Fourth Quarter 2011
Investor Conference Call Prepared Remarks
March 1, 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 fourth 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 fourth quarter and full-year 2011 results are Rodney McMullen, Kroger's President and Chief Operating Officer, and Mike Schlotman, Senior Vice President and Chief Financial Officer.

2011 Financial Performance

We are very pleased with Kroger's outstanding performance in fiscal year 2011 and strong fourth quarter financial results.

That we were able to raise earnings per share and identical sales guidance through the year and achieve those higher results demonstrates the strength of our business strategy and momentum for a strong 2012.

Kroger's strong performance rewarded shareholders in 2011. We delivered adjusted earnings of $2.00 per diluted share, a 15 percent increase in earnings over 2010. We hit the high end of guidance despite a much higher LIFO charge. We increased our quarterly dividend payment by almost 10 percent. And we implemented an aggressive stock buyback program, using Kroger's strong free cash flow to repurchase 67 million shares.

Later, Rodney and Mike will provide more detail on our full-year performance. I'd like to highlight several of the commitments that our team successfully delivered on in 2011:

Kroger increased identical supermarket sales, grew market share, effectively used free cash flow to reward shareholders, and invested wisely to continue to win customer loyalty. Importantly, we also balanced cost reductions with investments in our Customer 1st strategy to increase FIFO operating margin for the year.

Kroger is off to a healthy start for the year ahead, and we expect earnings per share growth in 2012 to exceed our business model.

Fourth Quarter Performance

Kroger had strong performance in the fourth quarter. Identical supermarket sales for the quarter increased 4.9%, excluding fuel. More loyal and total households are shopping with us and identical sales are up among both groups. This consistent sales performance contributed to Kroger's market share gains in fiscal 2011. And we achieved the high end of growth estimates for both earnings per share and identical sales growth.

Our operating performance was broad-based and consistent across the company. Every operating division achieved positive identical sales for the quarter. And every supermarket department achieved positive identical sales. Our Natural Foods, Pharmacy, Produce and Deli departments posted the strongest results.

I am very proud of our associates for bringing our Customer 1st strategy to life for our customers. Our relentless focus on our 4 Keys – our people, prices, products and shopping experience – is why Kroger has achieved an industry-leading 33 consecutive quarters of positive identical supermarket sales results. Our associates' work to please and delight our shoppers inspires customer loyalty, which grows our business and generates shareholder returns. Simply put, when we put our customers first, shareholders win.

Influencing Factors

As we look toward 2012, we expect the external environment to be a little better than 2011. All of the data we are seeing suggests the overall economy and customer sentiment are improving. Both give us reason to be optimistic about the year ahead.

We are also mindful that consumer sentiment is fragile and as we've seen over the last few years, it can be affected by external factors such as rising gas prices and geopolitical issues. So we will continue to carefully monitor the pace of economic recovery, higher gas prices and the slowing of the rate of inflation. While these factors will influence all retailers, our success will come from making tactical adjustments as needed throughout the year, just as we did throughout 2011.

Rodney will now offer some insight into Kroger's strong business trends in the fourth quarter and 2011 market share statistics.

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

Loyal Customer Growth
Our focus on building our loyal customer base continues to increase sales and reward shareholders. Today, close to 50% of all U.S. households carry one of our loyalty cards. That percentage is much higher in the markets where we operate. One of the ways we create value for our customers is by leveraging scale and position as a share leader in most of the markets in which we operate. Even with Kroger's deep market penetration, we have a tremendous opportunity to increase incremental spending among our loyal customers, who on average spend about 50 cents of every food dollar with Kroger.

Kroger's partnership with dunnhumby USA is another powerful way that we build our loyal household base. The unique customer insights gained from our loyalty data help us reward our most loyal customers with highly relevant, personalized offers for the products they like and buy regularly.

In the fourth quarter, the number of loyal households shopping with us increased, as did the number of total households. Loyal household unit purchases and price per unit sold were both up in the fourth quarter compared to the same time last year as well. While our loyal customers are buying fewer items each trip, they are buying more on a monthly basis. A key indicator that our loyal customer strategy is working is that identical sales growth among loyal households outpaced the growth for total households.

For the full year, our number of loyal households continued to increase, as did the number of their store visits. Total households shopping at our stores also increased year over year.

