Second Quarter 2012
Investor Conference Call Prepared Remarks
September 7, 2012

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 second quarter press release and our prepared remarks from this conference call will be available on our website at www.thekrogerco.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 topic with one question, and one follow-up question, if necessary. Thank you.

On behalf of all of us at Kroger, we thank many of you for participating in our June survey. We strive to be exceptional listeners at Kroger, whether listening to our customers, our associates or our shareholders. We appreciated your time and honest assessments. We are also hopeful that you can join us for our 2012 Investor Conference on October 16 in New York. We look forward to seeing many of you next month for this important session with Kroger leadership.

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 second quarter 2012 results are Rodney McMullen, Kroger's President and Chief Operating Officer, and Mike Schlotman, Senior Vice President and Chief Financial Officer.

Second Quarter Performance

I am pleased with Kroger's strong performance in the second quarter. Kroger shareholders once again benefited from our Customer 1st strategy. Increased customer loyalty and solid cost controls allowed us to grow sales, profitability, and shareholder value.

In the second quarter, we:

- Reported record second quarter earnings per share.
- Increased identical supermarket sales for the 35th consecutive quarter.

- Increased ID sales in every operating division and store department.
- Grew the number of loyal households in all divisions.
- Increased FIFO operating profit by $47 million.
- Increased tonnage over last year.
- Put Kroger's strong free cash flow to work for shareholders by repurchasing 23.7 million shares.

Based on the strength of our second quarter results and higher than anticipated share repurchase activity, we have raised our earnings per share guidance for the year and expect to achieve toward the upper end of our identical supermarket sales growth and earnings per share guidance. Mike will have more to say on our guidance in a few minutes.

Our associates controlled costs and improved productivity in the second quarter, saving money in places not important to customers so we can reinvest in places that are. We target investments in the Four Keys of our strategy – people, products, shopping experience and price – to increase relevance with our customers. Greater relevance inspires customer loyalty and grows both sales and profit, as our second quarter results demonstrated.

This is what makes Kroger unique among food retailers – our unrelenting focus on solving our customers' needs. That we've achieved consistent ID sales growth demonstrates that our strategy resonates with customers, and our increased earnings guidance demonstrates how this creates shareholder value.

Rodney will now discuss Kroger's positive business trends in the second quarter.

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

Operating Leverage

Kroger leveraged operating expenses in the second quarter, as OG&A costs plus rent and depreciation, without fuel, were down 59 basis points as a percent of sales. On this basis and excluding one-time items, we have had seven consecutive years of reduction in this metric, and our year-to-date results set us up to achieve our eighth consecutive year.

We do this consistently through a determined emphasis on productivity improvements. For example, we've gained efficiencies in our 1,948 pharmacy locations by utilizing new technology that helps our pharmacists to better manage workflow, prioritize prescriptions, and allocate work between pharmacists and pharmacy technicians. The increased productivity reduces customer wait times and provides an enhanced pharmacy experience.

Consumer Shopping Behavior and Tonnage Growth

One of the most important measures of our business is loyal household growth because it lets us know how well we are connecting with our best customers. During the second quarter, our loyal household count grew at a faster rate than total household growth, which was also up for the quarter.

We also achieved positive identical sales for both total households and loyal households. Identical sales growth among loyal households was stronger than the total household result.

Customers continue to visit our stores more frequently, purchase fewer items on each trip, and buy more on a monthly basis. This is consistent with what we've seen for the last several quarters.

We're very pleased with the improvement in our tonnage trend for the quarter as total units sold were up compared to last year. This is an example of how we continue to gain market share in the overall food retailing industry by focusing on our customers.

The rate of product cost inflation in the second quarter continued to flatten faster than originally anticipated. Identical supermarket sales growth exceeded the rate of inflation, which we estimate was 2.2%, excluding fuel. Every store department had inflation with the exception of Produce and Seafood, which were deflationary.

Customer 1st Investments in the 4 Keys

Our market share gains are a result of investments in all 4 Keys of our Customer 1st strategy. People often talk about the investments we make in Price. But there are many ways we have invested in our non-price Keys – People, Products and Shopping Experience – to strengthen our connection with customers in our stores.

