



# THE KROGER CO.

## 2008 Fact Book



## ABOUT THE KROGER FACT BOOK

This Fact Book provides certain financial and operating information about The Kroger Co. and its consolidated subsidiaries. It is intended to provide general information about Kroger and therefore does not include the Company's consolidated financial statements and notes. On January 22, 2003, the SEC issued release No. 33-8176 that set forth new requirements relating to the disclosure of non-GAAP financial measures, as defined in the release. The release allows for presentation of certain non-GAAP financial measures provided that the measures are reconciled to the most directly comparable GAAP financial measure. Any non-GAAP financial measure discussed in this Fact Book complies with this requirement. More detailed financial information can be found in Kroger's filings with the SEC.

Kroger believes that the information contained in this Fact Book is correct in all material respects as of the date set forth below or such earlier date as indicated. However, such information is subject to change. Unless otherwise noted, reference to "years" is to Kroger's fiscal years.

### July 2009

|   |                |
|---|----------------|
| <b>I. Preface &amp; Overview</b>  | <b>Page 1</b>  |
| <ul style="list-style-type: none"> <li>▪ About the Kroger Fact Book</li> <li>▪ Shareholder Information</li> <li>▪ Financial Highlights</li> <li>▪ Sustainability</li> <li>▪ Corporate Overview</li> </ul>   |                |
| <b>II. Retail Operations</b>  | <b>Page 7</b>  |
| <ul style="list-style-type: none"> <li>▪ Supermarkets                             <ul style="list-style-type: none"> <li>→ Store Formats</li> <li>→ Geography &amp; Markets</li> <li>→ Acquisition Strategy</li> </ul> </li> <li>▪ Convenience Stores</li> <li>▪ Jewelry Stores</li> </ul>  |                |
| <b>III. Sales Drivers</b>   | <b>Page 22</b> |
| <ul style="list-style-type: none"> <li>▪ Corporate Brands                             <ul style="list-style-type: none"> <li>→ Kroger Manufacturing</li> </ul> </li> <li>▪ Pharmacy</li> <li>▪ Natural &amp; Organic Foods</li> <li>▪ Retail Fuel Operations</li> <li>▪ Loyalty Data &amp; Customer Insight</li> <li>▪ Kroger Personal Finance</li> </ul> |                |
| <b>IV. Technology &amp; Logistics</b>   | <b>Page 36</b> |
| <b>V. Financial Information</b>   | <b>Page 40</b> |
| <ul style="list-style-type: none"> <li>▪ Customer 1<sup>st</sup> Strategy</li> <li>▪ Market Share</li> <li>▪ Identical &amp; Comparable Supermarket Sales</li> <li>▪ Capital Expenditures</li> <li>▪ Debt Obligations</li> <li>▪ Free Cash Flow</li> <li>▪ Performance Graph</li> <li>▪ Financial &amp; Operating Statistics</li> </ul>                   |                |

## SHAREHOLDER INFORMATION

### CORPORATE OFFICE

|  |   |
|--|---|
| 1014 Vine Street<br>Cincinnati, OH 45202             | (513) 762-4000<br>www.kroger.com                      |
| Shareholder Services                                 | (513) 762-4808  |
| Investor Relations & Financial<br>Materials Requests | (513) 762-4366<br>e-mail: kroger.investors@kroger.com |

### STOCK TRANSFER AGENT & REGISTRAR

|  |  |
|--|--|
| BNY Mellon Shareowner Services<br>P.O. Box 358015<br>Pittsburgh, PA 15252-8015 | (866) 405-6566 [toll free]<br>e-mail: shrrelations@bnymellon.com<br>www.bnymellon.com/shareowner |
|--|--|

### 2009 FISCAL CALENDAR

|                |                               |
|----------------|-------------------------------|
| First Quarter  | February 1 – May 23           |
| Second Quarter | May 24 – August 15            |
| Third Quarter  | August 16 – November 7        |
| Fourth Quarter | November 8 – January 30, 2010 |

|   |             |
|---|-------------|
| Number of Employees                         | 326,000     |
| Shareholders of Record as of March 27, 2009 | 45,712      |
| Common Diluted Shares Outstanding (FY 2008) | 658,947,324 |
| Common Diluted Shares Outstanding (FY 2007) | 697,748,672 |
| Exchanges                                   | NYSE        |
| Ticker                                      | KR          |

### HIGH, LOW & CLOSING STOCK PRICE BY QUARTER

| Quarter         | Fiscal 2008 |         |         | Fiscal 2007 |         |         |
|-----------------|-------------|---------|---------|-------------|---------|---------|
|                 | High        | Low     | Close   | High        | Low     | Close   |
| 1 <sup>st</sup> | \$28.13     | \$23.39 | \$26.96 | \$30.43     | \$24.74 | \$29.55 |
| 2 <sup>nd</sup> | \$30.99     | \$25.86 | \$30.05 | \$31.94     | \$23.95 | \$26.09 |
| 3 <sup>rd</sup> | \$29.91     | \$22.30 | \$27.52 | \$30.00     | \$25.30 | \$26.71 |
| 4 <sup>th</sup> | \$29.03     | \$22.40 | \$22.50 | \$29.35     | \$24.23 | \$25.98 |

## FINANCIAL HIGHLIGHTS

*(in millions, except per share data, as reported)*

| <b>Calendar Year Ended December 31,</b> | <b>2008</b> | <b>2007</b> | <b>Change</b> |
|---|-------------|-------------|---------------|
| Closing market price per share          | \$26.41     | \$26.71     | <1.1%>        |

| <b>Fiscal Year End</b>         | <b>2008</b> | <b>2007</b> | <b>Change</b> |
|--------------------------------|-------------|-------------|---------------|
| Closing market price per share | \$22.50     | \$25.98     | <13.4%>       |

| <b>Fiscal Year</b>  | <b>2008</b> | <b>2007</b> | <b>Change</b> |
|---|-------------|-------------|---------------|
| Total sales   | \$76,000    | \$70,235    | 8.2%          |
| Operating profit  | \$2,451     | \$2,301     | 6.5%          |
| Net earnings per diluted share                              | \$1.90      | \$1.69      | 12.4%         |
| Average number of common shares used in diluted calculation | 659         | 698         | <5.6%>        |
| Dividends declared per common share                         | \$0.36      | \$0.30      | 20.0%         |
| Net cash provided by operating activities                   | \$2,896     | \$2,581     | 12.2%         |
| Total debt, including obligations under capital leases      | \$8,063     | \$8,121     | <0.7%>        |
| Total capital expenditures, excluding acquisitions          | \$2,153     | \$2,060     | 4.5%          |

Note: Percent change calculations are based on the rounded numbers as presented.



