Fourth Quarter and Full Year 2012
Investor Conference Call Prepared Remarks
March 7, 2013

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

Highlights of Business Performance

Kroger had an outstanding fourth quarter and an outstanding year.

We accomplished a lot in fiscal 2012. We:

- Delivered on ID sales growth
- Exceeded expected earnings per share growth
- Increased FIFO operating margin
- Increased our dividend 30%

Kroger's unique value offering of better service, great products, an enjoyable shopping experience *and* low prices continues to resonate with a full range of customers. The result is an industry-leading 37 consecutive quarters of positive identical sales growth.

In this morning's press release we provided you with details to make it easier for you to do apples-to-apples comparisons and understand how we look at our business internally. Table 6 in our press release was designed to help you understand the details behind the growth figures we reported.

We delivered value to shareholders by increasing our dividend and exceeding our own earnings per share guidance through the combination of solid operating results and share buybacks. We returned more than $1.5 billion to shareholders through dividends and stock buybacks in 2012.

Our Associates delivered an outstanding year that underscores Kroger's growing connection with customers remains the key to shareholder value creation. In a moment, Rodney will outline how we got there and Mike will discuss the numbers. But first I'd like to give some insight into what our customers are facing today.

Economy and Consumer Sentiment

Consumer confidence was fragile throughout the year, but hit its lowest point this January as customers voiced heightened concern over taxes. We believe four factors will continue to affect consumer confidence: the overall state of the economy, fluctuating gas prices, payroll taxes, and government policy uncertainty. These factors are causing sales comparisons between days and weeks to be highly variable, but overall we continue to have strong ID sales trends.

We remain confident in our ability to deliver growth despite the economic uncertainty. Our team has delivered strong results by executing our Customer 1st strategy over the last five years. As you know the last five years have been highly volatile and we have continued to consistently deliver through that time.

The cornerstone of our Customer 1st strategy is the value our associates deliver to our customers. When our customers are stretched at the pump, they look to our fuel points program for meaningful savings. When families have less to spend in restaurants, our ready-to-heat and ready-to-eat meals help them eat well at home. When you want the convenience of finding everything you need, plus a little, in one place – and to save time at checkout – nobody does it better than our Family of Stores. Whatever the economic and operating environment, Kroger is situated to deliver on our growth targets for 2013 and beyond. Our ability to do this is what makes Kroger a compelling investment.

Rodney will now provide deeper insight into our business performance and share our year-end market share statistics.

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

Growing Kroger

We exceeded our expectations for the quarter and the year thanks to our associates performing to deliver growth. We are implementing our long-term growth strategy, which includes:

- Targeting capital to grow our business in new and existing markets;
- Leveraging dunnhumby insights to solve varied customer needs, through both traditional and digital channels; and

- Continuing our share buyback program.

We continue to make good progress adding square footage in four fill-in markets, and we have identified others based on various metrics. We have narrowed the list of new markets for future expansion. In 2013, we plan to build, expand or relocate 45-50 supermarkets, compared to 44 in fiscal 2012.

Growth Metrics

At our investors meeting in October we identified four key performance targets for shareholders to measure our success. I'd like to spend a few minutes discussing the results in each metric.

ID Sales

We are very pleased with our fourth quarter identical supermarket sales growth of 3.0% without fuel. We focus on identical sales because it provides the strongest measure of our relevance with customers over time.

Our identical sales without fuel and pharmacy were consistent throughout the year. We are pleased with our identical sales trends through the year given the fact that inflation declined during the year.

Consistent with our guidance at the start of 2012, pharmacy sales benefitted overall sales in the first half of the year. This was due to strong growth in our pharmacy business, including attracting and retaining Express Scripts business. Also in line with our guidance at the start of the year, identical sales trended down as prescription drugs came off patent. These events will be important to keep in mind as you estimate our quarterly sales expectations for 2013. Mike will provide our guidance shortly.

FIFO Operating Margin

Rolling four quarters adjusted FIFO operating margin, excluding fuel and the extra week, increased by 6 basis points compared to the adjusted fiscal 2011 result. This is in line with our commitment to grow the rate slightly over time on a rolling four quarters basis.

