results in the second half of the year, our operating performance without fuel shows that our associates are continuing to deepen our relationship with customers in very meaningful ways. The better our connection with customers, the better our shareholder returns.

Our identical sales performance was supported by robust performance in every department and every supermarket division. Natural Foods, Meat, Deli and Pharmacy departments all posted double digit identical sales growth.

**Growing Market Share**

For the tenth year in a row, we lowered costs and reinvested those savings to improve our store experience. It is no surprise that Kroger captured more share of the massive food market – also for the tenth year in a row. Our consistent market share gains drive top and bottom line growth and generate lasting shareholder value.

We report on market share annually, and look at it the way customers would look at it – where they spend their money.

Last year we began using Nielsen POS+, a Kroger term for Nielsen data that includes all point of sale data from several competitors and includes all departments inside our stores, except for pharmacy. The data is generated by retailers who report their sales to Nielsen. This includes all major food, drug, mass and dollar competitors as well as most club competitors. It does not include C-stores.

Nielsen POS+ captures roughly 85% of the items we sell, including UPC-coded items, PLU and random weight perishable items, making it a good and consistent source.

According to Nielsen POS+ data, Kroger's overall market share of the products we sell in the markets where we operate grew approximately 60 basis points during fiscal 2014. This data also indicates that our share increased in 18 of the 20 markets outlined by the Nielsen report, and was down slightly in just 2 markets.

Walmart is one of our top two competitors in 15 of the 20 markets outlined in the Nielsen report. Kroger share increased in all of those markets.

## Loyal Customer Growth

In addition to market share growth, we regularly measure our loyal household growth because it lets us know how well we are connecting with our best customers. During the fourth quarter, we continued to grow the number of loyal households, and at a much faster rate than total household growth, which was also up for the quarter.

Customers are buying fewer units per basket but visiting our stores more frequently, consistent with the trend for the past several quarters.

## Tonnage Growth and Inflation

Inflation continued in pharmacy and among commodities such as meat during the fourth quarter. We estimate product inflation was 3.5%, excluding fuel, for the fourth quarter.

In 2015, we expect the strong tonnage growth that we saw in the fourth quarter to continue.

## Corporate Brands – Simple Truth Surpasses $1 Billion in Sales

We've talked a lot this year about our Corporate Brands growth and success. That trend continued in the fourth quarter, with Corporate Brands representing 28.2% of total units sold – the highest level in at least seven years – and 25.8% of sales dollars, excluding fuel and pharmacy. The star, of course, has been Simple Truth. And in 2014 Simple Truth reached an amazing milestone by hitting a $1.2 billion dollar annual sales mark!

Simple Truth has been our most successful brand launch ever, reaching Billion Dollar Brand status in less than two short years. During the year, more than 20 million households bought one of our more than 2,688 Simple Truth or Simple Truth Organic items. The brand continues to earn double-digit unit and sales growth, which we don't see ending anytime soon.

## Harris Teeter Integration

Shifting gears, we just completed our first year since merging with Harris Teeter, and our integration efforts have been fantastic. We are creating synergies both ways, and we are all learning new ways to connect with our customers. The Harris Teeter team is GREAT, and both they and our General Office team have done an outstanding job.

## Vitacost Merger

We are six months into the Vitacost merger and our integration is going well. We continue to discover new ways to use Vitacost as a strategic advantage. We already have a strong natural foods business, and Vitacost is helping us get better in that category.

A cornerstone of our ability to deliver successful mergers is partnering with businesses that share our cultures and values. This makes it easy to share ideas between each other. Harris Teeter and Vitacost both illustrate this point.

**Labor Update**

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

We are currently negotiating in Louisville and with the Teamsters covering several distribution and manufacturing facilities. During 2015 we will also negotiate agreements with the UFCW for store associates in Columbus, Denver, Las Vegas, Memphis and Portland.

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.

We have very positive momentum with our customers, associates and communities as we move into 2015.

Now Mike will offer more detail on Kroger's growth metrics and financial results, as well as our guidance for 2015. Mike?

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

Before I share our fourth quarter and fiscal 2014 results, there are a few things to keep in mind about fiscal 2014.

There are two items that we are adjusting our full year results for:

- Charges incurred in the first quarter related to the restructuring of certain pension obligations to help stabilize associates' future benefits.
- Certain tax benefits in the third quarter.

A lot of other things happened throughout the year as well, including:

- Low retail fuel prices and unusually-high fuel margins.
- A LIFO charge that was significantly higher in 2014 than in 2013.
- A $55 million contribution to our UFCW Consolidated Pension Plan in the fourth quarter.

