**Third Quarter 2015**
**Investor Conference Call Prepared Remarks**
**December 3, 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 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.

Thank you for attending our 2015 Investor Conference in October. We appreciated the opportunity to share with you our strategy and to give you a chance to hear from other members of our senior management team.

I will now turn the call over to Kroger's Chairman and Chief Executive Officer, Rodney McMullen.

***Comments by Rodney McMullen:***
Thank you, Cindy. Good morning everyone and thank you for joining us today. With me to review Kroger's third quarter 2015 results is Mike Schlotman, Executive Vice President and Chief Financial Officer.

Hopefully you saw our announcement earlier this week that Cindy Holmes has been promoted to senior director of pension investments. I wanted to take a moment to thank Cindy for her service in investor relations. Both Mike and I appreciate Cindy's efforts these past several years, which as you know have been exciting and transformative years for Kroger. We know she'll continue to contribute to Kroger's success in her new role.

I'd also like to introduce Kate Ward, who has been promoted to director of investor relations. Kate joined Kroger in 2001, and has held a number of leadership roles in our audit and finance departments. We hope you'll join us in welcoming Kate to her new role.

## Third Quarter Highlights

We often say that Kroger's success starts and ends with our more than 400,000 associates connecting with our customers every day. Our third quarter results are a terrific example of our team's ever-deepening connection with customers.

We achieved our 48th consecutive quarter – that is 12 consecutive years! – of positive identical supermarket sales growth with very strong ID sales of 5.4%. We exceeded our goal to slightly expand FIFO operating margin, without fuel, on a rolling four quarters basis. And we continued to manage costs so that we can continue investing to grow for the future while delivering today. Based on Kroger's strong third quarter performance, we are raising our identical supermarket sales guidance and our net earnings per diluted share guidance for the year.

## Pension Contributions

During the third quarter we contributed $80 million to the UFCW Consolidated Pension Plan. This is the latest in a series of steps we've taken during the last four years to help stabilize pension benefits for our associates while continuing to deliver strong shareholder value.

In January 2012, we agreed to establish the UFCW Consolidated Pension Plan by working with the union to consolidate four multi-employer pension funds into one. This agreement protected pensions already earned and provided greater stability for the future benefits of more than 65,000 Kroger associates.

In June 2014, we announced similar agreements with two additional multi-employer pension funds.

All of these steps reflect our strategic decision to increase certainty of pension benefits for our associates. These are examples of how we identify opportunities to use our financial flexibility.

## Roundy's Merger

We are very excited about our pending merger with Roundy's, Inc. We have filed our tender offer documents and while we wait for the conclusion of that process and regulatory approval, I simply want to reiterate how much we are looking forward to welcoming the Roundy's team to the Kroger family of stores.

## Economy and Customer Shopping Behavior

The economy overall continues to slowly improve, and customers continue to feel more optimistic. But the bifurcation in the economy remains – some customers are willing to spend more while others who are worried about their job or next paycheck are more focused on saving.

We find that all customers want quality products and a great shopping experience. For the customer who's more focused on natural and organic products, we have our own Simple Truth brand. We also have many entry-level price point items of excellent quality. For customers looking for incredibly-high quality products like Boar's Head or Murray's Cheese, we have that, too.

Our job is to understand and deliver for our diverse set of customers so they can save where they want to save, or splurge where they want to splurge.

**Sustainability Progress**

Finally, before I turn it over to Mike, I would like to note that there is an important global dialogue taking place that underscores the positive role businesses play in sustainability. Kroger's team has been making progress to integrate sustainable practices into our everyday business operations.

For example, our stores and manufacturing facilities have made significant progress by reducing the amount of waste sent to landfills.

- In five years, the number of stores recycling food waste has increased 73%, from 290 to more than 1,075 this year.
- 30 of our 37 manufacturing plants are sending zero waste to landfills – an increase of nine facilities since 2013.

Taken together, Kroger is sending 69% less waste to landfills than we used to – and we will continue working toward zero waste.

This is only possible due to the thousands of individual activities our associates are doing on a daily basis. Their efforts are helping make each community we serve a better place to live. And, they have helped earn Kroger a spot on the Dow Jones Sustainability Index for the 3rd consecutive year. More than 600 companies in North America are evaluated each year, and only the top 20% are listed on the index. This is obviously something we are very proud of.

We look forward to sharing our new five-year sustainability goals… with an eye toward pushing for faster and more accelerated progress… in the near future.

As you can see, we have a lot going on at Kroger. I'm thrilled with our financial results, and what we are doing for our associates, communities and shareholders.

Now Mike will offer more detail on Kroger's third quarter results, provide an update on labor relations, and update our guidance for 2015. Mike?

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

**Third Quarter Growth Metrics**

First, I'd like to spend a few minutes discussing our results for the quarter in each of the key performance target areas for our long-term growth plan.