## SUSTAINABILITY

Sustainability is an integral part of Kroger's business. We are committed to continuously improving our environmental and social impact to support the communities where we operate, improve the lives of our customers and associates, and ensure the long-term success of our business.



We use a systematic process in each of our core businesses to understand where we have the greatest opportunities. We have made progress in several areas. For example, since 2000, we have reduced energy consumption company-wide by more than 24%, or 1.8 billion kilowatt-hours. That's enough electricity to power every single-family home in Seattle, Washington for one year! Using 2000 as a base, our stores have a goal of reducing overall energy consumption by 30% by 2010.

Customers have responded particularly well to our efforts to encourage them to use more reusable bags. Our family of stores sold more than six million reusable bags last year. These colorful, low-cost bags have become household staples with multiple uses. Every reusable bag has the potential to save 1,000 plastic bags over its lifetime.

On the social front, we are a recognized leader in partnering with food banks to bring food to the hungry.

To learn more about Kroger's environmental and social efforts, please visit our Sustainability Report, which can be found on our website at [www.kroger.com](http://www.kroger.com).



## CORPORATE OVERVIEW

### OPERATIONS

Headquartered in Cincinnati, Ohio, The Kroger Co. is one of the largest retailers in the United States based on annual sales, holding the #22 ranking on the Fortune 100 list. Kroger was founded in 1883 and incorporated in 1902.

At the end of fiscal 2008, Kroger operated (either directly or through its subsidiaries) 2,481 supermarkets, 781 of which had fuel centers. Approximately 43% of these supermarkets were operated in Company-owned facilities, including some Company-owned buildings on leased land. See Section II of this Fact Book for more information about our supermarket operations, and Section III for more information about our supermarket fuel centers.

In addition to supermarkets, Kroger operates (either directly or through its subsidiaries) 771 convenience stores and 385 fine jewelry stores. Subsidiaries operated 684 of the convenience stores, while 87 were operated through franchise agreements. Approximately 50% of the convenience stores operated by subsidiaries were operated in Company-owned facilities. Additional information about our convenience stores and jewelry stores is contained in Section II of this Fact Book.

The Company also manufactures and processes some of the food for sale in its supermarkets. As of January 31, 2009, the Company operated 40 manufacturing plants. See Section III of this Fact Book for more information about our manufacturing operations and private label products.

All of the Company's operations are domestic.

| The Kroger Co.     | # of Stores | % of Revenue |
|--------------------|-------------|--------------|
| Supermarkets       | 2,481       | 94%          |
| Convenience Stores | 771         | 5%           |
| Jewelry Stores (A) | 385         | <1%          |
| Other (B)          | N/A         | <1%          |
| Total              | 3,637       | 100%         |

(A) Includes 130 locations operated inside our supermarkets and 255 in shopping malls.

(B) Represents sales by Kroger's manufacturing plants to outside customers.



## **ASSOCIATES**

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The Company employs approximately 326,000 full-time and part-time associates. Approximately 75% of the Company's store employees are covered by collective bargaining agreements negotiated with local unions affiliated with one of several different international unions. There are approximately 309 such agreements, usually with terms of three to five years.



## SUPERMARKETS

### STORE FORMATS

Kroger's wide variety of store formats is among our key strengths that set us apart from competitors. We believe that our customer base is becoming increasingly diverse – not only in terms of ethnicity, but also in terms of income levels, household mix, and purchasing patterns. We are addressing customer diversity through our multiple formats and product selection. Our broad array of formats positions Kroger to take advantage of growth trends in retailing. Expanding our formats and their elements also allows us to further leverage Kroger's existing distribution and manufacturing facilities.

At year-end 2008, Kroger operated 2,481 supermarkets classified under the four primary formats listed in the table below.

| Store Formats                  | # of Stores | % of Store Base |
|--------------------------------|-------------|-----------------|
| Combination Food & Drug Stores | 2,169       | 87%             |
| Multi-Department Stores        | 124         | 5%              |
| Marketplace Stores             | 42          | 2%              |
| Price Impact Warehouse Stores  | 146         | 6%              |
| Total Supermarkets             | 2,481       | 100%            |



## Combination Food & Drug Stores

| Banners  |   |   |
|--|---|---|
| <ul style="list-style-type: none"><li>▪ Baker's</li><li>▪ City Market</li><li>▪ Dillons</li><li>▪ Fry's</li><li>▪ Gerbes</li></ul> | <ul style="list-style-type: none"><li>▪ Hilander</li><li>▪ Jay C Food Stores</li><li>▪ King Soopers</li><li>▪ Kroger</li><li>▪ Owen's</li></ul> | <ul style="list-style-type: none"><li>▪ Pay Less Super Markets</li><li>▪ QFC</li><li>▪ Ralphs</li><li>▪ Scott's</li><li>▪ Smith's</li></ul> |

The combination store (combo) is Kroger's primary format. This format typically draws customers from a 2.0 – 2.5 mile radius and offers them the advantage of “one-stop shopping” in convenient locations. Combo stores are designed to be a flexible format with a product selection tailored to meet the specific needs of the neighborhood's demographics. Combo stores feature a complete supermarket and pharmacy – most include service bakeries, delis, seafood, meat, and floral shops; expanded general merchandise; “whole health” sections and organic produce; and pet centers. Many include a supermarket fuel center. Combination stores that were opened during the last two years average 73,000 square feet and required an average investment of \$13 million, including real estate. Individual locations may vary widely from the average, depending upon the geography of the store. Our combo stores have proven successful in competing against all formats, including supercenters.