- And, as Rodney mentioned, we contributed $85 million to the company's charitable foundation throughout the year, $60 million of which was in the fourth quarter.

**Fourth Quarter and Fiscal 2014 Results**

Now, I'll share our fourth quarter results.

Please note that Kroger's operating results include Harris Teeter in fourth quarter and fiscal 2014 but not fourth quarter and fiscal 2013, which affects year-over-year comparisons.

<u>Fourth Quarter Sales</u>
Total sales in the fourth quarter were $25.2 billion, an increase of 8.5%. Excluding fuel, total sales increased by 14.2%.

<u>Fourth Quarter Net Earnings</u>
Net earnings for the fourth quarter totaled $518 million, or $1.04 per diluted share.

<u>Fourth Quarter LIFO</u>
We recorded a $9 million LIFO charge during the quarter, compared to a $10 million LIFO charge in the same quarter last year.

<u>Fourth Quarter FIFO Gross Margin</u>
FIFO gross margin was comparable to the same period last year, excluding retail fuel operations.

<u>Fourth Quarter Total Operating Expenses</u>
Total operating expenses – excluding retail fuel operations, the contributions to the pension and foundation, and the 2013 adjustment items – decreased 15 basis points as a percent of sales compared to the same period last year.

<u>Retail Fuel Operations</u>
Before I move on to discuss Kroger's full-year 2014 results, I'll share some data on our retail fuel operations, which includes our supermarket fuel and c-store businesses.

In the fourth quarter, our cents per gallon fuel margin was approximately 23.4¢ compared to 11.3¢ in the same quarter last year.

For the full year, the cents per gallon fuel margin was roughly 19.0¢ compared to 14.1¢ last year.

Going forward, we expect fuel margins to return to historical averages.

**Fiscal Year 2014 Results**

Turning now to Kroger's full-year results for 2014:

FY 2014 Sales
Kroger reported total sales of $108.5 billion in 2014, an increase of 10.3%. Excluding fuel, total sales increased 12.9% over the prior year.

Identical supermarket sales, without fuel, increased 5.2% in year 2014 compared to the prior fiscal year.

FY 2014 Earnings
Net earnings for 2014 totaled $1.73 billion, or $3.44 per diluted share. Excluding the 2014 adjustment items, net earnings for 2014 totaled $1.77 billion, or $3.52 per diluted share.

It is important to note that if you look at adjusted EPS excluding fuel, it was at the high end of our long-term growth rate even with the contributions to the pension and foundation included. So while fuel margins get a lot of attention, our non-fuel business had a spectacular year.

FY 2014 LIFO Charge
Kroger's LIFO charge for 2014 was $147 million, significantly higher than 2013 due to higher product costs.

FY 2014 FIFO Gross Margin
FIFO gross margin for 2014, excluding retail fuel operations, declined 3 basis points.

FY 2014 Total Operating Expenses
As Mike said, strong identical supermarket sales and cost controls allowed Kroger to reduce operating expenses as a rate of sales for our tenth consecutive year.

Total operating expenses for 2014 – excluding retail fuel operations, the contributions to the pension and foundation, and the 2013 adjustment items – decreased 13 basis points as a percent of sales compared to the prior year.

FY 2014 FIFO Operating Margin
FIFO operating margin for 2014 – excluding retail fuel operations, the contributions to the pension and foundation described above, and the 2013 adjustment items – increased 10 basis points compared to the prior fiscal year.

Return on Invested Capital
Kroger's strong EBITDA performance resulted in a return on invested capital for fiscal 2014 of 13.74%, compared to 13.43% for fiscal 2013.

**Financial Strategy**

For 2015, our planned uses of cash remain unchanged:

1. Maintain our current investment grade debt rating,
2. Repurchase shares,

3. Fund the dividend, and
4. Increase capital investments.

Investment grade debt rating
In connection with our merger with Harris Teeter, we committed to getting back to a 2.00 – 2.20 net total debt to adjusted EBITDA ratio by mid-to-late fiscal 2015. I'm pleased to report that we achieved our objective earlier than anticipated due to strong fiscal 2014 operating results. As of the close of the fourth quarter, net total debt to adjusted EBITDA ratio decreased to 2.15, compared to 2.43 during the same period last year, as described in Table 5 of the press release. Based on our current 2015 expectations, we should maintain a ratio below the 2.20 target throughout the year.

Capital investments
Capital investments, excluding mergers, acquisitions and purchases of leased facilities, totaled $2.8 billion for the year, compared to $2.3 billion in 2013.

For 2015, we expect capital investments to be in the $3.0 to $3.3 billion range.