<u>Identical Supermarket Sales</u>

Our first metric is identical supermarket sales without fuel. As Rodney noted earlier, we are very pleased with our 5.4% identical supermarket sales growth in the third quarter. It reflects the underlying strength of our core business and our associates' growing connection with customers.

Identical supermarket sales growth was driven by a combination of very strong tonnage growth, plus an increase in both the number of households shopping with us and the number of visits per household in the third quarter.

As you know our goal is to grow the number of loyal households at a faster rate than the number of total households who shop with us. I'm happy to report we continue to meet this goal, quarter after quarter.

All geographies and supermarket departments had positive identical supermarket sales, excluding fuel, during the quarter, with our deli and produce departments leading the way. We continue to see outstanding, double-digit identical sales growth in our Natural Foods department.

<u>FIFO Operating Margin</u>

Our second metric is FIFO operating margin without fuel.

Several items are excluded from our third quarter, rolling four quarters calculation. Specifically:

- The 2014 and 2013 adjustment items,
- the contribution to The Kroger Co. Foundation in the third and fourth quarters of 2014, and
- the contribution to the UFCW Consolidated Pension Plan in the fourth quarter of 2014 and third quarter of 2015.

On this basis and without fuel, FIFO operating margin increased by 18 basis points in the third quarter.

Our operating margin has expanded more than our goal largely due to the combination of two factors: first, continued stronger than expected sales; and second, that the continued incremental investments we are making in our Customer 1st Strategy are being made in a sustainable way, based on insights from 84.51°.

This is not a “new normal” for operating margin expansion, but rather a demonstration of our diligence in how and when we invest.

Return on Invested Capital

Return on invested capital, on a rolling four quarters basis, was 14.16%. We are not presenting a comparative number this quarter because the last year’s third quarter calculation does not include a full year of Harris Teeter assets and results. We continue to expect return on invested capital for fiscal 2015 to increase from the fiscal 2014 result. This is an important metric as we continue to increase our capital investment to drive our future growth.

**Inflation/Deflation**

Before I share our third quarter results in more detail, I’d like to discuss how we are successfully managing through the current inflationary environment.

While inflation continued at a lower rate during the third quarter – which we estimate was approximately 1.1% without fuel – some commodities had high inflation and others had deflation. We saw inflation in produce, while Meat, Seafood, Deli and Milk were all deflationary. We continue to see inflation in pharmaceuticals.

**Third Quarter 2015 Results**

Now, I’ll share our third quarter 2015 results in more detail.

Third Quarter Total Sales

As you know, we don’t provide guidance for total sales because of the unpredictable influence that fuel has on our overall results. Total sales in the third quarter were affected by the low retail price of fuel, much like in the first and second quarters. The average price of retail fuel during our third quarter was $2.30 compared to $3.22 last year.

Total sales in the third quarter increased 0.4% to $25.1 billion, compared to $25.0 billion in the same period last year. Excluding fuel, total sales increased 5.5% in the third quarter compared to the same period last year.

Third Quarter Net Earnings
In the third quarter, our net earnings totaled $428 million, or $0.43 per diluted share. Net earnings in the same period last year were $362 million, or $0.36 per diluted share, including a $0.02 benefit due to certain tax items. Excluding this, Kroger’s adjusted net earnings were $345 million, or $0.35 per diluted share, for the third quarter of fiscal 2014. These numbers don’t sum due to rounding.

Third Quarter LIFO
Kroger recorded a $9 million LIFO charge during the third quarter compared to an $85 million LIFO charge in the same quarter last year.

We have lowered our full-year LIFO expectation to $75 million, from $90 million previously.

Third Quarter FIFO Gross Margin
FIFO gross margin, excluding retail fuel operations, decreased 4 basis points from the same period last year.

Third Quarter Total Operating Expenses
Strong identical supermarket sales growth and cost controls allowed Kroger to leverage core operating expenses as a rate of sales in the third quarter.

Total operating expenses – excluding retail fuel operations, a $25 million contribution to The Kroger Co. Foundation in the third quarter of 2014, and an $80 million contribution to the UFCW Consolidated Pension Plan in the third quarter of 2015 – decreased 23 basis points as a percent of sales compared to the prior year.

Third Quarter FIFO Operating Margin
Third quarter FIFO operating profit, excluding fuel and the adjustment items I mentioned a moment ago, increased approximately $66 million over the prior year.

Retail Fuel Operations
Now for retail fuel operations. In the third quarter, our cents per gallon fuel margin was approximately 23.8¢ compared to 23.2¢ in the same quarter last year.

Fuel results have been more difficult to predict than normal. We did not expect fuel margins to remain this high, this late into the year. Our expectation for the fourth quarter is a moderation in margins. Volatility in weekly fuel costs remains high, and where those costs end up will influence our fourth quarter results.

