First Quarter 2010
Investor Conference Call Prepared Remarks
June 17, 2010

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 first 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.

Before I turn the call over to David Dillon, Kroger's Chairman and Chief Executive Officer, we want to take a moment to invite you to join us here in Cincinnati for our 2010 Investor Conference on September 28 and 29. We will be sharing more details with you soon and look forward to seeing you then.

Now, I will turn the call over to Dave.

Comments by Dave Dillon:
Thank you, Carin. Good morning everyone and thank you for joining us today. With me to review Kroger's first quarter 2010 results are Rodney McMullen, Kroger's President and Chief Operating Officer, and Mike Schlotman, Senior Vice President and Chief Financial Officer.

<u>First Quarter Performance</u>
I am pleased with the strong positive identical sales growth we achieved in the first quarter while striking a better balance on margin investments. Our Customer 1st strategy continues to deliver results through improvements in all four key areas we target: our people, our products, the overall shopping experience in our stores, and prices. As a result, the total number of families we serve continues to grow and our most loyal customers are buying more with us. We are also reducing debt and returning value to shareholders through dividends and share repurchases.

Identical supermarket sales increased 2.4%, without fuel, during the quarter. This continues Kroger's trend of positive identical sales growth that is among the strongest in the industry. Each one of our eighteen supermarket divisions had positive identical sales results! Let me repeat that: Every supermarket division we operate posted positive identical sales results for the quarter. I want to thank all of our associates for these great results.

Growth in loyal households and strong sales of our own brands and national brands continued throughout the first quarter, demonstrating the strength of Kroger's overall competitive position and the value proposition we provide to customers.

As you know, several years ago we developed a strategy to strengthen our connection with our customers. Our Customer 1st strategy focuses on four key areas our customers have told us are important to them: our people, our products, the overall shopping experience in our stores, and our prices. All of these are important to customers when they decide where to shop.

Based on feedback from our customers, we continue to make good progress in these four key areas as we focus on offering shoppers more value for the way they live. Customers tell us they appreciate the entire spectrum Kroger's unique value proposition offers, including friendly service, quality products they trust, good prices, a pleasant shopping experience, and personalized rewards for their loyalty. As a result, both the total number of families and the total number of loyal households we serve continues to grow. Equally important, our most loyal customers are buying more with us. We are building momentum through our multi-dimensional strategy, which serves Kroger customers, associates and shareholders well in a variety of economic conditions.

Influencing Factors

Several factors continued to influence Kroger's business in the first quarter. They include aggressive competition, rising commodity costs, the slow and inconsistent pace of the economic recovery, and changes in consumer confidence.

Kroger continues to perform well as the economy struggles to recover. Our loyalty card data and proprietary analysis point to mixed spending behaviors across different customer segments. Several signs indicate that customers are feeling more optimistic. They are spending more money inside our stores on certain discretionary categories, such as organic foods, specialty deli meats, and higher-end wines. Many non-food categories also showed improvement. At the same time, customers who are more price-sensitive remain cautious about discretionary spending. Furthermore, the continued high use of food stamps and other government programs is still causing volatility in our weekly sales trends. Our Customer 1st strategy serves all of these varying customer wants and needs.

Food costs also continue to affect our financial results. For the quarter, our estimated product cost inflation, excluding fuel, was roughly 90 basis points.

Because this figure is an average across several different departments, some additional detail might be helpful to you. When you exclude milk, which was slightly inflationary, the Grocery department experienced nearly 180 basis points of deflation. This compares to almost 270 basis points of deflation in the fourth quarter of last year.

We saw a very different picture in Produce where we experienced over 700 basis points of cost inflation due to supply issues stemming from unfavorable weather in some growing regions. This was a trend change from 2009 when we experienced significant deflation in Produce costs throughout much of the year.

Guidance

Our results show we are striking a better balance between delivering solid near-term financial results and investing for the future growth of Kroger's business. We are committed to improving this balance as the year progresses and as industry conditions normalize.

To that end, we have confirmed our identical supermarket sales and earnings guidance for fiscal 2010. We expect identical supermarket sales growth of 2% to 3%, without fuel, for the year. Net earnings are expected to range from $1.60 to $1.80 per diluted share.

