

**Third Quarter 2011
Investor Conference Call Prepared Remarks
December 1, 2011**

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 third 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 third quarter 2011 results are Rodney McMullen, Kroger's President and Chief Operating Officer, and Mike Schlotman, Senior Vice President and Chief Financial Officer.

Third Quarter Performance

Kroger associates delivered on our Customer 1st strategy in the third quarter. We had strong sales and earnings per share growth. This is exactly the positive momentum we strive for as we enter the holiday season, our most exciting time of the year. And we are very pleased.

Keep in mind that a year ago, third quarter earnings were helped by a two cent tax benefit and a \$50 million lower LIFO charge. In that context, this was an outstanding quarter. Based on the consistency of our results over the course of this year, we have the confidence to raise our earnings and sales guidance for the year.

Identical supermarket sales increased 5%, without fuel, for the quarter. This continues Kroger's industry-leading trend of positive identical sales growth for 32 consecutive quarters. Consistent identical sales growth lets us know that our Customer 1st strategy is connecting with customers in a meaningful way. Our focus on four keys – our people, products, prices and the shopping experience – is how we grow customer loyalty each

shopping trip. Positive identical store sales also drive earnings growth, as illustrated by our results so far this year.

Our third quarter performance was broad-based across the company. Each of our 18 retail divisions had positive identical sales, excluding fuel. Every department achieved positive identical sales as well, led by growth in Natural Foods, Deli and Produce. I would like to especially recognize our associates for their excellent work to control costs this quarter.

Kroger's financial results are solid, dependable and predictable, especially on a rolling four quarters basis. They reflect the balance we seek between cost savings and investments to consistently grow our business and deliver value both to our customers and shareholders.

In a few minutes, Rodney will share some additional customer insights with you, including loyal household and tonnage trends, along with the performance of Kroger's exclusive Corporate Brands.

Influencing Factors

First, I'd like to touch on the two themes we told you at the beginning of the year would influence Kroger's fiscal 2011 financial results. The first is our commitment to the Customer 1st strategy that we just discussed. We want to reduce the overall cost of running our business in ways that do not negatively affect our customers, and then reinvest those savings in our customers to drive higher sales. Higher sales in turn produce higher earnings.

The second theme includes the external factors that are influencing Kroger's business this year – the pace of economic recovery, the impact of food and fuel prices on customer spending, the competitive environment, higher pension and healthcare costs, and retail fuel margins. Inflation and the economy have had a more negative effect on the overall operating environment than we originally expected. We have successfully navigated these influences by following our business strategy and making tactical adjustments as needed over the course of this year.

Rodney will now offer more insight into our business for the third quarter.

Comments by Rodney McMullen:

Thank you, Dave. Good morning everyone.

We are very pleased with the results our Kroger team has achieved in the third quarter. As Dave mentioned, our associates have done an incredible job controlling expenses and cutting costs. We are investing those savings in ways that enhance the shopping experience and help our customers save, even as food inflation persists at high levels. Executing our Customer 1st strategy enables us to deliver value today while continuing to invest for the future.

Customer Shopping Behavior

I would like to begin by discussing how our customers are navigating this challenging consumer environment, and how that is impacting our business.

Despite the consumer caution and rising food prices, Kroger continued to add both loyal and total households in the third quarter, adding loyal households at a faster rate. The combination of growing loyal households and an increase in shopping trips resulted in more units sold to those customers.

We are seeing increasing stress on certain customers, both in terms of what they tell us is happening to them and how they are behaving. Smaller baskets are the norm across all customer segments, in line with trends we began detecting in June. Customers are shifting what and how they are buying groceries and consumables. For example, we saw significant growth in sales of our Corporate Brand items. Some customers are buying smaller pack sizes for items in certain categories.

These changes are a result of customer reaction to the combination of food inflation and a poor economy. When you consider that household income has remained stagnant for the past year – in fact for a number of years – some shifting in purchasing behavior is understandable. This is one of the reasons we embarked upon the strategy we did several years ago.

Even though our estimated product cost inflation, excluding fuel, was approximately 6% for the quarter, we were able to increase our penny profit per item in the Grocery category. Mike will say more about how food inflation impacted our gross margins for the quarter. I do want to note that not every retailer calculates product cost inflation in the same way. Kroger's calculation is weighted to take product movement into account so we can get a better measure of what the true effect on the consumer is over time. We believe 6% accurately reflects what the consumer is in fact experiencing. Using a calculation that measures inflation at a particular point in time would result in an inflation estimate different than the one we calculate.

In looking at unit sales, we have seen a continued slowing of the rate of growth of unit movement throughout the year. When considering different promotional activity and changes in the pack sizes some customers are buying, we believe our tonnage is essentially flat.

