**Fourth Quarter and Full Year 2015**
**Investor Conference Call Prepared Remarks**
**March 3, 2016**

***Kate Ward, 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 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 Kroger's Chairman and Chief Executive Officer, Rodney McMullen.

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

## 2015 Highlights

Let me just start by saying, Wow…what a year!

I'm delighted to report that Kroger executed on our growth plan and delivered on our financial performance commitments in 2015. We delivered our 49th consecutive quarter of positive identical supermarket sales growth without fuel, and our eleventh consecutive year of market share growth. We met our goal to increase capital investment while improving return on invested capital. And, excluding Roundy's, we exceeded our commitment to slightly expand FIFO operating margin, excluding fuel.

Our 431,000 associates make it all happen. I am very proud of our team. By keeping our focus on serving one customer at a time, we continue to deliver for our customers and our shareholders with remarkable consistency.

I also want to welcome the Roundy's associates in Wisconsin and Chicago to the Kroger family! Our merger closed in December, and integration is well underway. As we've gotten to know the people at Roundy's, it is clear they share our values and desire to make a difference for our customers.

We continue to successfully expand the new technologies that Harris Teeter and Vitacost.com brought to Kroger, which provide an even better shopping experience for our customers.

We developed *ClickList* – our shop online, pickup at the store service – based on what we learned from Harris Teeter's *Express Lane*. I'm pleased to share that we have expanded *ClickList* from one to seven markets. We continue to improve the offering and our customers and associates both are providing very positive feedback.

We are testing Vitacost.com's technology and ship-to-home infrastructure in Denver through a pilot in our King Soopers division. And we are testing a similar *Endless Aisle* experience in a new store format that we launched earlier this month in Gig Harbor, Washington.

We are very excited about this new community-focused grocery store concept called *Main & Vine*. *Main & Vine* mixes local, specialty and everyday products all at affordable prices. It reimagines the modern grocery shopping experience…placing in the middle of the store fresh produce and bulk items, along with an Event Center where shoppers can enjoy cooking demonstrations, food and beverage tastings, and find new recipe ideas. Customer feedback has been very positive.

**Corporate Brands**

2015 was a big year for our Corporate Brands portfolio, accounting for more than $20 billion of our total revenue.

During the fourth quarter, Corporate Brands represented approximately 29% of total units sold, and 26.2% of sales dollars, excluding fuel and pharmacy.

Simple Truth continues to grow at an incredible rate, setting sales records quarter after quarter. The brand reached $1.5 billion in revenue for the year. And, already in 2016, Simple Truth expanded to be a true lifestyle brand with the introduction of Simple Truth household, personal care and baby products.

We expect 2016 to be an exciting year of continued innovation throughout our Corporate Brands portfolio.

**A Culture of Innovation, a Culture of Opportunity**

There is a lot going on at Kroger. We are creating a seamless experience for our customers. Whether experimenting with new formats, driving digital engagement or launching new corporate brand products, we believe that combining Kroger's culture of innovation with our culture of opportunity will continue to support our growth.

Kroger has an incredibly strong management team and a deep bench of leaders throughout our business. We are incrementally investing in leadership development and training for all of our associates, including high-volume store managers and future senior leaders. And, we created 9,000 new jobs last year at all levels, which means even more opportunities for current associates to grow and advance. For example, we established a new operating division, the Dallas division, which created dozens of new leadership opportunities.

**Economy and Customer Shopping Behavior**

Looking at the economy and customer shopping behavior during 2015, we noticed that customer sentiment held relatively steady throughout the year vs. previous years in which their attitudes were more volatile. The past few months we've seen the top economic concern shift from rising health care costs to the stock market. Customers have more disposable income as a result of significantly lower fuel prices. Yet, economic uncertainty remains, which typically causes people to cut back on discretionary spending.