In certain markets, we have also introduced our “Fresh Fare” approach to our combo stores. In these select locations, the emphasis is on high quality perishables and top-notch customer service. At the end of 2008, we characterized 105 of our combo stores as “Fresh Fare” locations.



## Multi-Department Stores

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Our multi-department stores operate under the “Fred Meyer” banner in the Pacific Northwest and Alaska. Averaging over 150,000 square feet, most Fred Meyer stores are significantly larger than our combo stores. Multi-department stores opened during the last two years required an average investment of \$28 million, including real estate.



Fred Meyer is unique. No other store in the world is exactly like this format. It is not a big box store, hypermarket, supercenter, warehouse store, discounter, or department store. It is a collection of several specialty stores under one roof:

- ✓ Food: Grocery, Natural Choices, F.G. Meyer Meat Market, Fish Market, Produce Market, Deli, Bakery, Wine, and Drug Store.
- ✓ Apparel: Men’s, Women’s, Juniors, Young Men’s, Shoes, Children’s.
- ✓ Home: Home and Kitchen, Bed and Bath, Furniture, Hardware and Paint, Garden Variety, Sporting Goods, Automotive, and Toys.

Several locations offer fine jewelry and fuel. Customers tell us that Fred Meyer stores are different from other formats because they are full of variety and are more convenient.

Fred Meyer stores are further differentiated from many competitors by a famous brand strategy, including: adidas<sup>®</sup>, Apple<sup>®</sup>, Ashley<sup>®</sup>, Canon<sup>®</sup>, Carhartt<sup>®</sup>, Columbia Sportswear<sup>®</sup>, Dockers<sup>®</sup>, Jockey<sup>®</sup>, KitchenAid<sup>®</sup>, Krups<sup>®</sup>, Levi’s<sup>®</sup>, Nike<sup>®</sup>, Nikon<sup>®</sup>, Panasonic<sup>®</sup>, Skechers<sup>®</sup>, and Sony<sup>®</sup>.

## Marketplace Stores

| Banners               |                       |
|-----------------------|-----------------------|
| ▪ Dillons Marketplace | ▪ Kroger Marketplace  |
| ▪ Fry's Marketplace   | ▪ Smith's Marketplace |

Fred Meyer's general merchandise expertise has been a key factor in the success of our marketplace store format. The continued rollout of our marketplace strategy would not be possible without the general merchandise expertise of our great team at Fred Meyer that knows which categories and products to procure, and how to sell those products.

Marketplace stores are generally smaller than our multi-department stores. The primary distinction between the two formats is that our marketplace stores do not include apparel departments. They do offer full-service grocery and pharmacy departments as well as an expanded general merchandise area that includes outdoor living products, home goods, and toys. Marketplace stores opened during the last two years average 112,000 square feet and required an average investment of \$17 million, including real estate.



At the end of 2008, we operated 21 "Fry's Marketplace" stores in Arizona, 12 "Kroger Marketplace" stores in Ohio, six "Smith's Marketplace" stores in Utah, two "Dillons Marketplace" stores in Kansas, and one "Kroger Marketplace" store in Tennessee.

## Price Impact Warehouse Stores

| Banners       |             |
|---------------|-------------|
| ▪ Food 4 Less | ▪ Foods Co. |



Our price impact warehouse stores offer a “no frills, low cost” shopping experience that features everyday low prices for a wide selection of grocery, health and beauty care items. Quality meat, seafood, poultry, dairy, baked goods, and fresh produce items provide a competitive advantage against club store and supercenter operators. Most locations contain a fresh bakery and service deli. Some feature Mexican-style “carniceria” service meat departments. Our price impact warehouse stores average more than 55,000 square feet.

This exciting format allows us to deepen our customer reach as a price merchant in several trade areas. We operate 146 price impact warehouse stores under the Food 4 Less banner in southern California, Nevada, Illinois, and Indiana and under the Foods Co. banner in central and northern California.

## **GEOGRAPHY & MARKETS**

At the end of fiscal 2008, The Kroger Co. (either directly or through its subsidiaries) operated 2,481 supermarkets in 31 states under two dozen banners. These banners include “Kroger” and others listed below. Kroger has grown through organic growth and acquisition and believes strongly in maintaining local banners where appropriate.

| <b>State</b>   | <b>Banners</b>  | <b>Y/E<br/>2008</b> | <b>Y/E<br/>2007</b> |
|----------------|---|---------------------|---------------------|
| California     | Food 4 Less, Foods Co., Ralphs                        | 381                 | 386                 |
| Ohio           | Kroger, Kroger Marketplace                            | 215                 | 214                 |
| Texas          | Kroger  | 200                 | 199                 |
| Georgia        | Kroger  | 175                 | 173                 |
| Indiana        | Food 4 Less, Jay C, Kroger, Owen's, Pay Less, Scott's | 148                 | 149                 |
| Colorado       | City Market, King Soopers                             | 138                 | 137                 |
| Michigan       | Kroger  | 136                 | 138                 |
| Washington     | Fred Meyer, QFC                                       | 127                 | 127                 |
| Arizona        | Fry's, Fry's Marketplace, Smith's                     | 124                 | 122                 |
| Tennessee      | Kroger, Kroger Marketplace                            | 121                 | 119                 |
| Kentucky       | Kroger  | 108                 | 106                 |
| Kansas         | Dillons, Dillons Marketplace                          | 68                  | 73                  |
| Virginia       | Kroger  | 62                  | 63                  |
| Illinois       | Food 4 Less, Hilander, Kroger                         | 60                  | 59                  |
| Nevada         | Food 4 Less, Smith's                                  | 55                  | 56                  |
| Oregon         | Fred Meyer, QFC                                       | 55                  | 55                  |
| Utah           | City Market, Smith's, Smith's Marketplace             | 49                  | 48                  |
| West Virginia  | Kroger  | 46                  | 45                  |
| Arkansas       | Kroger  | 37                  | 37                  |
| Mississippi    | Kroger  | 32                  | 31                  |
| New Mexico     | City Market, Price Rite, Smith's                      | 27                  | 27                  |
| Missouri       | Dillons, Gerbes, Kroger                               | 19                  | 20                  |
| North Carolina | Kroger  | 18                  | 19                  |
| Idaho          | Fred Meyer, Smith's                                   | 14                  | 14                  |
| Nebraska       | Baker's, Food 4 Less                                  | 12                  | 13                  |
| Alaska         | Fred Meyer  | 11                  | 11                  |
| South Carolina | Kroger  | 11                  | 12                  |
| Alabama        | Kroger  | 10                  | 10                  |
| Louisiana      | Kroger  | 9                   | 10                  |
| Wyoming        | City Market, King Soopers, Smith's                    | 9                   | 9                   |
| Montana        | Smith's   | 4                   | 4                   |
| <b>TOTAL</b>   |   | <b>2,481</b>        | <b>2,486</b>        |