As you know, part of our long-term growth strategy is to increase capital investments over time. We continue with this plan as new store openings are meeting our expectations. We have a great pipeline of high quality projects that we expect to continue this. We will allocate more of this spend to increase the square footage in our fill-in markets. We have now identified eight markets for fill-in opportunities. This is up from six. Our excitement for this continues to grow.

Share Repurchase & Dividends
Kroger's strong financial position allowed the company to return more than $1.6 billion to shareholders through share buybacks and dividends in 2014. During the year, Kroger repurchased 28.4 million common shares for a total investment of $1.3 billion.

As of February 27, 2015, Kroger has approximately $432 million remaining under the $500 million share repurchase authority granted in June 2014.

**Fiscal 2015 Annual Guidance**

Now I'd like to outline our specific growth objectives for fiscal 2015.

We anticipate identical supermarket sales growth, excluding fuel, of approximately 3.0% to 4.0% for fiscal 2015. This range takes into account several factors: It is early in the year, our outlook for inflation is lower than actual inflation last year, and we expect our strong trend in unit growth to continue in 2015.

Full-year net earnings for fiscal 2015 are expected to range from $3.80 to $3.90 per diluted share. This equates to Kroger's long-term net earnings per diluted share growth rate of 8 – 11%, growing off of 2014 adjusted earnings of $3.52 per diluted share. Shareholder return will be further enhanced by a dividend expected to increase over time.

As we think about the base we will grow off of in 2015, we expect fuel margins to return to historical averages, we are not planning for similar contributions to the pension and our foundation, and we expect LIFO to be lower than it was in 2014. We are anticipating inflation without fuel of 1 – 2%. The actual amount will be driven primarily by inflation in meat and pharmacy.

So while fuel margins will be a headwind in 2015, we expect they will be offset by a lower LIFO charge, no planned contributions to the pension and our foundation, and the continued strength in our core business.

For the full year our expectation is that we will be in the middle portion of the range. As we look at quarter comparisons in relation to our 8 – 11% annual growth rate, we believe quarter 1 will be in the range, quarters 2 and 3 will be slightly above the range, and quarter 4 slightly below the range.

And, we expect Kroger's full-year FIFO operating margin in 2015, excluding fuel, to expand slightly compared to fiscal 2014 results.

Now, I will turn it back to Rodney.

***Comments by Rodney McMullen:***
Thanks, Mike.

I'm so proud of our team. We fulfilled our commitments to our customers, associates, shareholders and bondholders in 2014. Kroger captured more share of the massive food market and continued investing to grow our business. We created thousands of new jobs, and hired more than 6,000 veterans last year. While we are very proud of this outstanding year, we are committed to even more. As I mentioned at our investor day, our "to do" list remains longer than our "done" list.

Now, we look forward to your questions.

***

***Comments by Rodney McMullen:***

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

I'd like to thank all of our associates for their hard work and dedication in serving our customers. We finished 2014 strong thanks to your commitment in providing friendly service and fresh product to our eight million customers every time, every day. Thank you to each and every one of you for making a difference with our customers and each other.

As many of you know, our Community Service Awards honor and recognize our associates who through their widespread volunteer activity, charitable involvement and leadership make a difference in the communities where we live, work and raise our families. Nominations for our 2014 Community Service Awards are now being accepted. Whether you support the hungry, veterans and active duty military, cancer awareness or your favorite local organization, I encourage you to apply or nominate a coworker for this prestigious award. Winners from each division will receive $500 to donate to their charity of choice. Make sure you connect with your HR manager for more information and nomination deadlines in your division. Thank you for all that you do! Your work in our communities is simply amazing.

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," "anticipate," "objective," "goal", "will," "guidance," "continue," "believe," "committed," "plan" and similar words or phrases. 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 cash flow to continue to maintain our investment grade debt rating and to repurchase shares, fund dividends and increase capital investments, could be affected by unanticipated increases in net total debt, our inability to generate 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; our ability to retain pharmacy sales from third party payors; consolidation in the healthcare industry, including pharmacy benefit managers; our ability to negotiate modifications to multi-employer pension plans; natural disasters or adverse weather conditions; the potential costs and risks associated with potential cyber-attacks or data security breaches; the success of our future growth plans; and the successful integration of Harris Teeter. 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 each fiscal year, our LIFO charge and the recognition of LIFO expense is affected primarily by estimated year-end changes in product costs. Our fiscal year LIFO charge is 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 plans will depend on the number of participants, savings rate, compensation as defined by the plans, 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 margins decline as gasoline sales increase.

###