Corporate Brands
Corporate Brands' performance during the third quarter was strong, representing approximately 27.7% of total units sold, and 25.9% of sales dollars, excluding fuel and pharmacy.

Simple Truth continues to grow at an astonishing rate, setting a record high for total sales in the third quarter, while continuing to establish all-time weekly sales records throughout the quarter.

Our newest brand, HemisFares, has been embraced by foodie customers. So much so that we are currently having difficulty keeping HemisFares Sicilian Gelato in stock. We are working with our Sicilian supplier to expand capacity, while maintaining the best-in-the-world quality of the product.

**Labor Update**

I will provide a brief update on labor relations.

We ratified contracts with the UFCW for store associates in Denver and with the Teamsters covering our Southern California distribution centers.

We are currently negotiating a contract with the UFCW for store associates in 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.

**Financial Strategy**

Kroger's long-term financial strategy is to use its financial flexibility to drive growth while also returning capital to shareholders.

Maintaining our investment grade debt rating is the cornerstone of this strategy, as it enables us to use our cash flow to take advantage of strategically and financially compelling opportunities and to continue our fill-in strategy, repurchase shares and fund the dividend, which is expected to increase over time.

Share Repurchases
Our strong financial position has allowed us to return $1.1 billion to shareholders through share buybacks and dividends over the last four quarters.

During the third quarter, Kroger repurchased approximately 853,000 common shares for a total investment of $31 million.

Capital investments
Capital investments, excluding mergers, acquisitions and purchases of leased facilities, totaled $832 million for the third quarter, compared to $681 million for the same period last year.

We expect capital investments excluding mergers, acquisitions and purchases of leased facilities, to slightly exceed $3.3 billion for the year.

We continue to see a strong pipeline of high quality projects, and are encouraged by the results from our new stores.

In order to have a steady flow of projects, and increase the total number of store projects, we are spending on stores scheduled to open in 2016 to make sure they are ready to meet our target dates. Additionally, we continue to reduce the amount of time it takes to complete projects.

Maintain Current Investment Grade Debt Rating
The company's net total debt to adjusted EBITDA ratio decreased to 1.99, compared to 2.27 during the same period last year.

We expect our net total debt to adjusted EBITDA ratio to remain under 2.20 upon the close of our Roundy's merger transaction.

Kroger's net total debt is $11.3 billion, compared to $11.5 billion during the same period last year.

As I mentioned last quarter, we have essentially maintained our absolute debt level while returning $1.1 billion to shareholders through share buybacks and dividends over the last four quarters, investing $3.2 billion in capital on a rolling four quarters basis, plus an additional $160 million on mergers, acquisitions and purchases of leased facilities. In other words, we are keeping our commitments to our bondholders and shareholders, and creating opportunities for our associates.

**Updated 2015 Guidance**

Now I'd like to update our growth objectives for the remainder of 2015.

Based on our strong year-to-date performance, we raised our net earnings per diluted share guidance to a range of $2.02 to $2.04 for fiscal 2015. The previous guidance was $1.92 to $1.98 per diluted share.

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

As with our third quarter results, the performance of fuel in the fourth quarter will determine where we end up in the range.

For the fourth quarter of fiscal 2015, we expect identical supermarket sales growth, excluding fuel, of 4.0% to 4.5%. As we said in our press release this morning, that implies an annual guidance range of approximately 5.0% to 5.25%.

Now, I will turn it back to Rodney.

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

As you can see, Kroger delivered another spectacular quarter … and marked our twelfth consecutive year of positive quarterly identical supermarket sales growth.

When you achieve such consistently remarkable results, quarter after quarter, it is easy to take them for granted. In fact, we have spent the past few years investing in our unique and multifaceted business model, which we believe has been a key driver of our success. We continually strive to innovate for our customers while delivering on our commitments to you, our shareholders. At a time when so many other retailers are facing very difficult circumstances, Kroger continues to stand out from the pack thanks to our incredible associates.

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.

As I said a few minutes ago, Kroger's consistent, outstanding results are easy to take for granted. The fact is, YOUR hard work in our stores and facilities every day makes it all possible. YOUR commitment to our customers brings our Customer 1st Strategy to life. In large and small ways, each and every day, what YOU do makes these terrific results possible.

The holiday season is such a special time of year in our stores all over the country. You help millions of customers every day prepare for celebrations at their schools, offices, churches, homes and more. Thank you for your hard work to make the holidays brighter for each of them. You also make it a season for giving by working with Feeding America, the Salvation Army and other local community partners who work with us to donate food and other items where they are needed most. Thank you!! And thank you for being part of our big Kroger team.

Merry Christmas and Happy Holidays to you and your family!

That completes our call today. Thanks for joining.

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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," 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 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 nontraditional 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 ability to execute our financial strategy may be affected by our ability to generate cash flow.

- 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.

- 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.

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