### **Operating Divisions**

Kroger's operating structure is a balance between our corporate office in Cincinnati, Ohio and our 18 supermarket operating divisions. This balance keeps merchandising decisions closest to the customer while achieving

synergies in backstage operations in order to maximize operating efficiencies and minimize operating costs.

In areas that directly affect the customer, Kroger's decentralized structure places substantial authority for merchandising and operating decisions in our supermarket divisions. Divisional managers are able to respond quickly to changes in competition and customer preferences within each local market.

For backstage processes that offer economies of scale or are invisible to the customer (such as procurement, accounting, treasury operations, etc.), Kroger leverages its size and centralizes those functions to create value for customers and better returns for shareholders.

Kroger's 18 supermarket operating divisions include:

| <b>Division</b>            | <b>Headquarters</b> | <b># Stores</b> |
|----------------------------|---------------------|-----------------|
| Ralphs                     | Los Angeles, CA     | 263             |
| Kroger Atlanta             | Atlanta, GA         | 216             |
| Kroger Southwest           | Houston, TX         | 209             |
| Kroger Mid-South           | Louisville, KY      | 164             |
| Kroger Central             | Indianapolis, IN    | 154             |
| Food 4 Less                | Los Angeles, CA     | 146             |
| King Soopers/City Market   | Denver, CO          | 142             |
| Kroger Michigan            | Novi, MI            | 134             |
| Smith's                    | Salt Lake City, UT  | 133             |
| Fred Meyer Stores          | Portland, OR        | 129             |
| Kroger Mid-Atlantic        | Roanoke, VA         | 127             |
| Kroger Columbus            | Columbus, OH        | 126             |
| Fry's                      | Phoenix, AZ         | 120             |
| Kroger Cincinnati          | Cincinnati, OH      | 111             |
| Kroger Delta               | Memphis, TN         | 111             |
| Dillon Stores              | Hutchinson, KS      | 93              |
| Quality Food Centers (QFC) | Seattle, WA         | 74              |
| Jay C                      | Seymour, IN         | 29              |
| <b>TOTAL</b>               |                     | <b>2,481</b>    |

## **Major Markets**

At year-end 2008, Kroger operated stores in 42 major markets. A major market is one in which Kroger operates nine or more stores. Kroger holds the #1 or #2 position in 39 of those major markets.

At least 35 of Kroger's 42 major markets are located among the nation's top 100 Metropolitan Statistical Areas (MSAs) ranked by population.