For example, over the last few years we set out to improve the Shopping Experience by reducing customer wait time at checkout. Customers have told us they do not like waiting in long lines. Based on that feedback, we developed a solution that has reduced the average amount of time a customer waits in line to checkout to about 30 seconds today, compared to around 4 minutes in the past. Our customers tell us they notice the difference and we are delivering a shopping experience that makes them want to return.

Our People and Product keys are equally important. We want our customers to say our associates provide helpful, friendly service and that they can always get the products they want, plus a little, at our stores. A great example of how we are strengthening these two keys is through our partnership with Murray's Cheese.

Our stores are home to about 51 specialty Murray's Cheese Shops. In these locations we provide associates with the opportunity, training and tools to become a certified Murray's Cheesemaster. Associates like Jimmie Mares, from King Soopers store #33 in Boulder. He participated in an in-depth, five-week training program that includes a basic skills class, certification, and an orientation at the original Murray's Cheese Shop in New York City. Jimmie returned to his Murray's Cheese Shop with new skills, a passion for sharing knowledge with our customers and the distinct red jacket that signifies his status as a Cheesemaster. Customers love the extra service and product expertise – not to mention the incredible selection of delicious cheeses.

As a result of these efforts, our customers tell us that our associates are doing an increasingly good job of providing services. That is why we consider our non-price investments to be as central to Kroger's strategy as the Price investments. If you look at nearly any food retailer who is succeeding right now, including the regional players, they are doing something unique that resonates with customers. We know from our 35 consecutive quarters of positive identical sales and consistent market share growth that our focus on all 4 Keys of our Customer 1st strategy is driving loyalty – which creates value for shareholders.

Corporate Brands

In the second quarter, Kroger's Corporate Brands represented approximately 26.3% of Grocery department sales dollars. Grocery department Corporate Brand units sold were 33.5%, compared to the same quarter last year. These results continue to show improvements since the economic downturn began. The mix between national brands and Corporate Brands fluctuates in any given quarter, but Corporate Brands continue to gain share over time.

We continue to offer our customers choices in variety and value to meet their needs. To complement the assortment of national brand single-serve coffee products we offer, beginning next week we are launching our new line of Private Selection single serve coffee PODS. The new line is compatible with Keurig coffee machines and will include a variety of 100% Arabica roasts and blends, including Breakfast Blend, Guatemala, Swiss Water Decaf and Venetian Reserve.

Yogurt is another popular and high-growth category with great potential. Kroger self-manufactures most of our yogurt selection. We recently added 15 new varieties, including new flavors such as Blueberry Pomegranate, Caramel Spice Cake and Vanilla Bean. For toddlers, our new Comforts Yogurt Bites are both great tasting and full of Vitamins A, C and E. And I can tell you on the new yogurt flavors they taste great and I've tried more than half of them already.

Sustainability Progress

I am happy to share that Kroger continues to advance sustainability initiatives. We released our sixth annual sustainability report earlier this week and I'd like to share a few highlights:

- We are using significantly less energy today than we were just twelve years ago. In fact, we have reduced overall energy consumption in our stores by more than 31% since the year 2000.
- 19 of Kroger's manufacturing plants sent "zero waste" to landfills in 2011.

- And Kroger increased fleet efficiency by more than 9% in the past year, and by more than 25% since 2008.

These are just a few examples of how we are working to make the world a better place. We are very proud of our progress and our associates' hard work to make these results possible.

Labor

Finally, an update on labor relations. Associates in Louisville and Dayton both ratified labor agreements. We continue negotiations on many contracts including in Arizona, Columbus, Indianapolis, Memphis, Nashville, and Portland. Our objective in every negotiation is to find a fair and reasonable balance between competitive costs and compensation packages that provide good wages, a quality, affordable health care, and retirement benefits for our associates.

Next, Mike will share additional detail on Kroger's second quarter financial results and guidance for 2012. Mike?

Comments by Mike Schlotman:

Thanks, Rodney. Good morning everyone.

Second Quarter 2012 Results

Second Quarter Net Earnings

Our identical supermarket sales increased 3.6% in the second quarter, which contributed to net earnings totaling $279.1 million, compared to $280.8 million in the same period last year. Net earnings per diluted share showed strong growth to $0.51 from $0.46 per diluted share last year. Prior year net earnings benefited from a 27.6 percent tax rate, compared to a tax rate of 34.5 percent in the second quarter this year.