Return on Invested Capital

The third target metric is return on invested capital. ROIC in the fourth quarter held steady at 13.4%, the same as last year. We are committed to growing our ROIC over time, even with the higher level of capital spending.

Annual Market Share Growth

Our fourth target metric is market share growth, which we report on annually. 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 dollar share of the products we sell in the markets where we operate grew approximately 20 basis points during fiscal 2012. The pace of our market share growth accelerated in the back half of the year. This mirrors our tonnage growth during the year. This data also indicates that our share increased in 10 of the 19 marketing areas outlined by the Nielsen report and declined in 9 areas.

Wal-Mart supercenters are a primary competitor in 17 of the 19 marketing areas outlined by the Nielsen report. Kroger's share increased in 9 of those 17 markets and declined in 8 markets, and overall market share slightly increased.

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 sell.

Operating Leverage

Strong identical sales and cost controls allowed Kroger to leverage operating expenses for our eighth consecutive year. In fiscal 2012, OG&A costs plus rent and depreciation, without fuel and the extra week, were down 48 basis points as a percent of sales.

Consumer Shopping Behavior and Tonnage Growth

Sales growth in the fourth quarter was driven by an increase in visits per household, loyal household growth and slight increases in units per basket and per month. As a result, total units sold were up solidly compared to last year.

For the full year, customer visits and monthly purchases were up, while items purchased each trip were down. The number of loyal households continued to increase, as did the number of loyal household store visits.

We estimate the rate of product cost inflation declined to 1.7%, excluding fuel. Once again every store department had inflation with the exception of Seafood, which had deflation.

Corporate Brands

Corporate Brands represented approximately 27% of Grocery department sales dollars in the fourth quarter, and Grocery department Corporate Brand units sold were 33.5%. The mix between national brands and Corporate Brands fluctuates in any given quarter. Our goal is to give the best value to our customers and we continue to be a market leader in Corporate Brands.

Corporate Brands introduced 588 new items in the Grocery department in 2012. Many of these were under our new Simple Truth and Simple Truth Organic brands, which had fiscal 2012 sales that exceeded our internal goal by 33%. We plan to continue developing innovative products that solve for unmet needs and that our customers won't find anywhere else in 2013.

Our practice has been to disclose our Corporate Brands share in the grocery category only. The reason for not using a broader base was the introduction of new items in categories where we previously were not broadly represented. We felt this would have portrayed our growth in too favorable a light. With this behind us we plan to begin giving a view of our share across a broader portion of the store in future quarters.

Customer 1st Non-price Key Initiatives

As you know, our commitment to improving the Four Keys of our Customer 1st Strategy – our people, products, prices and shopping experience – sets us apart from many other food retailers. While many of our competitors do well in one or more of these areas, very few excel in all four of them. I'd like to share a couple examples of how we are seeking to improve our connection to customers through the non-price keys of our Customer 1st strategy.

Digital promotion

An important area of focus for us is improving our digital connection with customers through our mobile phone app and on the web at Kroger.com. We offer customers the ability to check their fuel points, download coupons instantly to their shopper card, create a shopping list, and order pharmacy prescription refills virtually, wherever they are.

We know that customers who are digitally engaged with Kroger are more loyal than customers who aren't, which is why we recently began promoting our digital offering to connect with more customers on our digital platforms. In a short period of time, we've seen visits to our mobile app increase by more than 120% and a 45% increase in traffic to Kroger.com, and growth in the number of customers who have signed up for online and mobile accounts with Kroger.

Another measure of our growing digital connection is the total number of digital coupons that have been downloaded. In December, we hit a milestone of more than 500 million digital coupons downloaded by our customers. We see only opportunity by improving our offering in the digital arena, particularly as we leverage our world-class loyalty program with dunnhumbyUSA.

Sustainable seafood

Our customers are eating more seafood as part of their weekly diet, making seafood one of the fastest-growing commodities we sell. To meet this growing demand today and in the future, we support both wild-caught and farm-raised fishery improvement projects around the world so customers can know with confidence that the seafood they buy at Kroger is always fresh, high quality, and sustainably sourced.