## Major Markets (9 or More Stores)

|    | Market              | # Stores     | Division            | #1 or #2  | Major Competitors (A) |                    |
|----|---------------------|--------------|---------------------|-----------|-----------------------|--------------------|
| 1  | Los Angeles CA      | 242          | Ralphs/Food 4 Less  | Yes       | Albertsons            | Vons               |
| 2  | Atlanta GA          | 132          | Atlanta             | Yes       | <u>Wal-Mart SC</u>    | Publix             |
| 3  | Houston TX          | 102          | Southwest           | Yes       | <u>Wal-Mart SC</u>    | HEB                |
| 4  | Seattle WA          | 94           | Fred Meyer/QFC      | Yes       | Safeway               | Costco             |
| 5  | Phoenix AZ          | 92           | Fry's               | Yes       | <u>Wal-Mart SC</u>    | Bashas             |
| 6  | Detroit MI          | 90           | Michigan            | Yes       | <u>Meijer</u>         | Costco             |
| 7  | Cincinnati OH       | 76           | Cincinnati          | Yes       | <u>Wal-Mart SC</u>    | <u>Meijer</u>      |
| 8  | Denver CO           | 73           | King Soopers        | Yes       | Safeway               | <u>Wal-Mart SC</u> |
| 9  | Columbus OH         | 61           | Columbus            | Yes       | <u>Wal-Mart SC</u>    | Giant Eagle        |
| 10 | Riverside CA        | 57           | Ralphs/Food 4 Less  | Yes       | Stater Bros.          | Albertsons         |
| 11 | Dallas TX           | 53           | Southwest           | Yes       | <u>Wal-Mart SC</u>    | Tom Thumb          |
| 12 | Nashville TN        | 48           | Mid-South           | Yes       | <u>Wal-Mart SC</u>    | Publix             |
| 13 | Indianapolis IN     | 46           | Central             | Yes       | <u>Wal-Mart SC</u>    | Marsh              |
| 14 | Las Vegas NV        | 46           | Smith's/Food 4 Less | Yes       | <u>Wal-Mart SC</u>    | Albertsons         |
| 15 | Louisville KY       | 45           | Mid-South/Jay C     | Yes       | <u>Wal-Mart SC</u>    | <u>Meijer</u>      |
| 16 | Portland OR         | 41           | Fred Meyer/QFC      | Yes       | Safeway               | Winco              |
| 17 | San Diego CA        | 38           | Ralphs/Food 4 Less  | Yes       | Vons                  | Albertsons         |
| 18 | Memphis TN          | 36           | Delta               | Yes       | <u>Wal-Mart SC</u>    | Walgreen           |
| 19 | Fort Worth TX       | 27           | Southwest           | Yes       | <u>Wal-Mart SC</u>    | Albertsons         |
| 20 | Wichita KS          | 26           | Dillon Stores       | Yes       | <u>Wal-Mart SC</u>    | Sam's Club         |
| 21 | Salt Lake City UT   | 24           | Smith's             | Yes       | <u>Wal-Mart SC</u>    | Albertsons         |
| 22 | Dayton OH           | 22           | Cincinnati          | Yes       | <u>Wal-Mart SC</u>    | <u>Meijer</u>      |
| 23 | Little Rock AR      | 21           | Delta               | Yes       | <u>Wal-Mart SC</u>    | Wal-Mart NM        |
| 24 | Toledo OH           | 21           | Columbus            | Yes       | <u>Wal-Mart SC</u>    | <u>Meijer</u>      |
| 25 | Lexington KY        | 19           | Mid-South           | Yes       | <u>Wal-Mart SC</u>    | Sav-A-Lot          |
| 26 | Tucson AZ           | 19           | Fry's               | Yes       | Safeway               | <u>Wal-Mart SC</u> |
| 27 | Albuquerque NM      | 17           | Smith's             | Yes       | <u>Wal-Mart SC</u>    | Albertsons         |
| 28 | Fort Wayne IN       | 17           | Central             | Yes       | <u>Wal-Mart SC</u>    | <u>Meijer</u>      |
| 29 | Richmond VA         | 16           | Mid-Atlantic        | No        | Food Lion             | Ukrops             |
| 30 | Knoxville TN        | 15           | Atlanta             | Yes       | <u>Wal-Mart SC</u>    | Food City          |
| 31 | Roanoke VA          | 14           | Mid-Atlantic        | Yes       | <u>Wal-Mart SC</u>    | Food Lion          |
| 32 | Chicago IL          | 13           | Food 4 Less         | No        | Jewel                 | Dominick's         |
| 33 | Flint MI            | 13           | Michigan            | Yes       | <u>Meijer</u>         | VG's               |
| 34 | Charleston WV       | 12           | Mid-Atlantic        | Yes       | <u>Wal-Mart SC</u>    | Foodland           |
| 35 | Jackson MS          | 12           | Delta               | Yes       | <u>Wal-Mart SC</u>    | Walgreen           |
| 36 | Oxnard CA           | 12           | Ralphs/Food 4 Less  | Yes       | Vons                  | Albertsons         |
| 37 | Colorado Springs CA | 11           | King Soopers        | Yes       | <u>Wal-Mart SC</u>    | Safeway            |
| 38 | Omaha NE            | 11           | Dillon Stores       | Yes       | Hy-Vee                | <u>Wal-Mart SC</u> |
| 39 | Peoria IL           | 11           | Central             | Yes       | <u>Wal-Mart SC</u>    | Cub                |
| 40 | Raleigh NC          | 11           | Mid-Atlantic        | No        | Food Lion             | Harris Teeter      |
| 41 | Savannah GA         | 10           | Atlanta             | Yes       | <u>Wal-Mart SC</u>    | Publix             |
| 42 | Ogden UT            | 9            | Smith's             | Yes       | <u>Wal-Mart SC</u>    | Albertsons         |
|    | <b>TOTAL</b>        | <b>1,755</b> |                     | <b>39</b> |                       |                    |

(A) Underline denotes supercenter.

## Secondary Markets (3 – 8 Stores)

|    | <b>Market</b>                    | <b># Stores</b> | <b>Division</b> | <b>#1 or #2</b> |
|----|----------------------------------|-----------------|-----------------|-----------------|
| 1  | Ann Arbor MI                     | 8               | Michigan        | Yes             |
| 2  | Augusta GA                       | 8               | Atlanta         | Yes             |
| 3  | Boulder CO                       | 8               | King Soopers    | Yes             |
| 4  | Topeka KS                        | 8               | Dillon Stores   | Yes             |
| 5  | Hampton Roads VA                 | 7               | Mid-Atlantic    | No              |
| 6  | Lansing MI                       | 7               | Michigan        | Yes             |
| 7  | Macon GA                         | 7               | Atlanta         | Yes             |
| 8  | Provo UT                         | 7               | Smith's         | Yes             |
| 9  | Rockford IL                      | 7               | Central         | Yes             |
| 10 | Wheeling WV                      | 7               | Columbus        | Yes             |
| 11 | Boise City ID                    | 6               | Fred Meyer      | No              |
| 12 | Durham NC                        | 6               | Mid-Atlantic    | No              |
| 13 | Fort Collins CO                  | 6               | King Soopers    | Yes             |
| 14 | Grand Junction CO                | 6               | King Soopers    | Yes             |
| 15 | Huntington WV                    | 6               | Mid-Atlantic    | Yes             |
| 16 | Lynchburg VA                     | 6               | Mid-Atlantic    | No              |
| 17 | Huntsville AL                    | 5               | Atlanta         | Yes             |
| 18 | Saginaw MI                       | 5               | Michigan        | Yes             |
| 19 | San Francisco CA                 | 5               | Food 4 Less     | No              |
| 20 | Springfield OH                   | 5               | Cincinnati      | Yes             |
| 21 | Weirton OH                       | 5               | Columbus        | Yes             |
| 22 | Blacksburg VA                    | 4               | Mid-Atlantic    | Yes             |
| 23 | Bloomington IN                   | 4               | Central         | Yes             |
| 24 | Clarksville TN – Hopkinsville KY | 4               | Mid-South       | Yes             |
| 25 | Columbia SC                      | 4               | Atlanta         | No              |
| 26 | Decatur IL                       | 4               | Central         | Yes             |
| 27 | Elkhart IN                       | 4               | Central         | No              |
| 28 | Eugene OR                        | 4               | Fred Meyer      | No              |
| 29 | Greeley CO                       | 4               | King Soopers    | Yes             |
| 30 | Jackson TN                       | 4               | Delta           | Yes             |
| 31 | Lafayette IN                     | 4               | Central         | Yes             |
| 32 | Lake Charles LA                  | 4               | Southwest       | Yes             |
| 33 | Lawrence KS                      | 4               | Dillon Stores   | Yes             |
| 34 | Myrtle Beach SC                  | 4               | Atlanta         | No              |
| 35 | Parkersburg WV                   | 4               | Mid-Atlantic    | Yes             |
| 36 | Prescott AZ                      | 4               | Fry's           | Yes             |
| 37 | Sacramento CA                    | 4               | Food 4 Less     | No              |
| 38 | Shreveport LA                    | 4               | Southwest       | No              |
| 39 | South Bend IN                    | 4               | Central         | No              |
| 40 | Spokane WA                       | 4               | Fred Meyer      | No              |
| 41 | Springfield MO                   | 4               | Dillon Stores   | No              |
| 42 | Terre Haute IN                   | 4               | Central         | Yes             |
| 43 | Anderson IN                      | 3               | Central         | Yes             |
| 44 | Bloomington IL                   | 3               | Central         | Yes             |
| 45 | Charlottesville VA               | 3               | Mid-Atlantic    | Yes             |
| 46 | Columbia MO                      | 3               | Dillon Stores   | Yes             |
| 47 | Mansfield OH                     | 3               | Columbus        | Yes             |
| 48 | Monroe MI                        | 3               | Michigan        | Yes             |
| 49 | Morgantown WV                    | 3               | Mid-Atlantic    | Yes             |
| 50 | Owensboro KY                     | 3               | Mid-South       | Yes             |
|    | <b>TOTAL</b>                     | <b>243</b>      |                 | <b>36</b>       |

