Fourth Quarter 2011
Investor Conference Call Prepared Remarks
March 4, 2011

Carin Fike, 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.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 topic with one question, and one follow-up question, if necessary. Thank you for your cooperation.

This is my last earnings call as Kroger's Director of Investor Relations, and I would like to thank the investment professionals that I have met during the past seven years in my role. I appreciate the opportunity and have learned much from you.

I will now turn the call over to David Dillon, Chairman and Chief Executive Officer of Kroger.

Comments by Dave Dillon:
Thank you, Carin. No doubt you will miss reciting the safe harbor language – you should know it by heart by now! I want to welcome Cindy Holmes as Kroger's new Director of Investor Relations. She brings a wealth of experience to the position, and I look forward to working with her in her new role.

And now I'd like to thank those of you listening via teleconference and webcast for joining us today. With me to review Kroger's fourth quarter and full-year 2010 results are Rodney McMullen, Kroger's President and Chief Operating Officer, and Mike Schlotman, Senior Vice President and Chief Financial Officer.

Fourth Quarter Performance
We are very pleased with our strong financial results in the fourth quarter. We believe these results are the outcome of our consistent approach to managing Kroger's business and following our Customer 1st strategy, which continues to connect with a broad range of shoppers. Our fourth quarter results reflect the

balance we seek to achieve across our business – including positive identical sales growth, increased tonnage and loyal household count, good cost control, as well as growth in earnings and earnings per share. We are encouraged by several improving customer and economic trends, which we hope signal the beginning of a return to a more normal operating environment.

Kroger's identical supermarket sales for the fourth quarter increased 3.8%, excluding fuel. This is Kroger's 29th consecutive quarter of positive identical sales growth, excluding fuel. These results are due in large part to our fantastic Kroger associates, who work hard every day to deliver on our Customer 1st strategy and delight our customers. As Kroger continues to outpace many of our competitors on identical sales growth, it's no surprise that we increased our market share in fiscal 2010. In a few minutes, Rodney will share some data on Kroger's market share increase.

Our fourth quarter identical sales growth was broad-based across the country and across supermarket departments. Each of our 18 retail divisions produced positive identical sales growth, excluding fuel. Every supermarket department also experienced positive identical sales growth in the quarter, with the strongest increases in Natural Foods, Deli/Bakery, Produce and Meat. We were particularly pleased to see solid growth in our Drug/General Merchandise department where sales had softened during the recession as customers scaled back discretionary purchases. The fourth quarter is an especially important time of year for this part of our business.

Growth Strategy

We focus on identical sales growth, excluding fuel, because it powers our business model and generates earnings and free cash flow that reward our shareholders. Kroger's business model is structured to produce annual earnings per share growth averaging 6% to 8% over a rolling three- to five-year time horizon. Including Kroger's dividend, the Company's business model is expected to generate total shareholder return of approximately 8% to 10%. Our goal is to produce an average annual return for shareholders that matches or exceeds the S&P 500 index over the time horizon that I described, but with less volatility.

Influencing Factors

Later, Mike will discuss Kroger's annual guidance for fiscal 2011. In the meantime, I'll address a few important factors that will influence Kroger's business this year:

- First, the economic recovery continues to be slower and weaker than we expected, and we believe this will persist. We see some promising signs of improvement, but the recovery remains fragile. Unemployment is high in most of our markets, and food stamp use continues at its peak.

- Rising prices for food and fuel will affect customer spending behavior. Rodney will talk more about food inflation shortly.
- We anticipate the overall competitive environment in 2011 will be more rational but still challenging as retailers compete for customers' limited dollars. We believe our balanced business strategy will further widen the gap between Kroger and other retailers.
- We expect to face approximately $200 million of incremental expense from rising pension and health care costs. Continued cost reduction in other areas will help offset these expenses so we can invest in areas that matter most to our customers.
- Finally, margins in our retail fuel operations can be unpredictable and will affect our financial results. In fiscal 2010, fuel margins enhanced Kroger's profits.

Overall, we will continue to follow our business strategy and make adjustments as needed to weather these key factors. Rodney will now offer some insight into Kroger's strong business trends in the fourth quarter and some 2010 market share statistics.

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

<u>Customer Shopping Behavior</u>
Kroger's relentless focus on building our loyal customer base is working. I'd like to review some key measures of our progress in the fourth quarter. Our number of loyal households increased once again, as did our total household count. Total units per basket were flat to slightly lower than the same period last year, and customer visits were higher. As a result, we sold more units to both total households and loyal households compared to the fourth quarter last year. We believe these statistics reflect our customers' continued cautious spending.