That said, an interesting insight is that our customers continue to spend with us. If you look at some of our high quality offerings such as Murray's Cheese, Private Selection, Starbucks and Boar's Head, or at the strength of our wine and craft beer business, it is clear that customers across all demographics want a great food experience.

Because Kroger is doing a better job of offering high quality food at affordable prices, we continue to win with our customers even as they remain cautious about their overall spending.

2015 was an outstanding year for Kroger. We delivered on our performance targets and continued to expand our use of technology to drive growth. In 2016, we will continue making a difference for our customers and associates, growing our business, and delivering value for shareholders.

Now Mike will offer more detail on Kroger's financial results and outline our guidance for 2016. Mike?

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

As Rodney said, wow – *what a year!*

We exceeded all four of our financial performance commitments for the year. Identical supermarket sales and net earnings per diluted share growth, FIFO operating profit margin and return on invested capital were all better than our annual and long-term guidance. Market share growth continued, improving by 40 basis points, with 17 of 20 markets outlined by the Nielsen POS+ data up and just one market down.

We had a lot of unique items in last year's fourth quarter which make comparisons more complicated. So I'd like to spend the next few minutes discussing the story behind the numbers for our fourth quarter and fiscal year, and to give you some color on those and the current operating environment.

**Fourth Quarter ID Sales & Inflation/Deflation**

There is a lot of speculation about inflation or deflation or disinflation. We believe a deeper dive is required when the operating environment has increased volatility. When you look at identical supermarket sales, you should not come to the conclusion that less inflation is fundamentally a bad thing. In fact, if you look at our real growth in the fourth quarter – that is identical supermarket sales less inflation – this year's fourth quarter result was stronger than last year's fourth quarter, when identical sales were over 6%.

Tonnage stayed strong at over 3% unit growth during the quarter. The strong tonnage allowed us to grow FIFO gross profit dollars, excluding fuel and Roundy's, by 4.4% in the quarter.

All but one supermarket department had positive identical supermarket sales, excluding fuel, during the quarter. Our Natural Foods, Deli and Produce departments led the way.

The Meat department was slightly negative due to 5% deflation in the category. This deflation has allowed retail prices to return to levels where more customers can reenter the category or increase their purchases in the department. As a result of strong tonnage, the Meat department had a great quarter with strong FIFO gross profit dollar growth and a nice contribution to margin. This is what we often refer to as "good deflation".

**Fourth Quarter Operating Costs**

Our operating costs as a rate of sales were down for the eleventh consecutive year, however, they were up 23 basis points in the fourth quarter.

This calculation excludes retail fuel operations and Roundy's, excludes a $60 million contribution to The Kroger Co. Foundation and a $55 million contribution to the UFCW Consolidated Pension Plan, both in the fourth quarter of 2014; and excludes a $30 million contribution to the UFCW Consolidated Pension Plan in the fourth quarter of 2015.

There were several expenses in the quarter that won't continue at the same rate in future quarters, including chargebacks related to the transition of our payment systems to EMV that we expect to level out throughout 2016. We also saw higher pension costs, and health care costs – due to an increase in the number of claims and higher cost health care claims – during the fourth quarter.

It is worth noting that the growth in dollars for operating costs was lower than the growth in total sales dollars, without fuel.

All that said, we can and will do a better job in some expense categories, including shrink, completing our EMV rollout and benefit costs.

Retail Fuel Operations

In December, we said that volatility in weekly fuel costs would influence our fourth quarter results. That was true for the fourth quarter, as our cents per gallon fuel margin was approximately 16.9¢ compared to 23.4¢ in the same quarter last year.

Fuel in the fourth quarter only contributed about half as much net earnings per diluted share compared to last year's fourth quarter.

For the full year, the cents per gallon fuel margin was roughly 17.4¢ compared to 19.0¢ last year.

**Fourth Quarter EPS**

Our fourth quarter net earnings per diluted share increased 9.6% to $0.57, compared to $0.52 last during the same period last year.