## Kroger Operating Divisions (Year-End 2008)

| <b>KROGER DIVISIONS/<br/>Major MSAs</b> | <b># Stores</b> | <b>Total<br/>Square Feet<br/>(millions)</b> | <b>Combo</b> | <b>Multi-Dept</b> | <b>Marketplace</b> | <b>Price Impact</b> |
|---|-----------------|---|--------------|-------------------|--------------------|---------------------|
| <b>ATLANTA</b>                          | <b>216</b>      | <b>12.4</b>                                 | <b>215</b>   | -                 | <b>1</b>           | -                   |
| Atlanta                                 | 132             |   |              |                   |                    |                     |
| Knoxville                               | 15              |   |              |                   |                    |                     |
| Savannah                                | 10              |   |              |                   |                    |                     |
| <b>CENTRAL</b>                          | <b>154</b>      | <b>8.1</b>                                  | <b>154</b>   | -                 | -                  | -                   |
| Indianapolis                            | 46              |   |              |                   |                    |                     |
| Fort Wayne                              | 17              |   |              |                   |                    |                     |
| Peoria                                  | 11              |   |              |                   |                    |                     |
| <b>CINCINNATI</b>                       | <b>111</b>      | <b>7.0</b>                                  | <b>105</b>   | -                 | <b>6</b>           | -                   |
| Cincinnati                              | 76              |   |              |                   |                    |                     |
| Dayton                                  | 22              |   |              |                   |                    |                     |
| <b>COLUMBUS</b>                         | <b>126</b>      | <b>7.5</b>                                  | <b>120</b>   | -                 | <b>6</b>           | -                   |
| Columbus                                | 61              |   |              |                   |                    |                     |
| Toledo                                  | 21              |   |              |                   |                    |                     |
| <b>DELTA</b>                            | <b>111</b>      | <b>5.4</b>                                  | <b>111</b>   | -                 | -                  | -                   |
| Memphis                                 | 36              |   |              |                   |                    |                     |
| Little Rock                             | 21              |   |              |                   |                    |                     |
| Jackson                                 | 12              |   |              |                   |                    |                     |
| <b>DILLON STORES</b>                    | <b>93</b>       | <b>4.6</b>                                  | <b>91</b>    | -                 | <b>2</b>           | -                   |
| Wichita                                 | 26              |   |              |                   |                    |                     |
| Omaha                                   | 11              |   |              |                   |                    |                     |
| <b>FOOD 4 LESS</b>                      | <b>146</b>      | <b>8.3</b>                                  | -            | -                 | -                  | <b>146</b>          |
| Los Angeles                             | 57              |   |              |                   |                    |                     |
| Riverside                               | 25              |   |              |                   |                    |                     |
| Las Vegas                               | 15              |   |              |                   |                    |                     |
| Chicago                                 | 13              |   |              |                   |                    |                     |
| San Diego                               | 11              |   |              |                   |                    |                     |
| Oxnard                                  | 1               |   |              |                   |                    |                     |
| <b>FRED MEYER</b>                       | <b>129</b>      | <b>19.6</b>                                 | <b>5</b>     | <b>124</b>        | -                  | -                   |
| Portland                                | 35              |   |              |                   |                    |                     |
| Seattle                                 | 33              |   |              |                   |                    |                     |
| <b>FRY'S</b>                            | <b>120</b>      | <b>8.5</b>                                  | <b>99</b>    | -                 | <b>21</b>          | -                   |
| Phoenix                                 | 92              |   |              |                   |                    |                     |
| Tucson                                  | 19              |   |              |                   |                    |                     |