We will continue to pass along product cost increases from suppliers. At the same time, we will confidently invest for the future – in pricing, people, products and customer shopping experience. We estimate we have lowered our customers' shopping bill by \$2.2 billion per year, and our weekly promotions and personalized rewards to loyal households continued to grow customer loyalty in a difficult economic environment.

Strong Corporate Brands

In the third quarter, more customers chose our exclusive items, which grew Kroger's Corporate Brand share and sales more than national brands. Corporate Brands represented approximately 27% of Grocery department sales dollars and 35% of the Grocery department units sold. These figures compare with 26% and 34%, respectively, for the third quarter of last year. Considering the consistent share growth of Kroger's Corporate Brand products for several years, it is obvious that after customers try them for the first time they continue to choose them for their great value, both in terms of quality and low price points.

Our Corporate Brand team continues to develop innovative product lines to address unmet customer needs. During the quarter we launched some great new products for customers looking to change their eating habits, including a new 99% natural, zero-calorie baking sweetener that measures cup for cup like sugar. In our Bakery department, Kroger's new No Sugar added pies, available in apple, cherry, pumpkin and other flavors are a great option for those on low or no-sugar diets.

Labor

We also have good progress to report in labor relations. Several previously unsettled labor negotiations have resulted in contracts that have been ratified, including those in Southern California, southeastern Ohio, and Charleston W. VA.; along with the Teamsters at one of our distribution centers in Washington State. I'd like to thank our associates and division leadership for their work to reach mutually acceptable agreements.

We are in discussions with the UFCW for Memphis-area stores and with the Teamsters for some distribution centers and dairies in the Mid-West. These contracts are on extension while negotiations continue.

Our objective in every negotiation is to find a fair and reasonable balance between competitive costs and compensation packages that provide good wages, high-quality, affordable health care and retirement benefits for our associates.

Now, Mike will discuss our third quarter results and Kroger's financial strategy in detail. Mike?

Comments by Mike Schlotman:

Thanks, Rodney. Good morning everyone.

Third Quarter 2011 Results

Third Quarter Net Earnings

As we reported earlier today, net earnings for the third quarter totaled \$195.9 million, or \$0.33 per diluted share. Net earnings in the same period last year were \$202.2 million, or \$0.32 per diluted share.

FIFO gross margin, excluding retail fuel operations, decreased 34 basis points. Food inflation accounted for most of this decrease. The FIFO gross margin decline was more than offset by a 29 basis point improvement in our OG&A rate excluding fuel, and improvements in rent and depreciation of 19 basis points.

We look at operating margin on a rolling four quarters basis because tactical adjustments to the strategy can have a positive or negative impact from one quarter to the next. On this basis, excluding fuel, operating margin expanded by 5 basis points. This is the third consecutive rolling four quarter period with an expanded operating margin. This calculation of operating profit is on a LIFO basis, meaning that the calculation includes the LIFO charge. During the quarter, our estimate of this year's LIFO charge increased \$35 million, from \$150 million to \$185 million. A pro rata amount of this increase was charged in the 3rd quarter, resulting in an incremental \$27 million charge in the quarter over what we had budgeted. Excluding the LIFO charge from the calculation, our rolling four quarter operating profit increased 21 basis points.

For the full year 2011, we expect rolling four quarter LIFO operating profit to show a slight decline for the year. On a FIFO basis it will show a slight increase.

The reduction of 29 basis points in OG&A without fuel demonstrates the leverage of our strong identical food store sales and cost control efforts in the face of rising debit and credit card fees, pension and health care expenses. Also, as a result of our current expected operating performance for the year, our incentive plans are estimated to pay off at a higher rate than last year. Collectively, debit and credit card fees, pension, health care, and incentive plans have increased 45 basis points, with incentive plans being the largest of these.

Retail Fuel Operations

Kroger's retail fuel operations, in the third quarter, earned approximately 13.7 cents per gallon compared to 12.7 cents in the same quarter last year. For the last quarter of the year, we expect margins of approximately 11.5 cents per gallon. Given the trend in higher credit and debit card fees, earnings from fuel were essentially flat compared to last year. And the cents per gallon margin after credit and debit card fees was also essentially flat.

Financial Strategy

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. Over the last four quarters, Kroger has returned over \$1.8 billion to shareholders through share buybacks and dividends. During 2011, Kroger is using cash flow from operations and cash-on-hand to repurchase shares, pay dividends to shareholders, fund capital expenditures, and maintain our current debt rating.

Share Repurchase

During the third quarter, we leveraged Kroger's strong cash flow to invest \$471.2 million to repurchase 21.0 million shares of stock at an average price of \$22.39 per share. At the end of the third quarter, approximately \$721.6 million remained under the \$1 billion stock repurchase program announced in September 2011.

Capital Investment

Capital investment, excluding acquisitions and purchases of leased facilities, totaled \$497.0 million for the third quarter, compared with \$484.0 million for the same period last year. We expect capital investment for the year to be slightly above \$1.9 billion, excluding acquisitions and purchases of leased facilities.