Food Costs
We still anticipate inflation in 2012, but we expect to end the year with a rate of inflation lower than it started. The increase in food costs moderated slightly in the fourth quarter, with year-over-year product cost inflation of approximately 5.4%, excluding retail fuel. Higher prices have taken a toll on all customers, but our very price sensitive customers continue to suffer disproportionately.

Most departments experienced growth in inflation. The Produce department ran counter to this trend in the fourth quarter, experiencing deflation. We are passing along product cost increases from national brand suppliers and plan to continue to do so. At the same time, we slightly increased our penny profit per item in the Grocery category in the fourth quarter versus the prior year. As always, our popular Corporate Brand products continue to offer customers thousands of quality, affordable choices to fit any budget.

Customer Shopping Behavior

Looking at unit sales, similar to the third quarter tonnage was essentially flat and slightly improving as we ended the year. We expect to see improving trends in tonnage growth as economic conditions improve and inflation moderates.

While the industry as a whole experienced the effects of consumer caution and high food prices, Kroger performed exceptionally well by staying relevant and providing value when and where our customers needed it most. For example, when we saw customers under pressure in the second quarter, we accelerated investments to alleviate some of that pressure. Even as inflation forced shoppers to be more budget conscious, our customers continued to experience Kroger's unique value proposition: a convenient and superior shopping experience, low prices and weekly promotions, personalized rewards developed through our dunnhumby partnership, and our popular fuel point savings program. That collection of benefits, teamed with our high quality, competitively priced Corporate Brands offering, positions Kroger to win in the marketplace today while investing for the future.

Strong Corporate Brands

Kroger's strong Corporate Brands continued to gain share in the fourth quarter. Corporate Brands represented approximately 27% of Grocery department sales dollars and 35% of the Grocery department units sold. Corporate Brand sales dollars were up more than national brand sales dollars for the quarter as well.

As Dave said, one of our fastest-growing departments is Natural Foods. Our customers told us they want organic and natural products that are easily identified and affordable, so we launched our new Simple Truth Natural and Simple Truth Organic brands in November, focusing first on milk and eggs with plans to expand into other categories throughout 2012. Another successful growth category for Corporate Brands is yogurt. We leveraged our manufacturing competitive advantage to accelerate the growth of our Corporate Brand Greek yogurts. Greek yogurt sales have doubled in each of the last three years, with Kroger's offerings outpacing the category in unit and dollar growth.

2011 Market Share

Turning now to market share for 2011. We look at market share the way customers would look at it – where they spend their money.

According to Nielsen Homescan Data, Kroger's overall share of the products we sell in the markets where we operate grew approximately 50 basis points during fiscal 2011. This data also indicates that our share increased in 13 of the 19 marketing areas outlined by the Nielsen report and declined in 6 areas.

Wal-Mart supercenters are a primary competitor in 17 of the 19 marketing areas outlined by the Nielsen report. Kroger's overall share of product sales in those 17 markets grew approximately 40 basis points during fiscal 2011.

This Nielsen Homescan Data is generated by customers who self-report their grocery purchases to Nielsen. This includes all retail outlets that sell the same products that we do.

Labor
Next, I'd like to give you an update on labor relations. Our associates play a big part in building customer loyalty. Kroger's commitment to our associates includes our dedication to safety, significant investments in training, solid wages, and good quality, affordable health care. We have to deliver on this in ways that allow us to operate competitively with the non-union retailers in each of the markets that we serve. Kroger's financial results continue to be pressured by rising health care and pension costs. Cooperation between Kroger and the local unions that represent many of our associates is essential. We have a shared objective – growing Kroger's business and profitability will help us create more jobs and career opportunities for our associates.

We were pleased that our associates ratified a Master Agreement with the Teamsters covering three distribution centers and two dairies. Currently, negotiations are underway with the UFCW for store associates in Memphis and Las Vegas.

In 2012, we have labor contracts expiring in Dayton and Columbus, Ohio; Indianapolis, Louisville, Nashville, Phoenix and Portland.

Now Mike will offer more detail on Kroger's 2011 financial results and our 2012 guidance. Mike?