Just last month we helped launch the *Global Sustainable Seafood Initiative, or GSSI,* to ensure that certification programs continue to successfully evaluate and validate our suppliers' best-in-class sustainability efforts. Kroger is proud to be the only US-based retailer to hold a seat on the GSSI steering board and we are also a founding member.

Labor

Finally, 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, which some of our competitors do not face. Kroger and the local unions, which represent many of our associates, have a shared objective – growing Kroger's business and profitability will help us create more jobs and career opportunities, and enhance job security, for our associates.

We were pleased that our associates ratified a series of new labor agreements covering stores in Portland and throughout Oregon and Southwest Washington.

Currently, negotiations are underway with the UFCW for store associates in the Indianapolis area. In 2013, we have labor contracts expiring in Michigan, Houston, Dallas, Cincinnati and Seattle.

Now Mike will offer more detail on Kroger's 2012 financial results and our guidance for 2013. Mike?

Comments by Mike Schlotman:

Thanks, Rodney. Good morning everyone.

Obviously our numbers are a little difficult to dissect this quarter. As I go through our results there are three important comparisons we want to make sure you understand. First, how we performed compared to our guidance in 2012; second, how we compare our fiscal 2012 results to fiscal 2011; and third, to show you how we calculated our growth rate for 2013.

Fourth Quarter Net Earnings

Net earnings for the fourth quarter totaled $461.5 million, or $0.88 per diluted share. LIFO was $0.09 per diluted share lower than estimated and a discrete tax item added $0.02 per diluted share to the results for the quarter; these two items were not contemplated in our guidance. Excluding the benefit of these items, we exceeded earnings per diluted share expectations by $0.07.

Comparing our fourth quarter results to the prior year, net earnings per diluted share in the fourth quarter 2012 grew 22%. To calculate this, we excluded the extra week from the fourth quarter 2012, and adjusted fourth quarter 2011 for the UFCW pension plan consolidation charge and to make LIFO comparable between the two quarters. This is illustrated in Table 6 of our press release.

Fourth Quarter LIFO Credit

We recorded a $41.2 million LIFO credit during the quarter compared to a $73.4 million LIFO charge in the same quarter last year.

We reminded you in the third quarter that we manage the company without regard to our LIFO charge, and many of the items we discuss are on a FIFO basis. So when we develop our expectations for any given year we estimate LIFO last. The reason for this is LIFO is merely an accounting convention. If LIFO is lower than the prior year our EPS growth rate will be higher than our targets; and if LIFO is higher than the prior year, our EPS growth rate will be lower than our targets. This is why we excluded the benefit of our lower than expected LIFO charge when comparing to guidance and calculating growth rates.

Fourth Quarter FIFO Gross Margin

FIFO gross margin, excluding retail fuel operations and the extra week, decreased 43 basis points from the same period last year.

Fourth Quarter OG&A Expenses

Operating, general and administrative costs plus rent and depreciation, excluding retail fuel operations and the extra week, declined 70 basis points as a percent of sales compared to the prior year's adjusted fourth quarter.

Retail Fuel Operations

Before I move on to discuss Kroger's full-year 2012 results, I'll share some data on our retail fuel operations. We disclose many items with and without fuel due to its effect on operating costs and gross rates, but we view fuel as a core department that over time is expected to contribute to earnings per share growth. About half of our supermarkets have fuel centers today. In the fourth quarter, our cents per gallon fuel margin was approximately 12.7¢ compared to 12.1¢ in the same quarter last year, after adjusting 2011 for an additional week.

For the full year, the cents per gallon fuel margin was roughly 13.9¢ compared with 13.8¢ last year, after adjusting 2011 for an additional week.

Full-Year 2012 Results

Turning now to Kroger's full-year results for 2012.

FY 2012 Sales

For the full 2012 fiscal year, total sales increased to $96.8 billion or 7.1% compared with the prior fiscal year. After adjusting for the extra week in fiscal 2012, total sales increased to $94.8 billion or 4.9% compared with the prior fiscal year.