We also saw a strong improvement in the EBITDA return on net operating assets, or ERONOA, of 19.68%, which is an increase of 108 basis points from a year ago.

Debt Reduction

Net total debt was \$7.7 billion, an increase of \$476.6 million from a year ago. On a rolling four quarters basis, Kroger's net total debt to EBITDA ratio, adjusted for impairment charges in 2010, was 1.89 compared with 1.93 during the same period last year.

Updated Guidance for Fiscal 2011

As we reported earlier this morning, Kroger has increased its fiscal 2011 guidance. We now expect identical supermarket sales growth, excluding fuel, of 4.5% to 5% for the year. Previously, identical supermarket sales were expected to range from 4% to 5%.

We are also increasing the range for our net earnings guidance to \$1.95 to \$2.00 per diluted share for the full year. Previously, we expected net earnings in the \$1.85 to \$1.95 range.

We are in the middle of our business planning process. Based on what we are seeing today, we expect to reach 8% to 10% annual earnings per share growth in 2012, plus a dividend of 1.5% to 2%. This does not factor in the 53rd week in Fiscal Year 2012. As you know, our long term growth model is to generate 6% to 8% annual earnings per share growth over a rolling three-to-five-year time horizon. We will provide full guidance in March, but thought it would be helpful for you to know how we currently see 2012 shaping up.

Now, I will turn it back to Dave.

Comments by Dave Dillon:

Thanks Mike. I'd like to conclude by reflecting that when we began our Customer 1st strategy, we had to make investments in price and other areas of the shopping experience. Those choices were an imperative. And while we still see opportunity to

continue these investments, today we have the flexibility to pick and choose how and when to do so.

I mentioned at the start of the call that our financial results are solid, dependable and predictable, especially on a rolling four quarters basis. Looking at Kroger's operating margin on that longer time horizon demonstrates this powerful positioning. A rolling four quarter view is important because we are constantly making tactical decisions about these investments. Our margin in any one quarter may fluctuate depending on our decision to accelerate or decelerate investments. But if you look "under the hood" at our operating margin over the course of a year, you'll see that the results reflect the strategic balance we seek between cost savings and investments we believe are necessary to consistently deliver value to our customers and shareholders.

I am very proud of this year. And I am personally proud of what our associates have achieved. Kroger is winning in the marketplace and delivering value for our customers, associates and shareholders. We have a great strategy that has worked well in a variety of economic environments. That gives us the confidence to be bullish on the rest of this year and 2012.

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. You may recall that in November, Kroger was named the most generous company in America by Forbes Magazine. While this is a great honor for our company, each of you is responsible for making it happen. Thank you for caring so much about the communities where we live and work.

Wherever we operate, our associates seek out ways to support the local charities and organizations that matter most to them and to our customers. Looking at cash alone, in 2010 Kroger donated \$64 million to charitable initiatives – a combination of corporate and retail division contributions, our community rewards program, and funds from vendors for our "Bringing Hope to the Table" and "Giving Hope a Hand" campaigns. That figure is much higher when you add the food and product we donate to local communities – closer to \$200 million in 2010. On the whole, Kroger donates the equivalent of 125 million meals a year to local food banks.

Even more impressive is your personal commitment and donation of your time as volunteers to support our neighbors in need. Whether you organize a local fund-raising event, volunteer at a food bank, or help deliver holiday meals to families, you make a difference. Special thanks for all you do.

In today's environment, the role we are playing in our communities is more important now than perhaps ever before. We just talked about the stress that so many Americans

are under, and that includes many of our associates. Now is the time of year they need our help the most.

Finally, we thank our associates who work so hard throughout the holidays to keep our stores open and stocked for our customers. I hope you each of you also celebrate the season with family and friends. As one of our associates added to our blog this week, as retailers, especially at the holiday time, many of us have made Kroger a part of our family. It is true for many of you as it is for me. So it is personal for me to say to you each individually – Merry Christmas and Happy Holidays!

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 "will," "guidance," "expect," "project," and "estimated." 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 near the upper end of our earnings guidance range, our ability to continue to invest in the four key components of our Customer 1st strategy, and our ability to deliver operating profits on a LIFO and FIFO basis at projected levels, 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; changes in government-funded benefit programs; 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, 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,

changes in government-funded benefit programs, consumer confidence, and changes in inflation or deflation in product and operating costs. Our capital expenditures could vary from our expectations if we are unsuccessful in acquiring suitable sites for new stores; development costs vary from those budgeted; our logistics and technology or store projects are not completed on budget or within the time frame projected; or if current operating conditions fail to improve or worsen. Our ability to pass along product cost increases will depend primarily upon the reactions of our customers and our competitors to those increases. The extent to which our incentive plans pay off at a higher rate will depend primarily on our improved performance against metrics established at the commencement of the incentive plan period, and against which incentive compensation is measured. 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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