First Quarter 2012
Investor Conference Call Prepared Remarks
June 14, 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 first 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.

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

First Quarter Performance

We are very pleased with Kroger's excellent first quarter results. We achieved strong overall sales and solid operating performance. Our core business is growing, and we are rewarding shareholders through earnings growth, increasing dividends over time and stock buybacks.

Identical supermarket sales were up for the 34th consecutive quarter, growing by 4.2%. We are able to deliver this kind of consistent performance quarter after quarter thanks to our associates' commitment to our Customer 1st strategy.

Here are a few additional highlights:

- Every supermarket department had positive identical sales, led by significant growth in Natural Foods, Pharmacy, Bakery and Deli.
- Every supermarket division had positive identical sales.

- Kroger's FIFO operating profit dollars grew, both with and without fuel, and it is our expectation to slightly increase our FIFO operating margin rate, excluding fuel, for the year.

Because of these strong results, we exceeded our expectations, and raised our earnings per share guidance for the year. Mike will provide detail on our full year guidance as well as some other items that factored into earnings growth for the first quarter shortly.

Before turning to Rodney and Mike, I'd like to spend a little time discussing a question that came up during our last earnings call. The essence of the question was, how is Kroger growing market share and performing well, especially compared to traditional competitors? How are we different?

Several years ago, we took a hard look at who we are really competing against and that helped us realize we're competing against more than just traditional grocery retailers. Also, based on our research and our ID sales, we were not connecting with customers as well as we needed. In fact, customers told us we were not doing a very good job. Their needs were changing, but we had not changed with them. These realities led us to develop our Customer 1st Strategy and the Four Keys – people, products, shopping experience and price. We have pushed hard to save money in places not important to customers, and to reinvest it in places that were important to them. This is the essence of the Kroger difference – solving needs for our customers, sometimes in massive ways, and sometimes in a very targeted, personal way.

Customers tell us they notice the difference. I believe this difference is why we have had 34 consecutive quarters of positive identical sales. ID sales are the most visible indicator available of a retailer's relevancy to its customers. That is why we pay such close attention to the ID trend.

As we have grown our market share, some of you have asked, "Who is Kroger gaining from?" But since we are targeting customers and not other retailers, there isn't always a clear answer. One thing that is clear – as we have grown market share, our customers come from a much broader base than just supermarkets. It is also clear that we compete very well with a broader array of food retailers – and this includes restaurants.

We thought this background would be helpful to put in context our strong results and to project that at Kroger we have and will continue to separate ourselves from our traditional competitors. In fact, we are creating a new industry.

Rodney will now share some additional insight into Kroger's positive business trends in the first quarter.

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

Consumer Shopping Behavior

Dave talked about how we have differentiated ourselves. One example of this is the joint venture we formed to create the consumer insights giant dunnhumbyUSA. Years of experience with dunnhumby have made us exponentially better at personalization and individual rewards. By deepening our focus on our customers we have redefined our business model. It is more sustainable today than it was five, ten or fifteen years ago.

We also leverage our partnership with dunnhumby to better understand shopper behavior over time. In the first quarter, Kroger increased the total number of loyal households. Those households are making more visits, and while they are buying fewer items per trip, the total units we sell to our loyal customers have increased.

We regularly seek customer feedback on how well we are executing in each of the Four Key areas of our Customer 1st strategy. Our customers tell us we have improved our performance in each Key. This improvement is consistent across all of the Keys and we are 60 percent of the way toward the goals we originally set. We are happy with where we are – and we are a different retailer as a result – but we still have more work to do, which is also very exciting.

Food Costs & Tonnage

Product cost inflation continued in the first quarter, however, the rate of inflation is decreasing faster than what we expected at the beginning of this year. Identical store sales growth exceeded the rate of inflation, which we estimate was 3.9%, excluding fuel.

Deflation in the Produce department offset somewhat the inflation in all other departments, including Grocery, Meat and Bakery.

Total tonnage change was slightly better than the fourth quarter; however, it was still essentially flat. Looking at the one department with deflation, Produce, we saw a significant growth in tonnage for the quarter.

Corporate Brands

Kroger's Corporate Brands share and sales grew more than national brands in the first quarter. Corporate Brands represented approximately 26% of Grocery department sales dollars. Grocery department units sold are up 60 basis points to 33.6%, compared to the same quarter last year.

Our Corporate Brands team continues to create fresh and compelling products that fill unmet customer needs. We recently launched Private Selection Snack Chips in 13 new flavors, including sea salt, cinnamon sugar, and new, gluten-free Rice and Bean chips made from rice and azuki beans. And by the way, they are all very good!

Labor

Finally, an update on labor relations. Our associates at King Soopers ratified a two-year extension to the labor contract. We also secured a new labor agreement covering associates at our Smith's and Food 4 Less stores in Las Vegas.

We have many contracts that have expired or will expire soon, including contracts in Columbus, Dayton, Indianapolis, Louisville, 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 first quarter financial results and guidance for 2012. Mike?

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

First Quarter 2012 Results

First Quarter Net Earnings

Our identical supermarket sales increased 4.2% in the first quarter, which contributed to net earnings totaling $439.4 million, compared to $432.3 million in the same period last year. Net earnings per diluted share showed strong growth to $0.78 from $0.70 per diluted share last year.

Our earnings per share growth was driven by EBITDA being higher than our expectations. Additionally, a tax reserve adjustment helped by about 1.5¢ per share.

First Quarter FIFO Gross Margin

FIFO gross margin was 20.70% of sales for the first quarter of fiscal 2012. Excluding retail fuel operations, FIFO gross margin decreased 53 basis points from the same period last year. We are pleased with this performance, which was consistent with our plan for the quarter. Last year we saw a very strong gross margin in the first quarter.