Price per unit sold was higher in the fourth quarter compared to a year ago, reflecting the effect of higher prices from our vendors. The combination of more households, more visits per household, and higher retail prices drove sequential improvement in identical sales compared with our trends earlier in 2010.

When we dive deeper into Kroger's results for the quarter, we see that identical sales were positive for both total households and loyal households. Identical sales growth among loyal households was stronger than the overall result.

<u>Tonnage Growth – National Brands and Corporate Brands</u>
Kroger continued to see positive tonnage growth throughout the fiscal year, on top of strong tonnage growth in fiscal 2009. Our promotional and pricing strategies are designed to deliver these sustainable results. The initiatives we implement focus on

building long-term loyalty and expanding Kroger's competitive advantage.

In the Grocery department, the fourth quarter tonnage increase was primarily driven by positive growth in national brands. Our stores also sold slightly more Corporate Brand units compared to the same period last year. For the quarter, Corporate Brands represented just under 35% of product units sold in our Grocery department. This was a slight decline in share compared to the fourth quarter last year.

Kroger's fourth quarter tonnage results highlight the balance we seek in increasing both sales of Corporate Brands and national brands at the same time. Our multi-billion dollar Corporate Brands portfolio is a competitive advantage because it gives our customers more choices – in variety and value – to complement national brand products. Kroger customers in all segments buy a wide assortment of Corporate Brand grocery and household items. This is particularly important today as many shoppers continue to watch expenses and look for quality items at good prices.

Food Costs

Rising food costs are on the minds of our customers and our investors today. Rising costs for many agricultural commodities are driving higher retail prices for packaged goods in the center aisles of our stores. Some of the inflation affecting our perishable departments – certain produce items, for example – is more seasonal and will cycle as additional sources of supply open up throughout the year.

For the fourth quarter, we estimate that Kroger experienced product cost inflation of roughly 2.3%, excluding our retail fuel inventories. This inflation was primarily driven by higher year-over-year costs in our Meat department. We did see inflation across other store departments, including Grocery, for which product cost inflation approached 1.0%. This follows six consecutive quarters of deflation in the Grocery department. We are passing along product cost increases from national brand suppliers in Grocery today, and we plan to continue to do so. As always, our popular Corporate Brand products will continue to offer customers thousands of quality, affordable choices to fit any budget.

2010 Market Share

As Dave mentioned earlier, Kroger increased its market share in 2010, which is one important measure of our success. According to Nielsen Homescan Data, Kroger's overall share of grocery product sales in the markets where we operate grew approximately 80 basis points during fiscal 2010. This data also indicates that our share increased in 13 of the 19 marketing areas outlined by the Nielsen report, declined slightly in 4 areas and remained unchanged in 2.

Wal-Mart supercenters are a primary competitor in 17 of the 19 marketing areas outlined by the Nielsen report. Kroger's overall share of grocery product sales in those 17 markets grew approximately 75 basis points during fiscal 2010.

This Nielsen Homescan Data is generated by customers who self-report their grocery purchases to Nielsen, regardless of retail channel or grocery outlet. It illustrates that not only is Kroger growing bigger among traditional grocers, we are also gaining ground in the larger retail market for grocery and consumable items, which includes many non-traditional competitors. This is very important because the competitive dynamics of our industry continue to evolve. Supercenters remain a formidable competitor, but several other retail formats have entered the arena. If there is any constant in our industry, it is change – changing retail formats and changing customer behavior. Retailers that become more relevant with customers will survive and thrive in the long run.

Because of several key competitive advantages, Kroger is well-positioned to be a successful long-term player in this operating environment. One advantage is our unwavering commitment to our Customer 1st strategy. Another is our strong market share position and our ability to leverage the scale of an $82 billion business. Another advantage is Kroger's partnership with dunnhumby, which continues to help us increase customer loyalty to our family of stores.

Labor

Of course, Kroger's associates also play a big part in building long-term customer loyalty, and we remain committed to investing in them. These investments include providing good quality, affordable benefits in ways that allow us to operate competitively with the non-union retailers in each of the markets that we serve. Because 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 opportunities for our associates.

With that objective in mind, we were pleased to ratify labor contracts in Seattle and Little Rock, Arkansas, during the fourth quarter. In 2011, we'll be negotiating agreements with UFCW unions in southern California, Memphis, and West Virginia, and with the Teamsters, who represent some of our associates in distribution and manufacturing operations in the Midwest.

Now Mike will offer more detail on Kroger's 2010 financial results and our 2011 guidance. Mike?

Comments by Mike Schlotman:

Thanks, Rodney. Good morning everyone.