We are striving to achieve results in the upper half of the earnings guidance range, and our incentive compensation plan reflects this objective. The operating environment remains uncertain, and we believe several factors will continue to influence Kroger's sales and earnings performance throughout the year. These factors include inflation or deflation in product and operating costs, the competitive environment, fluctuating fuel margins, and the inconsistency of the economic recovery.

Next, I will turn it over to Rodney who will provide more details on our performance during the first quarter. Rodney?

Comments by Rodney McMullen:

Thank you, Dave. Good morning everyone.

The Kroger team did a great job during the quarter to set the stage for the rest of the year. Our associates' efforts to control expenses enabled us to maintain a compelling price position relative to both discount and traditional grocery competitors. We are particularly pleased with our associates' continued success in strengthening Kroger's connection with our customers. This truly is a differentiating factor for our Company.

Loyal Household Growth

As a result, the number of total households we serve continued to grow in the first quarter. Our loyal household count grew at a faster rate, indicating that our best customers are the primary beneficiaries of the investments we are making in the four key areas of our Customer 1st strategy. We reward our best customers for their increased loyalty.

Increasing purchases from loyal families is an important part of our growth strategy. Our strong partnership with dunnhumby supports this objective by allowing us to use our shopper data to reward our best customers with offers and coupons tailored exclusively for them. No other U.S. grocery retailer offers this level of personalization and rewards. Our goal is to earn a customer's loyalty for life.

Market Share

Growing market share is an important part of Kroger's long-term strategy. We look at numerous resources to evaluate market share changes in our industry. The resources we review all show Kroger continues to gain share which is consistent with our loyal household growth and strong identical sales growth relative to most of our competitors.

One of the most reliable and independent resources we regularly review is Nielsen Homescan Data. Their reporting shows that Kroger's overall market share continued to grow in the first quarter.

Strong Corporate Brands

Our strong Corporate Brands also help strengthen customer loyalty. We have millions of loyal households who shop with us every day. Only 5,000 of those households did not purchase a corporate brand item from us. This is an outstanding indicator of the acceptance of our own brands and Kroger's ability to build lifetime loyal customers with our exclusive, preferred brands.

Corporate brands represented about 26% of our first quarter grocery department sales dollars and approximately 34% of our grocery sales units. We are pleased that we have maintained share at this level because we expect some adjustments in customers' purchasing behavior as the economy improves.

Kroger now has more than 20,000 Corporate Brand items. On average, approximately 11,000 of these items are available in an individual store, based on store format and the specific preferences of customers who shop that store. The overwhelming acceptance of our Corporate Brands demonstrates customers recognize the quality and price advantage these products offer. Increasingly, we are introducing items which fulfill an unmet need.

One example – and this is one I am especially proud of our team – is our line of Fresh Selections bagged salads with food tracing technology. The HarvestMark technology we use on these salads allows customers to trace the origin of the salad through information listed on each bag. Other new entries include two cereals without high fructose corn syrup. We developed these cereals based on feedback from parents who wanted cereal options that are free of high fructose corn syrup and include whole grains. Products such as these are “Mom Approved” before they arrive on stores shelves because they were created based on what moms – and increasingly dads – have told us they want for their families.

Sustainability Efforts

We also continue to make strong progress on our Sustainability agenda, which includes reducing energy use and our carbon footprint, reducing and recycling waste, and engaging our customers by offering them sustainable products to purchase. Our associates also support our efforts to save energy and reduce waste through their actions.

In fact, our Associates have helped Kroger reduce the energy we use by more than 27% in the past 10 years. That is enough energy to power every single family home in the City of Memphis, Tennessee for one year.

Through another initiative, we have reduced the amount of plastic used in our Big K
1 and 2-liter bottles. As a result, we will remove more than 275,000 pounds of plastic from the waste stream annually.

Last month, we reached another milestone in our transition to using LED lighting in refrigerated cases in our stores. Now, more than 1,700 of our nearly 2,500 stores are using LED lighting in glass door refrigerated cases. This LED lighting uses 75% less energy than traditional fluorescent lights.

Labor

Turning now to Labor Relations, we completed successful contract negotiations for our associates in Dallas and reached a tentative agreement with the union representing our associates in Michigan. Negotiations continue in several markets, including New Mexico, Houston, Portland and Seattle. We will begin negotiations soon with Teamsters in southern California and with the UFCW in Cincinnati, Ft. Wayne, Little Rock and Toledo.