Excluding fuel, total sales increased 6% over the same period last year. Further adjusting for the extra week, total sales excluding fuel increased 4%.

Identical supermarket sales, without fuel, increased 3.5% in fiscal year 2012 compared with the prior fiscal year.

FY 2012 Earnings

Net earnings for fiscal year 2012 totaled $1.50 billion, or $2.77 per diluted share. These results include LIFO being lower than our guidance by $0.08 per diluted share, the discrete tax item that added $0.02 per diluted share in the fourth quarter, and the $0.14 per diluted share benefit from the credit card settlement and a reduction in the UFCW pension accrual in the third quarter. Collectively, these totaled $0.24 per diluted share and were not contemplated in our guidance of $2.44 to $2.46 per diluted share for 2012.

So comparing our performance without these items to guidance, we exceeded the high end of our range by $0.07 per diluted share.

Comparing our fiscal 2012 results to the prior year, net earnings per diluted share in 2012 grew 16%. In order to calculate this, we believe adjustments to 2012 and 2011 are required. Adjustments to 2012 included the benefits gained from the pension accrual and credit card settlement in the third quarter and excluding the extra week. In 2011, adjustments included the UFCW pension plan consolidation charge in the fourth quarter, and making LIFO comparable to 2012. This calculation is illustrated in Table 6 of our press release.

The fact that we beat our own earnings guidance for the year, even after revising it upward several times throughout the year, demonstrates the underlying strength of our core businesses, and the benefit of our share buybacks, to increase shareholder value.

FY 2012 LIFO Charge

Kroger recorded a final full year LIFO charge of approximately $55 million. The company's fiscal 2011 full year LIFO charge was $216 million.

FY 2012 FIFO Operating Margin

As Dave and Rodney said earlier, we expect a slightly expanded FIFO operating margin on a rolling 4 quarters basis. On this basis, FIFO operating margin, excluding fuel and the extra week, increased by 6 basis points. This also excludes the benefits of the credit card settlement and the reduction in the UFCW pension accrual, both of which occurred in the third quarter of fiscal 2012.

We are pleased that we were able to deliver on our commitment. It remains our goal to continue slightly improving Kroger's non-fuel operating margin rate over time.

Financial Strategy
For 2013, our planned uses of cash remain unchanged:

1. Fund capital investments
2. Repurchase shares
3. Pay dividends to shareholders and
4. Maintain our current investment grade debt rating.

Capital investments

Capital investments, excluding acquisitions and purchases of leased facilities, totaled $2.0 billion for the year, compared to $1.9 billion in 2011.

For 2013, we expect capital investments to be in the $2.1 to $2.4 billion range for the year.

Share Repurchase & Dividends
During the fourth quarter, Kroger repurchased 2.2 million common shares for a total investment of $57 million. Since the end of the fourth quarter and through the close of the market yesterday, Kroger has $466 million remaining under the $500 million stock repurchase program announced in October 2012.

Debt

Net total debt was $8.6 billion, an increase of $470.6 million from a year ago. Kroger's net total debt to adjusted EBITDA ratio was 2.04, compared to 2.00 during the same period last year. Our objective is to maintain our current debt rating. We believe a net total debt to EBITDA ratio of 2.0 to 2.2 will support this objective.

Fiscal 2013 Annual Guidance

Now I'd like to outline our specific growth objectives for fiscal 2013.

Kroger anticipates identical supermarket sales growth, excluding fuel, of approximately 2.5% to 3.5% for fiscal year 2013. We expect identical sales to trend up during the year, as we lap higher inflation early in the year and the effect of generics in the second half.

Full-year net earnings for fiscal 2013 are expected to range from $2.71 to $2.79 per diluted share. This equates to the Company's long term growth rate of 8 – 11% from the adjusted fiscal 2012 earnings per diluted share of $2.52, as shown in Table 6. To calculate our base of $2.52, we excluded the benefits gained from the pension accrual and credit card settlement in the third quarter and the extra week. We also normalized LIFO.