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

Highlights of Fiscal 2011 Financial Results
Fourth Quarter Net Earnings
Including the effect of the UFCW pension plan consolidation, Kroger reported a net loss for the fourth quarter that totaled $(306.9) million, or $(0.54) per diluted share. Excluding the effect of the pension consolidation, adjusted earnings for the quarter were $283.8 million, or $0.50 per diluted share. It is important to keep in mind, LIFO was $31 million, or 3 cents per diluted share, higher than we expected at the beginning of the quarter. Net earnings in the same period last year were $278.8 million, or $0.44 per diluted share.

Fourth Quarter FIFO Gross Margin
FIFO gross margin, as reported, was 21.13% of sales for the fourth quarter of fiscal 2011. Excluding retail fuel operations, FIFO gross margin decreased 47 basis points from the same period last year.

Fourth Quarter LIFO Charge
As I said earlier, our LIFO charge was higher than expected, totaling $73.4 million. This compares to $18.8 million in the fourth quarter of 2011.

Fourth Quarter OG&A Expenses
Excluding retail fuel operations and the pension consolidation, our OG&A, including rent

and depreciation, declined 21 basis points. OG&A was 8 basis points, rent was 3 basis points and depreciation was 10 basis points.

Identifying and executing sustainable operating cost reductions allows us to invest in all four elements of our Customer 1st strategy: our great people, our product offering, our customers' shopping experience and lower prices for our customers.

<u>Retail Fuel Operations</u>
Before I move on to discuss Kroger's full-year 2011 results, I'll share some data on our retail fuel operations.

In the fourth quarter, Kroger's retail fuel operations generated identical gallon growth. These outlets earned approximately 12.4¢ per gallon compared to 10.2¢ in the final quarter of fiscal 2010. This part of our business benefited Kroger's year-over-year net earnings per share increase for the fourth quarter by 2 cents.

For the full year, the cents per gallon fuel margin was roughly 13.9¢ in 2011 compared with 12.2¢ in 2010.

<u>Full-Year 2011 Results</u>
Turning now to Kroger's full-year results for 2011. Excluding the effect of the pension consolidation, earnings for fiscal year 2011 were $1.2 billion, or $2.00 per diluted share. Including the effect of the pension consolidation, fiscal year 2011 earnings were $602.1 million or $1.01 per diluted share. Full-year net earnings in the prior year were $1.74 per diluted share.

Our original earnings per diluted share guidance for the year was $1.80 to $1.92. This contemplated a LIFO charge of $50-$75 million. As the year progressed, we ultimately revised our EPS expectations to $1.95 to $2.00, even with a LIFO charge of $185 million.

That we hit the high end of our increased earnings expectations with a full year LIFO charge of $216 million speaks loudly to Kroger's strong, underlying performance.

Excluding fuel and the pension consolidation, FIFO operating margin increased by 5 basis points. This is the fourth consecutive rolling four quarter period with an expanded operating margin.

I will provide a little color on the effect of the pension consolidation. The charge totaled $590.7 million after tax. This affected the fourth quarter by $1.04 per diluted share and the full year by $0.99 per diluted share. The difference is due to having fewer shares outstanding in the quarter versus the year. The charge is higher than the $0.73 per diluted share we discussed in December. Our commitment under the agreement is to fund the full December 31, 2011 underfunded balance. The amount we discussed in December only addressed the cash contribution we made. For multi-employer pension plans, cash contribution and expense are usually the same. However, since we have a contractual obligation to fund a specific amount, we need to expense that incremental commitment. We have committed to fund the remaining obligation by the end of 2018. At the time it is funded, no additional expense will be incurred.

We made our initial funding of $650 million on January 20, 2012, $50 million of which was attributed to 2012 plan year contributions.

Share Repurchase

Under Kroger's share repurchase program during fiscal 2011, we invested $1.5 billion to repurchase 66.5 million shares of Kroger stock at an average price of $23.24 per share. Since the end of the fourth quarter and through the close of the market yesterday, Kroger has $379 million remaining under the $1 billion stock repurchase program announced in September 2011.

Growth Strategy

We focus on identical sales growth, excluding fuel, because it is the best measure of performance to let us know that we are delivering for both our customers and shareholders. Thirty-three quarters of consistent identical sale growth tells us that our Customer 1st strategy continues to connect meaningfully with our customers. That connection enhances customer loyalty and grows market share, which increases earnings and generates free cash flow that reward our shareholders. Customer 1st drives shareholder returns.

