**First Quarter 2013**
**Investor Conference Call Prepared Remarks**
**June 20, 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 first quarter press release and our prepared remarks from this conference call will be available on our website at ir.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 question, and one follow-up question, if necessary. Thank you.

We are hopeful that you can join us for our 2013 Investor Conference, to be held in New York in October. We will provide details later this year, and look forward to seeing many of you then.

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

***Comments by Dave Dillon:***

Thank you, Cindy. Good morning everyone and thank you for joining us today. With me to review Kroger's first quarter 2013 results are Rodney McMullen, Kroger's President and Chief Operating Officer, and Mike Schlotman, Senior Vice President and Chief Financial Officer.

## Delivering on Growth Plans

The year is off to a great start. In the first quarter, we achieved strong sales and record earnings per share.

In our investor conference last October, we outlined our long-term strategic and capital investment plans, which include expanding into new markets and adding square footage in markets where we currently operate. Based upon these plans, our positive identical store sales growth for more than nine years, and our strong earnings per share results in 2011 and 2012, we raised our long-term earnings per share growth rate guidance to 8 – 11%, plus an increasing dividend.

These first quarter results give us continued confidence that we will achieve our long-term guidance again this year. Our ability to achieve earnings per share growth of this magnitude puts Kroger in an exclusive class of companies capable of delivering this level of growth on a consistent basis.

I am very proud of our associates for delivering another quarter of inspired, Customer 1st performance. We are connecting with our customers better than ever before, and their positive view of Kroger continues to improve.

Our associates also did an outstanding job of keeping costs down this quarter. We continue to find cost savings in places that do not negatively impact our customers' shopping experience, so that we can reinvest those savings in ways that create lasting customer loyalty. As a result of this cycle, we achieved our 38th consecutive quarter of positive identical store sales growth.

Our solid operating performance continues to support our plans to increase capital investments to grow the business over time.

## Economy and Consumer Sentiment

We continue to monitor how four factors are affecting consumer confidence – the overall state of the economy, fluctuating gas prices, payroll taxes, and government policy uncertainty. While there are signs of a better economy, the improvement is not robust. Customer sentiment is gradually improving but remains fragile. We continue to see high variability in sales comparisons between days and weeks.

Overall, we are confident that we will meet the targets we committed to in October – both now and in the future. We have raised our fiscal 2013 earnings per share guidance to reflect our confidence.

Rodney will now provide additional details about our first quarter business performance.

***Comments by Rodney McMullen:***

Thank you, Dave, and good morning everyone.

## Growing Kroger

Our first quarter results demonstrate the progress we are making on our long-term growth strategy. We continue to narrow our focus on new markets for future expansion and to add square footage in several fill-in markets. Fort Wayne, Indiana is a good example of where we have done this successfully. Over the last several years, we upgraded our position in the market by investing in new stores and remodels, completing an acquisition, and making incremental investments in our people through training and leadership development. As a result, we have doubled our market share in Fort Wayne over the last five years. We view this as a successful pilot, and we are well underway with similar strategies in other markets.

## ID Sales Growth

A key growth metric for our business is identical sales, because it provides the best measure of our growing relevance with customers over time. We are very pleased with our first quarter identical supermarket sales growth of 3.3% without fuel. This is even better when you look at ID sales without fuel and pharmacy. On this basis, our identical sales grew to 4%, versus 3.2% on a comparable basis last year. Sales growth in the first quarter was driven by loyal household growth, more visits per household and increases in price per unit.

## Customer Shopping Behavior and Tonnage Growth

In addition to visiting our stores more frequently, customers continued to buy more on a monthly basis. Items per basket were slightly up on a per-trip and a monthly basis. As a result, total units sold were up solidly compared to last year.

During the first quarter, we grew the number of loyal households in all divisions. Our loyal household count grew at a much faster rate than total household growth, which was also up for the quarter.

The rate of product cost inflation is estimated at 1.7%, excluding fuel. Every store department had inflation with the exception of Seafood, which had deflation.