First Quarter LIFO Charge

Kroger recorded a $46.0 million LIFO charge during for the first quarters of both 2012 and 2011.

First Quarter OG&A Expenses

Operating, general and administrative (OG&A) costs were 15.36% of sales. Excluding retail fuel operations, OG&A declined 27 basis points from the same period last year. Including rent and depreciation, it was a 40 basis point reduction. The benefits of leverage from productivity improvements, outstanding cost control and positive sales more than offset rising health care costs and credit card fees. Additionally, the consolidation of four UFCW pension plans in the prior year benefitted operating expenses in the first quarter, as we anticipated.

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

The company's FIFO operating margin, excluding fuel, on a rolling four quarters basis decreased 11 basis points. This was a little better than we expected due to the higher EBITDA versus our original expectation that I mentioned a moment ago. We still expect FIFO operating margin, excluding fuel, to slightly increase for the full 2012 fiscal year. Additionally, we generated more operating margin profit dollars this year compared to last year.

Retail Fuel Operations

Turning now to Kroger's retail fuel operations. In the first quarter, our supermarket fuel centers and convenience stores produced positive identical gallon growth. These outlets earned approximately 12.1¢ per gallon compared to 12.4¢ in the same quarter last year. The benefit to first 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

Kroger repurchased 14.6 million common shares for a total investment of $345.3 million in the first quarter.

The Board of Directors has authorized a new $1 billion share repurchase program that replaces the prior authorization, which was exhausted on June 12, 2012.

Over the last four quarters, Kroger has used its strong free cash flow to return more than $1.6 billion to shareholders through share buybacks and dividends.

Capital Investment

Capital investment, excluding acquisitions and purchases of leased facilities, totaled $539.1 million for the first quarter, compared with $573.1 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 $7.8 billion, an increase of $662.1 million from a year ago. This is primarily the result of debt issued to fund our UFCW pension plan consolidation. On a rolling four quarters basis, Kroger's net total debt to adjusted EBITDA ratio was 1.91 compared with 1.79 during the same period last year.

Updated Guidance for Fiscal 2012

In March we told you that we expect the external environment to be a little better than in 2011. Generally speaking this has been our experience through the first quarter.

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.

Kroger's long-term business model is to generate annual earnings per share growth averaging 6% to 8%, plus a dividend of 1.5% to 2%, for a shareholder return of approximately 8% to 10%. We expect this total return to compare favorably to the S&P 500 over a rolling three-to-five year time horizon.

We continue to expect fiscal 2012 earnings per share growth to be higher than our long term business model, and our strong first quarter positions Kroger for an even more robust 2012 than originally expected. Therefore, we have increased our earnings guidance for the fiscal year to $2.33 to $2.40 per diluted share. The original guidance was $2.28 to $2.38 per diluted share. The increase reflects the strength of the company's first quarter results.

I'd like to share a little more about Pharmacy's better-than-expected performance, which helped sales as well as earnings in the first quarter. Pharmacy achieved double digit identical sales, about half due to new Express Scripts business and half from exceptional overall pharmacy performance. Even without Express Scripts it was an excellent quarter for our pharmacies.

Our ability to project Pharmacy performance over the course of the year remains difficult when factoring in the benefit of Express Scripts and prescription drugs coming off patent. This quarter was good and we think we are satisfying new customers who transferred because of Express Scripts. We continue to expect identical sales to trend down throughout the remainder of the fiscal year, as prescription drugs come off patent. For these reasons, we continue to expect identical supermarket sales growth, excluding fuel, of 3.0% to 3.5%.

As we said at year-end, we expect second quarter growth rate to be in line with our long-term growth rate of 6% to 8%, and the third and fourth quarters will be higher than that. The fourth quarter will also benefit from the 53rd week.

Now, I will turn it back to Dave.

Comments by Dave Dillon:
Thanks, Mike. This was another great quarter. We exceeded our expectations, and as a result raised our earnings per share guidance for the year. Kroger's performance this quarter, like the thirty-three quarters of positive identical sales that preceded it, was the result of our focus on our customers. We are building relevant and personal connections with each customer and that requires fresh new ways of thinking about our markets and

our competition. That customers tell us we have significantly improved in the four key areas of our Customer 1st strategy lets us know that we are not the same company today that we were even seven years ago. We have differentiated ourselves from traditional food retailers, and expect to drive loyalty, cash flow and earnings growth in 2012 and beyond.

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.

I want to thank all of our associates for your tireless efforts to keep food safe for our customers and their families. The International Association for Food Protection recently named Kroger the recipient of its Black Pearl Award for 2012, which recognizes excellence in food safety and advocacy. Rodney and I are especially proud of you for this recognition. Only four other retailers have been so recognized by the IAFP. I am certain that what the Association saw in Kroger is our success in continuously raising the bar on food safety.

Keeping food safe for millions of our customers every day is a tremendous responsibility, and one that reflects our deepest commitment to putting our customers first. Food safety is everyone's fight every day. Our latest program – FAST, which stands for Food At Safe Temperatures – reminds us to keep product below the load limits in cases, minimize stocking time on refrigerated product, and keeping cooler and freezer doors closed. These simple steps help us serve safe, delicious food every day. Thank you for this gift to our customers.

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," 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 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. Total shareholder return, and the extent to which it compares favorably to the S&P 500 over a rolling three-to-five year time horizon, and our ability to continue to reward shareholders in 2012 through increased earnings, quarterly dividends, and share repurchases, will be affected by all of the factors identified above, as well as the ability for the company to pay dividends from free cash flow as contemplated. Our views regarding 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 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. Please refer to Kroger's reports and filings with the Securities and Exchange Commission for a further discussion of these risks and uncertainties.*