## Kroger Operating Divisions (Year-End 2008)

| <b>KROGER DIVISIONS/<br/>Major MSAs</b> | <b># Stores</b> | <b>Total<br/>Square Feet<br/>(millions)</b> | <b>Combo</b> | <b>Multi-Dept</b> | <b>Marketplace</b> | <b>Price Impact</b> |
|---|-----------------|---|--------------|-------------------|--------------------|---------------------|
| <b>JAY C</b>                            | <b>29</b>       | <b>0.8</b>                                  | <b>29</b>    | -                 | -                  | -                   |
| Louisville                              | 6               |   |              |                   |                    |                     |
| <b>KING SOOPERS</b>                     | <b>142</b>      | <b>8.2</b>                                  | <b>142</b>   | -                 | -                  | -                   |
| Denver                                  | 73              |   |              |                   |                    |                     |
| Colorado Springs                        | 11              |   |              |                   |                    |                     |
| <b>MICHIGAN</b>                         | <b>134</b>      | <b>7.0</b>                                  | <b>134</b>   | -                 | -                  | -                   |
| Detroit                                 | 90              |   |              |                   |                    |                     |
| Flint                                   | 13              |   |              |                   |                    |                     |
| <b>MID-ATLANTIC</b>                     | <b>127</b>      | <b>6.3</b>                                  | <b>127</b>   | -                 | -                  | -                   |
| Richmond                                | 16              |   |              |                   |                    |                     |
| Roanoke                                 | 14              |   |              |                   |                    |                     |
| Charleston WV                           | 12              |   |              |                   |                    |                     |
| Raleigh                                 | 11              |   |              |                   |                    |                     |
| <b>MID-SOUTH</b>                        | <b>164</b>      | <b>8.7</b>                                  | <b>164</b>   | -                 | -                  | -                   |
| Nashville                               | 48              |   |              |                   |                    |                     |
| Louisville                              | 39              |   |              |                   |                    |                     |
| Lexington                               | 19              |   |              |                   |                    |                     |
| <b>QFC</b>                              | <b>74</b>       | <b>2.6</b>                                  | <b>74</b>    | -                 | -                  | -                   |
| Seattle                                 | 61              |   |              |                   |                    |                     |
| Portland                                | 6               |   |              |                   |                    |                     |
| <b>RALPHS</b>                           | <b>263</b>      | <b>11.2</b>                                 | <b>263</b>   | -                 | -                  | -                   |
| Los Angeles                             | 185             |   |              |                   |                    |                     |
| Riverside                               | 32              |   |              |                   |                    |                     |
| San Diego                               | 27              |   |              |                   |                    |                     |
| Oxnard                                  | 11              |   |              |                   |                    |                     |
| <b>SMITH'S</b>                          | <b>133</b>      | <b>8.5</b>                                  | <b>127</b>   | -                 | <b>6</b>           | -                   |
| Las Vegas                               | 31              |   |              |                   |                    |                     |
| Salt Lake City                          | 24              |   |              |                   |                    |                     |
| Albuquerque                             | 17              |   |              |                   |                    |                     |
| Ogden                                   | 9               |   |              |                   |                    |                     |
| <b>SOUTHWEST</b>                        | <b>209</b>      | <b>11.9</b>                                 | <b>209</b>   | -                 | -                  | -                   |
| Houston                                 | 102             |   |              |                   |                    |                     |
| Dallas                                  | 53              |   |              |                   |                    |                     |
| Fort Worth                              | 27              |   |              |                   |                    |                     |
| <b>TOTAL</b>                            | <b>2,481</b>    | <b>146.5</b>                                | <b>2,169</b> | <b>124</b>        | <b>42</b>          | <b>146</b>          |

## ACQUISITION STRATEGY

As the supermarket industry continues to consolidate, Kroger reviews potential acquisition candidates and carefully analyzes their potential to enhance shareholder value.

Kroger's acquisition strategy focuses primarily on existing markets. Such "in-market" acquisitions have lower risk and generally produce a higher incremental return because they require little investment in overhead, advertising, and distribution.

| Mergers/Acquisitions    | Date           | # Stores<br>(A) | Location      | Banner<br>Change? |
|-------------------------|----------------|-----------------|---------------|-------------------|
| Winn-Dixie              | June 2004      | 8               | Cincinnati OH | Yes               |
| Albertson's             | September 2004 | 3               | Omaha NE      | Yes               |
| [Individual stores]     | 2004           | 7               | [Various]     | Yes               |
| Winn-Dixie              | March 2005     | 1               | Cincinnati OH | Yes               |
| Buehler Food Markets    | April 2006     | 1               | Louisville KY | Yes               |
| Scott's Food & Pharmacy | April 2007     | 18              | Fort Wayne IN | No                |
| Farmer Jack             | June 2007      | 20              | Detroit MI    | Yes               |
| [Individual stores]     | 2007           | 2               | [Various]     | Yes               |
| [Individual stores]     | 2008           | 9               | [Various]     | Yes               |

(A) Represents stores acquired. Kroger may not operate all.



## CONVENIENCE STORES

### OVERVIEW

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Kroger operates five convenience store divisions under the following banners: Kwik Shop, Loaf 'N Jug, Quik Stop, Tom Thumb, and Turkey Hill Minit Markets. At year-end 2008, Kroger's 771 convenience stores spanned 16 states. Subsidiaries operated 684 of the convenience stores; 87 were operated through franchise agreements. In 2008, the convenience stores accounted for 5.0% of Kroger's total sales. The c-stores benefit from synergies with the Kroger supermarkets by offering a limited selection of private label products.

### GROWTH

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During 2008, we opened six convenience stores and closed 17. The new stores range from 2,800 square feet to 3,900 square feet in size, typically located on parcels of one to two acres. The new stores generally have a large gasoline offering with four to eight gasoline dispensers, covered by a large, well-lit canopy. The majority of our gasoline facilities offer pay-at-the-pump convenience for our customers. Over 300 of our convenience stores are tied into the Company's successful loyalty card program.

### MARKETS

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Kroger's convenience stores continue to concentrate on small to medium-sized towns located near interstate highways. Two-thirds of the stores are located in towns with fewer than 75,000 residents.

### ASSET BASE

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The majority of the locations occupy high-traffic corner sites. Of the 771 stores, 699 sell gasoline. During 2008, 75 stores received interior remodels and 17 received gasoline remodels.