Shareholder return will be further enhanced by a dividend of 2.0% to 2.5%, for a total shareholder return of approximately 10% to 13.5%.

When looking at our cadence by quarter, we expect the following:

- Q1 – The low end of our growth rate. Inflation is expected to be lower in the first quarter of 2013 and the growth of our pharmacy business won't be as substantial as last year's first quarter.
- Q2 & Q3 – At the high end to above our growth rate expectations. Inflation is expected to be more comparable between the years and we expect our ID sales to be trending up.
- Q4 – Lower than prior year on a 12-week to 12-week basis, due primarily to a budgeted LIFO charge of $13 million versus a credit of $41 million in the fourth quarter 2012.

We expect our full-year LIFO charge to be approximately $55 million for 2013. This is the same as our LIFO charge for fiscal 2012. Where it ultimately ends up could be one of the factors that determine where we land in the $2.71 to $2.79 EPS range. A higher LIFO charge will move us down the range, and a lower charge will move us up the range.

And, as I said earlier, we expect Kroger's full-year FIFO operating margin rate in 2013, excluding fuel, to expand slightly compared to fiscal 2012 results.

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

Now, I will turn it back to Dave.

Comments by Dave Dillon:
Thanks, Mike. We are very pleased with our financial results for the quarter and the year. Kroger's performance is the result of our associates hard work and commitment to making each day better for our customers. We grew our business in 2012 and, building on that momentum, we expect to deliver the growth in 2013 that we outlined at our investors meeting in October.

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.

2013 marks the 130th anniversary of Barney Kroger opening his first store in Cincinnati, Ohio. This is an amazing accomplishment, and yet two of our banners have been in business even longer: the Ralphs Division, which is 140 years old, and Jay C Foods, which celebrates its 150th anniversary this year. Our heritage of enduring growth and reinvention gives us great confidence for the future.

Each of you played a big part in our success in 2012. Working together as a team, we made shopping more easy and efficient for our customers, and they are giving us credit for our hard work. You also helped keep costs under control so we could invest the savings in lower prices. Special thanks to each of you for your contributions.

This week, we also thank 36 special Kroger associates for their extraordinary efforts for our company and our communities. We honor these associates because they represent strong leadership, courage and character. They live our Leadership Model and our Values by leading effective teams, serving local community organizations, making healthy lifestyle changes, and more.

You can find out more about each of our honorees by watching our live quarterly broadcast tomorrow or reading their inspiring stories 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," "objective," "will," "guidance," "continue," "believe," "committed," and "plan." These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially. Our ability to increase return on invested capital and 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 expand our FIFO operating margin without fuel, and our ability to implement our long-term growth strategy 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; 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. Earnings and sales also may be affected by adverse weather conditions and natural disasters particularly to the extent that those *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 investments, our plans to increase capital investments, to build, expand or relocate a certain number of supermarkets, and to grow our business in both new and existing markets, 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. Increases in total shareholder return, increasing dividends over time, our plans to use cash flow from operations to fund capital investments, and to reward shareholders through quarterly dividends and share repurchases, and our ability to maintain our current debt rating, will depend on our ability to generate free cash flow, which will be affected by all of the factors identified above, as well as the extent to which funds can be used for those reasons while maintaining our debt rating. Our FIFO operating margin, without fuel, will be affected by changes in product costs during the year, if our estimates of product cost changes or the timing of those changes prove incorrect, and if competitive or other factors cause our margins on product sold to fail to meet our objectives. Our objective to maintain a particular net total debt to EBITDA ratio will be affected by unanticipated increases in net total debt, our inability to generate free cash flow at the levels anticipated, and our failure to generate expected earnings and the extent to which that ratio will support our current debt rating depends on how the rating agencies view our overall financial condition. Our ability to continue to decrease OG&A plus rent and depreciation as a percentage of sales will depend on our ability to identify and implement sustainable cost controls, including those related to rent. Please refer to Kroger's reports and filings with the Securities and Exchange Commission for a further discussion of these risks and uncertainties.*

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