Highlights of Fiscal 2010 Financial Results

Fourth Quarter Net Earnings

Earlier today, Kroger reported fourth quarter net earnings totaling $278.8 million, or $0.44 per diluted share. These results include a non-cash charge resulting from a goodwill write-down for a small group of stores. Excluding this goodwill impairment charge, net earnings for the quarter would have been $290.8 million, or $0.46 per diluted share. This compares to net earnings of $255.4 million, or $0.39 per diluted share, for the same period last year.

Fourth Quarter FIFO Gross Margin

Kroger's fourth quarter FIFO gross margin, excluding retail fuel operations, was comparable to the same quarter last year as a rate of sales. This was mostly due to improvements in shrink and advertising expense as a rate of non-fuel sales. Kroger's supermarket selling gross margin rate increased one basis point, excluding fuel.

Fourth Quarter OG&A Expenses

Kroger's fourth quarter OG&A rate, excluding fuel, was 39 basis points lower than the same period last year. This is an exceptional result given the ongoing pressure we face from rising credit card fees, health care and pension costs. We were able to overcome these pressures through the combination of positive identical sales growth, good cost control, and our ongoing implementation of operating efficiencies. Identifying and executing sustainable operating cost reductions allows us to invest in all four elements of our Customer 1st strategy: lower prices for our customers, our great people, our product offering, and our customers' shopping experience.

Fourth Quarter Operating Margin

Kroger's fourth quarter operating margin, excluding fuel and the goodwill impairment charge, rose 31 basis points as a rate of sales compared to last year, driven by the OG&A leverage I described and a couple basis points of leverage over rent expense. A higher LIFO charge in the quarter pressured Kroger's non-fuel operating margin by about 10 basis points.

While we regularly encourage investors to look at Kroger's operating margin over a longer time period – usually on an annual timeframe – it is important to highlight our fourth quarter results in this area. These results demonstrate sequential improvement as we transition back to a more normalized operating environment for our industry.

Retail Fuel Operations

Before I move on to discuss Kroger's full-year 2010 results, I'll share some data on our retail fuel operations. We were very pleased to celebrate the opening of

Kroger's 1,000th supermarket fuel center.

In the fourth quarter, Kroger's retail fuel operations continued to generate solid identical gallon growth at both our supermarket fuel centers and convenience stores. These outlets earned approximately 10.2¢ per gallon compared to 9.4¢ in the final quarter of fiscal 2009. This part of our business had no impact on Kroger's year-over-year net earnings per share increase for the fourth quarter.

For the full year, the cents per gallon fuel margin was roughly 12.2¢ in 2010 compared with 10.6¢ in 2009. Higher fuel margins plus strong gallon growth provided roughly six cents of the year-over-year increase in Kroger's consolidated earnings per diluted share for fiscal year 2010.

Full-Year 2010 Results

Let's turn now to Kroger's full-year results for 2010. Net earnings were $1.12 billion, or $1.74 per diluted share. The goodwill impairment charge incurred during the fourth quarter reduced our 2010 results by approximately $0.02 per diluted share. The tax benefits recognized in the second and third quarters of the year increased Kroger's net earnings by approximately $0.03 per diluted share. Full-year net earnings in the prior year were $1.71 per diluted share, excluding the asset impairment charges recorded in the third quarter of that year.

Kroger's full-year operating margin, excluding our retail fuel operations and adjusting for the impairment charges in fiscal 2010 and 2009, was 22 basis points lower in fiscal 2010 compared to the prior year. This performance does not reflect Kroger's long-term business model of slight non-fuel operating margin expansion on an annual basis. It does reflect the management of our operations in a consistent manner that has allowed us to grow Kroger's business through a severe recession and a very slow economic recovery.

Fiscal 2011 Annual Guidance

Dave has shared Kroger's growth strategy with you. I'll outline some specific growth objectives for fiscal 2011. For the full year, we anticipate identical supermarket sales growth, excluding fuel, of approximately 3% to 4%. This will be driven by moderate tonnage growth and product cost inflation.

Full-year net earnings are expected to range from $1.80 to $1.92 per diluted share. While this range is narrower than our guidance for fiscal 2010, much uncertainty remains. Improved operating results and share repurchases will produce Kroger's EPS growth in 2011. The amount of growth will be influenced by the factors that Dave described:

- The pace of the economic recovery;
- The impact of rising gasoline and food prices on customer spending;

- The competitive environment;
- Higher pension and healthcare costs; and
- Retail fuel margins. Our guidance for fiscal 2011 assumes a margin of approximately 11.5¢ per gallon for Kroger's retail fuel operations. This compares to our five-year historical average of 12.2¢ per gallon.

Favorable developments in these areas could result in EPS growth toward the upper end of our guidance range. Conversely, unfavorable developments in these areas could lead to EPS growth toward the lower end of our guidance. Kroger's earnings per share growth will also be affected by the pace and timing of our share buyback activity throughout the fiscal year.