Rising health care costs and retirement plan contributions continue to be an issue. Our objective in every negotiation is to balance competitive costs with compensation packages that provide good wages, high-quality, affordable health care and retirement benefits for our associates.

Now, Mike will offer more detail on the first quarter and Kroger’s financial strategy. Mike?

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

First Quarter 2010 Results
As Dave mentioned, Kroger reported positive identical supermarket sales, excluding fuel, of 2.4% for the first quarter. Recall from our comments in March that the timing of the Super Bowl and snowstorms in many regions we serve benefited the beginning of our first quarter identical sales trend. On the flip side, the timing of the Memorial Day holiday negatively affected our identical sales trend at the end of the quarter. Of course, our second quarter identical sales results will benefit from this timing change.

Kroger's strong identical sales growth produced solid earnings that were in line with our expectations for the first quarter. Net earnings totaled $373.7 million, or $0.58 per diluted share, compared to $435.1 million, or $0.66 per diluted share, in the same period last year. Last year's first quarter results benefited from commodity costs – particularly dairy and diesel fuel – that were unusually favorable to our business. This year, stronger profits from Kroger's retail fuel operations helped soften this difficult comparison. Our retail fuel operations added approximately $0.04 per share to Kroger's first quarter earnings on a year-over-year basis, as we expected. I'll provide some additional color on our retail fuel operations in a minute.

FIFO Gross Margin
Turning now to some of the details of our first quarter results. Excluding retail fuel operations, FIFO gross margin decreased 77 basis points. Most of this decline was driven by Kroger's investment in supermarket selling gross margin, which declined 71 basis points excluding fuel. This sequential improvement from the 126 basis point decline in the fourth quarter selling gross margin demonstrates we are seeing a better balance between price investment and tonnage growth. Our more moderate margin investment yielded mid-single digit tonnage growth, excluding fuel and pharmacy.

LIFO
Kroger recorded a $15.4 million LIFO charge during the quarter, a decrease of $7.7 million from the same period last year. Excluding retail fuel operations, the LIFO charge decreased 4 basis points as a rate of sales. We continue to anticipate a full-year LIFO charge of $50 million for fiscal 2010.

OG&A
Excluding retail fuel operations, OG&A increased 13 basis points from the same period last year. Health care, pension costs and credit card fees continued to

pressure Kroger's OG&A rate. These rising expenses were mostly offset by identical supermarket sales leverage and the benefit from productivity improvements, process changes, and our efforts to reduce energy usage. The higher OG&A rate also reflects expenses associated with The Little Clinic and i-wireless.

Operating Margin

Kroger's first quarter operating margin, excluding our retail fuel operations, declined 85 basis points, primarily as a result of the year-over-year changes in FIFO gross margin and OG&A expenses I described for you. The year-over-year decline is a sequential improvement from the fourth quarter of 2009 when Kroger's operating margin declined over 120 basis points, excluding the benefit of a lower LIFO charge. As Dave said, we are striking a better balance between delivering solid near-term financial results and investing for the future growth of Kroger's business. We are committed to improving this balance as the year progresses and as industry conditions normalize. For the 2010 full year, we continue to expect a slight decline to slight improvement in Kroger's non-fuel operating margin.

Retail Fuel Operations

Turning now to our retail fuel operations, both sales and earnings were strong. Fuel sales increased at both our supermarkets and convenience stores due to higher average retail fuel prices and a strong increase in the number of gallons sold, both in total and on an identical gallon basis.

The cents per gallon fuel margin was 11.7¢ for the quarter compared to 8.2¢ for the same period last year. On a rolling four-quarters basis, the cents per gallon fuel margin was 11.6¢ in the first quarter compared with 14.3¢ in the same period last year. Our guidance for fiscal 2010 assumes a normalized margin for this business of approximately 11¢ per gallon.

Financial Strategy

Capital Investment

I'll now update you on our long-term Financial Strategy. We are very focused on allocating the substantial cash flow of Kroger's business to reward our shareholders – both today and in the future.

We plan to invest approximately $1.9 to $2.1 billion in capital projects during 2010 with a strong bias towards remodels and infrastructure projects. We are doing so because we see plenty of opportunities in this environment to expand Kroger's competitive advantage and generate strong returns through capital investments. These investments are designed to keep our store base fresh and appealing to customers and reduce our operating costs. All of these investments are squarely focused on delivering our Customer 1st strategy and, in total, are generating returns higher than our cost of capital.