Kroger's business model is structured to produce annual earnings per share growth averaging 6% to 8%, plus a dividend of 1.5% to 2%, for a total shareholder return of approximately 8% to 10%. We expect this total shareholder return to compare favorably to the S&P 500 over a rolling three-to-five year time horizon. Annual earnings per share growth for fiscal 2012 will be higher than this due to a combination of the benefit of a 53rd week, a lower expected LIFO charge, our ability to aggressively repurchase stock during 2011, and benefits from the pension consolidation.

Fiscal 2012 Annual Guidance

Now I'd like to outline our specific growth objectives for fiscal 2012.

For the full year, we anticipate identical supermarket sales growth, excluding fuel, of approximately 3.0% to 3.5%. This guidance contemplates the effect of several prescription drugs coming off patent during the year, which will reduce sales. As Rodney said we expect units to increase if inflation moderates, so this should offset the effect of lower retail prices.

Full-year net earnings are expected to range from $2.28 to $2.38 per diluted share. This guidance assumes the benefit of the extra week, lower LIFO, the benefit of our buyback program, the benefit of our pension consolidation, and the benefit from Express Scripts prescription transfers I just mentioned. Kroger's quarterly dividend enhances total shareholder return by approximately 1.5% to 2.0%.

I'd like to provide some additional insight into our identical sales and earnings per share expectations on a quarterly basis as well.

For earnings per share, we expect the first quarter to pose the biggest challenge. Last year's first quarter presents a tough comparison, and the expected lower LIFO charge will not affect year over year comparisons until later in the fiscal year.

Conversely, we expect identical sales to start the year stronger and trend down as prescription drugs come off patent.

The generic prescriptions, which generate a high gross profit rate, along with the benefit of expected lower LIFO as the year progresses, will cause stronger earnings per share growth in the third and fourth quarter. The fourth quarter will also benefit from the 53rd week.

As a result, we expect earnings per share growth in the first quarter to be flat to slightly positive; a growth rate in quarter two that is in line with our business model; and strong performance in the third and fourth quarters.

We expect Kroger's full-year FIFO operating margin rate in 2012, excluding fuel, to expand slightly compared to fiscal 2011 results. We expect Kroger's non-fuel operating margin rate to slightly improve over time. It remains our goal to do so.

We expect our full-year LIFO charge to range between $140 to $190 million.

<u>Financial Strategy</u>
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. We expect capital expenditures to be in the $1.9 to $2.2 billion range for the year.

This morning we filed an 8-K summarizing the guidance and financial strategy that I just discussed and also some additional items – including pension contributions and expense and tax rate.

Now, I will turn it back to Dave.

Comments by Dave Dillon:
Thanks, Mike. I am very proud of our associates for delivering such outstanding results in 2011. Our consistent performance is one of the reasons that Kroger has created more than 29,000 jobs in five years. Kroger is rewarding shareholders and we are looking forward to another year of consistent, industry-leading performance and growth.

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. Because of your hard work, 2011 was a big success. We made solid progress in connecting more with our customers, especially by offering better and faster service and making sure we have the products our customers want in stock. You worked hard to keep costs under control in ways that are meaningful to the business but not distracting to our customers. And we have successfully reinvested the costs you have saved. Our customers say they can feel a difference – thank you, and keep up the great work!

This week, we invited 38 Kroger associates from across the entire company to join us in Cincinnati for a special celebration. These associates live our Values and Leadership Model in their daily work. Together, this talented group has shown remarkable leadership, innovation and courage – each in his or her special way. Our honorees this year include managers who lead strong and engaged Kroger teams; associates whose new ideas made a big difference; community service award winners; and associates who joined our "I Can Do That" fitness challenges and made healthy lifestyle changes.

We are inspired by their efforts to make our company better. Please help us congratulate and thank these associates. You can learn more about them by watching our quarterly broadcast tomorrow or reading on GreatPeople.me in the coming weeks. That completes our call today. Thank you for joining us.

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," "anticipate," "will," "expected," "goal," 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 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 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. 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. 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 expectations regarding positive tonnage growth could fail to be achieved if economic conditions fail to improve as contemplated or if inflation fails to moderate. Our views regarding inflation, and in particular product costs, could be affected by general economic conditions, weather, availability of raw materials and ingredients in the products that we sell and their packaging, 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 LIFO charge 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. Please refer to Kroger's reports and filings with the Securities and Exchange Commission for a further discussion of these risks and uncertainties.*

###