Our earnings per share growth was driven by strong performance in sales and EBITDA, and higher than anticipated share repurchase activity. FIFO EBITDA was up $56 million for the quarter, or $55 million excluding fuel.

Second Quarter FIFO Gross Margin

FIFO gross margin was 20.63% of sales for the second quarter of fiscal 2012. Excluding retail fuel operations, FIFO gross margin decreased 43 basis points from the same period last year.

Second Quarter LIFO Charge

Kroger recorded a $34.7 million LIFO charge in the second quarters of both 2012 and 2011.

Second Quarter OG&A Expenses

Operating, general and administrative costs plus rent and depreciation were 18.01% of sales. Excluding retail fuel operations, OG&A plus rent and depreciation declined 59 basis points as a percent of sales. As Rodney said, we have accomplished this for the last seven years, and based on our first half results we expect to achieve our eighth year. Identifying and delivering sustainable operating cost reductions allows us to invest in all four keys of our Customer 1st strategy, consistently over time.

FIFO Operating Margin

Second quarter FIFO operating profit dollars increased approximately $47 million both with and without fuel. Excluding fuel, on a rolling four quarters basis, the company's operating margin rate was 3 basis points lower compared to last year. This is an 8 point improvement in the trend from the first quarter. We expect a slightly increasing FIFO operating margin, excluding fuel, for the full fiscal year.

Retail Fuel Operations

Turning now to retail fuel operations. Our supermarket fuel centers and convenience stores produced positive identical gallon growth for the quarter. These outlets earned approximately 16.4¢ per gallon compared to 17.4¢ in the same quarter last year. The benefit to second quarter earnings per share was the same as last year.

Financial Strategy

Now I'll update you on our financial strategy. During fiscal 2012, Kroger plans to use cash flow from operations to fund capital expenditures, repurchase shares, pay dividends to shareholders and maintain its current debt rating.

Share Repurchase

During the quarter we repurchased 23.7 million common shares for a total investment of $525 million. There is approximately $476 million currently remaining of the $1 billion share repurchase program authorized on June 14, 2012.

Over the last four quarters, Kroger has used its strong free cash flow to return more than $1.9 billion to shareholders through share buybacks and dividends.

Capital Investment

Capital investment, excluding acquisitions and purchases of leased facilities, totaled $444.7 million for the second quarter, compared with $428.5 million for the same period last year. We continue to expect full-year capital expenditures to be in the $1.9 to $2.2 billion range.

Debt

Net total debt was $8.1 billion for the second quarter, an increase of $1.2 billion from a year ago. On a rolling four quarters basis, Kroger's net total debt to adjusted EBITDA ratio was 1.96 compared with 1.71 during the same period last year. Our objective is to maintain a net total debt to EBITDA ratio of approximately 2.00. We took advantage of what we believe to be an undervalued stock price in the second quarter to buy back shares.

Updated Guidance for Fiscal 2012

Our experience through the first half of the year is that the external environment has been a little better than in 2011.

We continue to monitor changes in gas prices and inflation, and – as the headlines continually remind us – macroeconomic issues will continue to affect consumer sentiment throughout the year. We are confident in our ability to make tactical adjustments as needed to successfully navigate these factors while continuing to deliver on our Customer 1st strategy.

As a result of strong first half performance and higher than anticipated share repurchase activity, Kroger is increasing its fiscal 2012 earnings guidance to a range of $2.35 to $2.42 per diluted share. The company continues to expect identical supermarket sales growth for the full year, excluding fuel, of 3.0% to 3.5%. Kroger expects to achieve in the upper end of the range for both earnings per share and sales growth. The previous earnings per share guidance was a range of $2.33 to $2.40.

We continue to expect the growth rate in the third and fourth quarters will be higher than our long-term growth rate of 6% to 8%. The fourth quarter will also benefit from the 53rd week.

Now, I will turn it back to Dave.

Comments by Dave Dillon:
Thanks, Mike.

There is no doubt Kroger has a bright future because of our growing connection with our customers. Since we changed how we managed our business about eight years ago, we have seen significant success. Every day, our associates are delivering a better shopping experience for our customers. And our customers continue to reward us with their loyalty. Kroger's increased earnings per share guidance for the year reflects our confidence that our Customer 1st strategy will continue to create value for our customers and shareholders alike. Of course an ever-changing environment requires vigilance and constant evaluation. With that in mind, we hope you'll join us for an important discussion of our plans for continued success at our upcoming October investor conference in New York.