Debt Reduction
We are also committed to maintaining Kroger's strong balance sheet and solid credit rating. At the end of the first quarter, net total debt was $7.1 billion, a decrease of $339.8 million from a year ago. On a rolling four-quarters basis, Kroger's net debt to EBITDA ratio, adjusted for the southern California impairment charge in 2009 and Hurricane Ike charges in 2008, was 1.91 compared with 1.77 during the same period last year. Our objective is to manage this leverage ratio in a range that maintains our current BBB debt rating with the three major ratings agencies.

Share Repurchase and Dividend
While capital investments and balance sheet strength position our Company well for future growth, we realize it is important to provide near-term rewards to our shareholders through a program of regular stock buybacks and quarterly dividend payments. During the first quarter, we invested $79.5 million of Kroger's free cash flow to repurchase 3.6 million shares of stock at an average price of $21.89 per share. After the quarter ended, we purchased an additional 1.9 million shares of stock at an average price of $20.25. Approximately $240 million remains under the $1 billion stock repurchase program announced in January 2008.

During the quarter, Kroger returned $61 million to shareholders in the form of dividend payments. Our board has increased the dividend each year since it was established in 2006. Kroger's dividend yield adds 1.5% to 2.0% to total shareholder return.

Now, I will turn it back to Dave.

Comments by Dave Dillon:
Throughout the difficult operating environment, the Kroger team has stayed squarely focused on delivering on our Customer 1st strategy. Kroger has had the courage, in this challenging economy, to invest in our stores to keep them fresh; to invest in many cost saving projects; and to invest in improving our customers' shopping experience. Our customers have noticed and are rewarding us with their loyalty. We believe these investments will continue to differentiate Kroger today and will position us well for profitable growth for years to come.

As we move forward throughout the year, we are focused on balancing investments in our business and returns for shareholders as we work to create long-term value.

Now, we look forward to your questions.

Comments by Dave Dillon:

Before we end the call, I want to share some additional thoughts with our associates.
First, thank you for getting us off to a solid start for the fiscal year. Our performance is the result of your individual efforts and we appreciate all that you do.

As you know, safety is one of Kroger's core values. We continue to strive to achieve our goal of zero accidents in our stores, plants, distribution centers and offices. Over the past 14 years, we have reduced our accident rates by more than 70%. We have several great teams to celebrate for their outstanding safety records. Each of the following plants recently achieved more than a year without an OSHA recordable injury. They are:

- America's Beverage Company in Irving, Texas
- Pace Dairy in Crawfordsville, Indiana
- Riverside Creamery in Riverside, California
- Tamarack Farms Dairy in Newark, Ohio
- Vandervoort Dairy in Ft. Worth, Texas; and
- Westover Dairy in Lynchburg, Virginia

We also have many stores that have achieved outstanding safety records. 185 stores have gone a year without an OSHA recordable injury. Several other stores have gone at least three years without an associate injury. The top six are:

- Central Division's store #462 in White Hall, Illinois
- QFC store #804 in Seattle, Washington
- Mid-South Division's store #906 in Whitley City, Kentucky
- Delta Division's store #391 in Paris, Tennessee
- Mid-Atlantic Division's store #300 in Lynchburg, Virginia; and
- Smith's store #131 in Ogden, Utah

That is exceptional! Congratulations to associates in all areas of our company for keeping your focus on safety – both at work and at home. We appreciate your efforts!

Have a great summer everyone!

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 “achieve,” “guidance,” “expect,” “committed,” “objective” and “plan.” 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, our ability to achieve results in the upper half of our earnings guidance range, and our ability to strike a better balance between delivering solid near-term financial results and investing for the future growth of our business, 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, 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; volatility in our fuel margins; 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 and related climate change, 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 results also will be affected by rising commodity costs, the inconsistent pace of the economic recovery, 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. Our ability to maintain a leverage ratio that maintains our current debt rating could 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 fuel margins could fail to normalize at 11¢ per gallon if the pattern of rapid changes in fuel costs continues. Our guidance for LIFO is based on our forecast of cost changes for products in our inventory. Our estimate of product cost changes 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 non-fuel operating margin guidance could change if we are unable to pass on any cost increases, if our strategies fail to deliver the cost savings contemplated, or if changes in the cost of our inventory and the timing of those changes differ from our expectations. 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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