## Pharmacy Performance

Our pharmacy business has undergone a lot of change in the last 18 months, and we are thrilled with where we are, and the amount of the Express Scripts volume that we have retained. As expected, the effect of generics continued in the first quarter, which as I described earlier affected identical sales by 70 basis points. Even with these headwinds, our pharmacy team continues to deliver outstanding performance including positive script count growth.

## Cost Controls

I want to echo Dave’s comment that our associates did a great job controlling costs in the first quarter. OG&A costs plus rent and depreciation, without fuel, were down 21 basis points as a percent of sales.

## Corporate Brands

Now I’d like to update you on progress in Corporate Brands. As we said last quarter, our practice had been to disclose our Corporate Brands share in the grocery category only. Given the breadth of our Corporate Brand offerings, we are now comfortable to give you a view of our share across the whole store, excluding fuel and pharmacy. On this broader basis, Corporate Brands represented approximately 26% of total units sold, up 30 basis points compared to the first quarter last year. Total Corporate Brand sales dollars were 23.7%, also up 30 basis points compared to the same period last year.

We continue to see impressive growth in our Simple Truth and Simple Truth Organic brands. We are regularly adding new items – in fact we plan to launch 75 new items between now and the end of this year – and today offer 450 honest, easy and affordable Simple Truth options for our customers.

**Sustainability Progress**

We continue to make progress to integrate sustainable practices into our everyday business operations. Next week, we will publish our seventh annual sustainability report. As a preview, I'd like to highlight some of our most successful initiatives of 2012.

We have reduced total store energy usage by 32.7% since the year 2000, reduced our carbon footprint, and made significant progress toward our goal of zero waste. 21 of our 37 manufacturing plants have now achieved the impressive goal of sending zero waste to landfills.

I'd like to thank our associates for bringing all of these initiatives to life through their individual actions every day. Their efforts are helping make each community we serve a better place to live.

**Labor**

Finally, an update on labor relations. Our store associates ratified a series of new labor agreements covering stores in Michigan, Houston, Indianapolis and Fred Meyer and QFC stores in Oregon.

We have many contracts that have expired or will expire soon, including contracts in Roanoke, Seattle and later this year in Cincinnati and Dallas.

Our objective in every negotiation is to find a fair and reasonable balance between competitive costs and compensation packages that provide solid wages, good quality, affordable health care, and retirement benefits for our associates. 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. In fact, over the last five years we've added 33,000 jobs.

Now Mike will offer more detail on Kroger's first quarter financial results and our guidance for the rest of the year. Mike?

***Comments by Mike Schlotman:***

Thanks, Rodney. Good morning everyone.

## First Quarter 2013 Results

Total Sales

Total sales increased 3.4% to $30.0 billion in the first quarter compared with $29.1 billion for the same period last year. Total sales, excluding fuel, increased 3.8% in the first quarter over the same period last year.

Net Earnings

Net earnings for the first quarter totaled $481 million, or $0.92 per diluted share. Net earnings for the first quarter last year were $439 million, or $0.78 per diluted share.

Several factors contributed to this great result, including strong operations, lower LIFO expense and lower share count, partially offset by a higher effective tax rate this year.

FIFO Gross Margin

FIFO gross margin was 20.65% of sales for the first quarter. Excluding retail fuel operations, FIFO gross margin decreased 15 basis points from the same period last year.

LIFO Charge

The company recorded a $17 million LIFO charge during the quarter compared to a $46 million LIFO charge in the same quarter last year.

FIFO Operating Margin

We were pleased to deliver on our goal to grow FIFO operating margin in the first quarter. First quarter FIFO operating profit, excluding fuel, increased approximately $47 million over the prior year. Excluding fuel and the extra week in fiscal 2012, on a rolling four quarter basis, FIFO operating margin increased 11 basis points.

Return on Invested Capital

On a rolling four quarter 52-week basis, ROIC was 13.5% compared to 13.4% during the same period last year. We are committed to growing our ROIC over time, even with the higher level of capital spending.

Retail Fuel Operations

Turning now to 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 first quarter, our supermarket fuel centers' margin per gallon was approximately 11.6 cents compared to 12.1 cents in the same quarter last year. As it relates to the retails per gallon, they averaged $3.52 in this quarter compared to $3.65 last year. Total gallons sold showed solid growth.