Now, we look forward to your questions.

Comments by Dave Dillon:

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

Later this month, we will begin our annual Giving Hope a Hand campaign to support the fight against breast cancer. This year, 48 of our associates shared their personal stories of survival and hope that will be featured on specially-marked packages of national and Corporate Brand products. These items will be sold exclusively in our stores across the country from Sept. 23 to Oct. 10.

Since this campaign began in 2006, 249 brave women have shared their experiences, inspiring many others to fight breast cancer and survive. I am always grateful for their courage to do so. In that time, we have also raised more than $20 million for breast cancer treatment, research and education. All of the donations go to local organizations fighting breast cancer in the communities we call home. In 2012, with the help of key vendor partners, we will raise $3 million more.

Our associates and their stories will also be featured on sharingcourage.com later this month – a special website that includes a "Wall of Hope" where visitors can post messages of support or share their own experiences. I encourage you to read our co-workers' inspiring stories – they are remarkable.

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," and "plans." These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially. Our ability to achieve identical supermarket sales and earnings growth and earnings per share goals, the timing that those earnings occur within the year, and our ability to expand our FIFO operating margin, may be affected by: labor disputes, particularly as the Company seeks to manage health care and pension costs; industry consolidation; pricing and promotional activities of existing and new competitors, including nontraditional competitors, and the aggressiveness of that competition; our response to these actions; unexpected changes in product costs; the state of the economy, including interest rates and the inflationary and deflationary trends in certain commodities; the success of our Customer 1st Strategy; the extent to which our customers exercise caution in their purchasing behavior in response to economic conditions; the number of shares outstanding; the success of our future growth plans; goodwill impairment; changes in government-funded benefit programs; volatility in our fuel margins; the effect of prescription drugs going off patent has on our sales and earnings; our expectations regarding our ability to continue to obtain additional pharmacy sales from third party payors such as Express Scripts; and our ability to generate sales at desirable margins, as well as the success of our programs designed to increase our identical sales without fuel. In addition, any delays in opening new stores, or changes in the economic climate could cause us to fall short of our sales and earnings targets. Our ability to increase identical supermarket sales, as well as our views regarding the trend of those sales, also could be adversely affected by increased competition and sales shifts to other stores that we operate, as well as *increases in sales of our corporate brand products, and the effect that increased numbers of generic pharmaceuticals, which generally carry lower retail prices than brands, have on our sales. Earnings and sales also may be affected by adverse weather conditions, particularly to the extent that hurricanes, tornadoes, floods, and other conditions disrupt our operations or those of our suppliers, create shortages in the availability or increases in the cost of products that we sell in our stores or materials and ingredients we use in our manufacturing facilities, or raise the cost of supplying energy to our various operations, including the cost of transportation; and the benefits that we receive from the consolidation of the UFCW pension plans. Our results also will be affected by rising commodity costs, the inconsistent pace of the economic recovery, changes in government-funded benefit programs, consumer confidence, and changes in inflation or deflation in product and operating costs, and the effect of the consolidation of the UFCW pension plans. Our capital expenditures could vary from our expectations if we are unsuccessful in acquiring suitable sites for new stores; development costs vary from those budgeted; our logistics and technology or store projects are not completed on budget or within the time frame projected; or if current operating conditions fail to improve or worsen. Our views regarding slight improvement of the external environment could be affected by general economic conditions, weather, the extent of geopolitical unrest, and other factors beyond our control. Our plans to use cash flow from operations to fund capital expenditures, repurchase shares, pay dividends to shareholders, and maintain our current debt rating, will depend on our ability to generate free cash flow, which will be affected by all of the factors identified above, as well as the extent to which funds can be used for those reasons while maintaining our debt rating. Our FIFO operating margin, without fuel, will be affected by changes in product costs during the year, if our estimates of product cost changes or the timing of those changes prove incorrect, and if competitive or other factors cause our margins on product sold to fail to meet our objectives. Our objective to maintain a particular net total debt to EBITDA ratio will 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 continue to decrease OG&A plus rent and depreciation as a percentage of sales will depend on our ability to identify and implement sustainable cost controls, including those related to rent. 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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