

During 2014, Kroger awarded 446,288 performance units to approximately 178 employees, including the named executive officers. The Committee considers several factors in determining the amount of performance units awarded to the named executive officers or, in the case of the CEO, recommending to the independent directors the amount awarded. These factors are described in the Equity Awards section below.

### ***Equity Awards***

Awards based on Kroger's common shares are granted periodically to the named executive officers and a large number of other employees. Equity participation aligns the interests of employees with your interest as shareholders, and Kroger historically has distributed equity awards widely. The plans include both stock options and restricted stock. In 2014, Kroger granted 4,226,855 stock options to approximately 8,514 employees, including the named executive officers. The options permit the holder to purchase Kroger common shares at an option price equal to the closing price of Kroger common shares on the date of the grant. Options are granted only on one of the four dates of Committee meetings conducted after Kroger's public release of its quarterly earnings results. During 2014, Kroger awarded 3,023,711 shares of restricted stock to approximately 21,299 employees, including the named executive officers. Under Kroger's long-term incentive plans, the Committee determines the vesting schedule for stock options and restricted stock. During 2014, the Committee granted to the named executive officers: (a) stock options with a five year vesting schedule; and (b) restricted stock with a three or five year vesting schedule (with the exception of one award, which has a one year vesting schedule).

As discussed earlier under Stock Ownership Guidelines, covered individuals, including the named executive officers, must hold 100% of the shares received upon the exercise of stock options or upon the vesting of restricted stock, except those necessary to pay the exercise price of the options and/or applicable taxes, until applicable stock ownership guidelines are met, unless the disposition is approved in advance by the CEO, or by the Board or Compensation Committee for the CEO.

The Committee considers several factors in determining the amount of options, restricted stock, and performance units awarded to the named executive officers or, in the case of the CEO, recommending to the independent directors the amount awarded. These factors include:

- The compensation consultant's benchmarking report regarding equity-based and other long-term compensation awarded by our competitors;
- The officer's level in the organization and the internal relationship of equity-based awards within Kroger;
- Individual performance; and
- The recommendation of the CEO, for all named executive officers other than the CEO.

The Committee has long recognized that the amount of compensation provided to the named executive officers through equity-based pay is often below the amount paid by our competitors. Relatively lower equity-based awards for the named executive officers and other senior management permit a broader base of Kroger employees to participate in equity awards and further emphasizes the pay for performance philosophy.

Amounts of equity awards issued and outstanding for the named executive officers are set forth in the tables that follow this discussion and analysis.

### **RETIREMENT AND OTHER BENEFITS**

Kroger maintains a defined benefit and several defined contribution retirement plans for its employees. The named executive officers participate in one or more of these plans, as well as one or more excess plans designed to make up the shortfall in retirement benefits created by limitations under the Internal Revenue Code on benefits to highly compensated individuals under qualified plans. Additional details regarding retirement benefits available to the named executive officers can be found in the 2014 Pension Benefits table and the accompanying narrative description that follows this discussion and analysis.

Kroger also maintains an executive deferred compensation plan in which some of the named executive officers participate. This plan is a nonqualified plan under which participants can elect to defer up to 100% of their cash compensation each year. Compensation deferred bears interest, until paid out, at the rate