This result was helped by the lower tax rate and lower LIFO expense, but our strong real growth contributed to our results.

**Financial Strategy**

Our 2015 cash flow generation was strong, allowing us to make $3.3 billion in capital investments during the year excluding mergers, acquisitions and purchases of leased facilities.

We repurchased $703 million in stock and returned $385 million to shareholders through our dividend.

Net operating working capital declined $451 million, which also enhanced cash flow.

Our net total debt to adjusted EBITDA ratio came in at 2.08, compared to 2.14 during the same period last year, even while investing approximately $870 million in our merger with Roundy's late in the year.

Our balance sheet is as strong as ever.

**Labor Update**

I will provide a brief update on labor relations.

In 2016, we will negotiate agreements with UFCW for store associates in Houston, Indianapolis, Little Rock, Nashville, Portland, Southern California and Fry's in Arizona.

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, 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.

**Fiscal 2016 Annual Guidance**

Turning now to our 2016 guidance.

We expect identical supermarket sales growth, excluding fuel, of approximately 2.5% to 3.5% for 2016, reflecting the lower inflationary environment.

For full-year net earnings, we expect 2016 to range from $2.19 to $2.28 per diluted share. Where we fall within the range will be primarily driven by actual fuel margins. We expect margins will be at or slightly below the five-year average, with continued volatility. We expect our core business in 2016 to grow in line with its long-term net earnings per diluted share growth rate of 8 – 11%. Shareholder return will be further enhanced by a dividend which is expected to increase over time.

In thinking about the cadence of our quarterly results compared to our long-term 8-11% guidance:

- First quarter midpoint to high-end.
- Second quarter below the range. Keep in mind 2015 grew 26%.
- Third quarter midpoint.
- Fourth quarter midpoint.

We expect capital investments excluding mergers, acquisitions and purchases of leased facilities, to be in the $4.1 to $4.4 billion range for 2016.

We expect Kroger's full-year FIFO operating margin in 2016, excluding fuel, to expand slightly compared to 2015 results.

Now, I will turn it back to Rodney.

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

2015 was an outstanding year. We delivered on our performance targets, grew market share, created 9,000 new jobs and even more opportunities for our associates, and we continued to expand our use of technology to drive growth.

We look forward to continuing that momentum in 2016.

Obviously, lower inflation will be a headwind to sales. But when you look back over the past several years, we've had periods of high and low inflation and we've shown that regardless of the environment, we consistently do our job to manage through it and maintain relative pricing. In doing so we'll continue to deliver greater value for our customers and for our shareholders.

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.

Our strong results in 2015 are the result of your hard work and dedication to our customers, each other and the communities we serve. I want to thank each of you for what you do every day to make a difference for our customers. Sometimes even simple things make someone's day brighter. Like when Kroger associates in Tennessee worked with a community partner to deliver flowers to seniors, or when our Fry's team celebrated a special customer's 101st birthday at a Tucson store. Our customers appreciate your thoughtfulness – keep up the great work!

Across the country, we continue to listen to our associates' feedback. In addition to solid pay, health care, pension and other benefits, you've told us that work-life balance is important too. That's why we are introducing advance notice work schedules for associates working in our stores.

This means associates will have their work schedule farther in advance – every time. This is designed to help you plan and manage other important things such as school, family, and other events and responsibilities. Fourteen of our retail divisions have introduced this or are doing so now, and several others will be launched by the end of the first quarter. We worked closely with our union locals to introduce this. So far, feedback from our associates has been positive.

As always, thank you again for your continued commitment to Kroger and our customers!

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 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 and Roundy's. 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 fuel generates lower profit margins than our supermarket sales, we expect to see our FIFO gross margins decline as fuel sales increase.

Kroger assumes no obligation to update the information contained herein. Please refer to Kroger's reports and filings with the Securities and Exchange Commission for a further discussion of these risks and uncertainties.

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