While we don't provide quarterly EPS guidance, we do like to share some insight on how our earnings per share growth rates will trend during the year. The growth rates in the second and third quarters will be lower than the full-year rate due to the tax benefits recognized in 2010.

We expect Kroger's full-year operating margin rate in 2011, excluding fuel, will be comparable to fiscal 2010 results. We recognize the need to expand Kroger's non-fuel operating margin rate over time. It remains our goal to do so as the economy and operating environment improve.

Financial Strategy

During 2011, Kroger plans to use cash flow from operations and cash on hand to fund capital expenditures, repay debt maturing on April 1, repurchase shares, pay dividends to shareholders, and maintain our current debt rating. We have reduced our previous capital spending plans for this year by approximately $100 to $300 million to our current expectation for capital investment of $1.7 to $1.9 billion for the full year. This reduction, plus not having to make a required contribution to Kroger's Company-sponsored pension plans, should provide the cash flow necessary to execute our financial strategy in 2011.

I'll provide some additional details on Kroger's share repurchase program. During the fourth quarter, we invested $253.4 million to repurchase 11.8 million shares of Kroger stock at an average price of $21.51 per share. Since the end of the fourth quarter and through the close of the market yesterday, Kroger invested $87.5 million to repurchase 3.9 million shares, leaving $11.6 million remaining under the $500 million stock repurchase program announced in June 2010. We intend to invest this amount, plus the additional $1 billion authorization announced earlier today, to repurchase shares. The timing of the repurchases will vary according to market conditions, and keep in mind that the ultimate number of shares repurchased will depend on Kroger's stock price.

This morning we filed an 8-K summarizing the guidance and financial strategy that

I just discussed and also some additional items – including LIFO expense, operating margin, pension contributions and expense, and tax rate.

Now, I will turn it back to Dave.

Comments by Dave Dillon:
Thanks, Mike. I hope our comments today help outline our view for 2011 and our longer-term business objectives. Remember that Kroger's strategy focuses on driving sales through increasingly loyal customers. We continued to grow our business in a difficult operating environment through our focus on all four areas of our Customer 1st strategy: our people, prices, products and shopping experience. Our unique customer insights help us understand and meet each shopper's needs. In 2010, we achieved solid positive identical supermarket sales and market share growth, which demonstrates that we can strengthen our business and reward shareholders by placing our customers' needs first.

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.

On behalf of our leadership team, thank you for working so hard to please our customers in 2010. You each played a part in delivering these strong fourth quarter and fiscal 2010 results. It was a year of remarkable achievements. Despite a difficult economy, you rallied and found fresh, exciting ways to connect with our shoppers. You are the reason Kroger increased customer loyalty and achieved consistent, positive identical sales results each quarter. We expect 2011 to be similarly challenging, and I appreciate your efforts to continue to grow our relationship with our customers. So thank you, and let's all go out and feed the people.

That completes our call today. Thank you for joining us.

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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 "objective," "will," "expect," "expected," "expectation," "plans," "should," and "anticipate." 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, as well as the timing that those earnings occur within the year, 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 non-traditional competitors; 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 as well as rising fuel and food prices; the number of shares outstanding; the success of our future growth plans; goodwill impairment; volatility in our fuel margins; increased fuel costs and the effect those increases have on consumer spending; 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, failure to achieve tonnage growth as expected, or changes in the economic climate, including our outlook on inflation, 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, the competitive landscape failing to be more rational as we expect, 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. Our earnings per share results also will be affected by our ability to improve our operating results and our ability to repurchase shares under our repurchase program as expected. 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 plans to use cash flow from operations and cash on hand to fund capital expenditures, repay debt, repurchase shares, pay dividends to shareholders, and maintain our current debt rating will depend on our ability to generate free cash flow and otherwise to have cash on hand, 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. Although we believe that our expected reduced capital expenditures should provide for sufficient cash flow to permit us to execute our strategy, any cash flow shortfall could have an effect on our ability to do so. If our expectation of fuel margins, which are unpredictable, is inaccurate, we could fail to achieve our anticipated earnings per share growth. Should asset values in the multi-employer pension funds further deteriorate, if employers withdraw from these funds without providing for their share of the liability, should our estimates prove to be understated, our contributions and pension expense could increase more than we have anticipated. Likewise, if health care expenses continue to grow at a faster pace than expected, our incremental cost for those expenses will exceed our expectations. Our ability to achieve operating margins comparable to 2010 could be affected by all of the factors outlined above that could cause us to fail to achieve our expected earnings and earnings per share growth. We assume 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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