**Financial Strategy**

Our planned uses of cash remain unchanged:

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

You will notice on our balance sheet that the current portion of long term debt has increased and our net total debt to adjusted EBITDA ratio has declined to 1.85. As it relates to the current portion of long term debt, we made the conscious decision to fund out our first quarter maturities using the historically-low interest rates available in the commercial paper market. Since we have hedged the expected financing, our exposure to fluctuations in interest rates has been mitigated.

The lower than expected net total debt to adjusted EBITDA ratio was primarily the result of our stock's recent performance, which took us out of the market for share repurchases based on the 10b5-1 grid in place at the time. As you know, we modify our grid from time to time. We currently have $447 million remaining on our board authorization and believe that repurchases in the current range are attractive.

Share Repurchase & Dividends

During the first quarter, Kroger repurchased 4.5 million common shares for a total investment of $146 million.

Kroger's strong financial position has allowed the company to return more than $1.3 billion to shareholders through share buybacks and dividends over the last four quarters.

Capital Investment

Capital investment totaled $646 million for the first quarter, compared to $557 million for the same period last year.

We continue to expect full-year capital investments to be in the $2.1 to $2.4 billion range.

**Updated Guidance for Fiscal 2013**

Now I'll update our growth objectives for fiscal 2013.

Based on the first quarter results, we increased net earnings guidance to a range of $2.73 to $2.80 per diluted share for the year. Our original guidance was $2.71 to $2.79 per diluted share. The company's long term growth rate guidance is 8 – 11%.

Shareholder return will be further enhanced by a dividend that we expect to grow over time.

The calculation of our growth rate for FY 2013 is based on our FY 2012 adjusted earnings per share of $2.52, as was shown in Table 6 of the fourth quarter press release. Adjustments include the UFCW consolidated pension plan liability, the credit card settlement, and the extra week.

As you look at our expectations for the year, please keep in mind the guidance we gave in March for the fourth quarter. On a 12-week basis, we still expect this year's fourth quarter to be behind the fourth quarter last year. This is because we currently expect a $13 million LIFO charge in the fourth quarter this year compared to a credit of $41 million in the fourth quarter last year.

Kroger continues to expect identical supermarket sales growth, excluding fuel, of approximately 2.5% to 3.5% for fiscal year 2013.

Now, I will turn it back to Dave.

***Comments by Dave Dillon:***

Thanks, Mike.

I'm very proud of the Kroger team's relentless focus on delivering on our Customer 1st strategy, quarter after quarter. It is what sets us apart from the competition. Our customers' positive view of Kroger continues to improve and they are rewarding us with their loyalty. We achieved strong sales and record earnings per share for the quarter, controlled costs and delivered on our goal to improve FIFO operating margin. The momentum coming out of the first quarter will continue to drive growth and greater shareholder value.

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.

First, I want to thank each of the 4,800 leaders around the country who joined our first-ever Kroger Leadership Summit in Louisville recently. Because of you, this event was a big success. Taking the next steps in our Customer 1st journey together is important. We are inspired by the enthusiasm and passion you show for leading our associates and serving our customers. We know you will continue to make a difference every day for our customers and our communities.

This month, we celebrate community service in a special way at Kroger. Through widespread volunteer activities, our associates help strengthen the communities where we live and work. We were pleased to recognize in our annual report 29 associates across the company for their outstanding service as recipients of Kroger's 2012 Community Service Award. These women and men give their time and talent to feed the homeless, raise money to fight cancer, and coach at-risk teens – among many other causes – and we are grateful for their commitment.

I want to personally thank all of our associates from coast to coast who volunteer in so many ways. I am touched by the work you do – you make a big difference for so many others.

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 "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; volatility in our fuel margins; the effect of prescription drugs going off patent 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 the inconsistent pace of the economic recovery, changes in government-funded benefit programs, uncertainty with government policies, fluctuating gas prices, payroll taxes, consumer confidence, 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. 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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