### STORE PROFILE

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Average store size at year-end was 2,780 square feet. Average weekly customer count is approximately 4,700. The typical convenience store stocks approximately 2,800 items, with more than 70% of non-gasoline sales coming in five categories: soft drinks, beer, snacks, candy, and tobacco products. Gasoline sales represented approximately 73% of the Company's total convenience store sales in 2008.

| C-Store Division          | States                  | # Stores   |            |            | Square Feet (000) |              |              |
|---------------------------|-------------------------|------------|------------|------------|-------------------|--------------|--------------|
|                           |                         | 2006       | 2007       | 2008       | 2006              | 2007         | 2008         |
| Kwik Shop                 | IA KS NE                | 133        | 131        | <b>129</b> | 373               | 369          | <b>370</b>   |
| Loaf 'N Jug               | CO MT ND NE NM OK SD WY | 175        | 174        | <b>172</b> | 521               | 521          | <b>512</b>   |
| Quik Stop                 | CA NV                   | 103        | 106        | <b>106</b> | 242               | 250          | <b>251</b>   |
| Tom Thumb                 | AL FL                   | 127        | 126        | <b>116</b> | 365               | 368          | <b>344</b>   |
| Turkey Hill Minit Markets | IN PA                   | 241        | 245        | <b>248</b> | 637               | 654          | <b>666</b>   |
| <b>TOTAL</b>              |                         | <b>779</b> | <b>782</b> | <b>771</b> | <b>2,138</b>      | <b>2,162</b> | <b>2,143</b> |



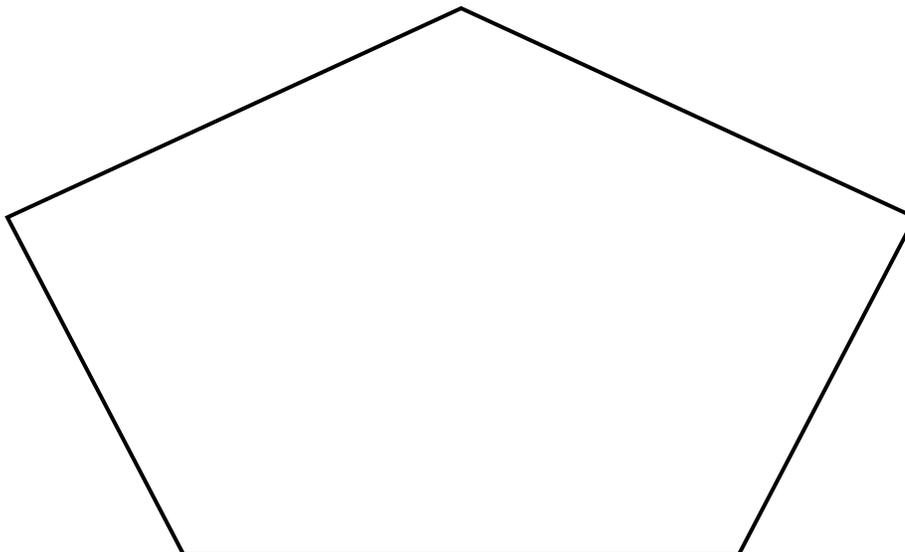
## JEWELRY STORES

With 385 fine jewelry stores in 35 states at the end of 2008, The Kroger Co. ranked as the third largest fine jewelry retailer in the nation. There are 130 jewelry locations inside our supermarkets (primarily in the Fred Meyer multi-department stores) and 255 in shopping malls. During 2008, the jewelry stores produced 0.5% of Kroger's total sales.

| STATE       | # STORES | STATE         | # STORES | STATE          | # STORES |
|-------------|----------|---------------|----------|----------------|----------|
| Alabama     | 1        | Iowa          | 4        | North Carolina | 1        |
| Alaska      | 12       | Kansas        | 2        | Ohio           | 7        |
| Arizona     | 9        | Kentucky      | 2        | Oklahoma       | 1        |
| California  | 31       | Maryland      | 14       | Oregon         | 53       |
| Colorado    | 3        | Massachusetts | 3        | Pennsylvania   | 33       |
| Connecticut | 5        | Michigan      | 14       | Tennessee      | 8        |
| Delaware    | 2        | Minnesota     | 4        | Utah           | 11       |
| Florida     | 15       | Missouri      | 1        | Virginia       | 4        |
| Georgia     | 1        | Nebraska      | 1        | Washington     | 64       |
| Idaho       | 12       | Nevada        | 4        | West Virginia  | 3        |
| Illinois    | 6        | New Jersey    | 19       | Wisconsin      | 6        |
| Indiana     | 6        | New York      | 23       |                |          |

Fred Meyer Jewelers came to Kroger as part of its successful merger with Fred Meyer, Inc. in 1999. The business is fully aligned with Kroger's Customer 1<sup>st</sup> strategy and positions itself as a "best in class" mainstream jeweler. The jewelry locations operate primarily under the banners of Fred Meyer Jewelers and Littman Jewelers. Typical product assortments include bridal; diamond fashion, color and gold; and timepieces. Stores also offer expert jewelry and watch repair services on premises.

In addition to store locations, Fred Meyer Jewelers welcomes customers online at [fredmeyerjewelers.com](http://fredmeyerjewelers.com) and [littmanjewelers.com](http://littmanjewelers.com).



## CORPORATE BRANDS

Corporate brand products play a central role in Kroger's Customer 1<sup>st</sup> strategy and provide a key competitive advantage to Kroger. We are using our own brands to build and solidify customer loyalty. Our vision is to inspire customers to choose our stores because of our exclusive, preferred brands. Corporate brands such as "Private Selection<sup>®</sup>", our Banner brands, and "Comforts<sup>®</sup>" are Kroger's ultimate loyalty program because customers can buy these brands only in our stores.

Our supermarket divisions typically stock approximately 14,000 corporate brand items. During the fourth quarter of fiscal 2008, 27% of Kroger's grocery sales came from our own brands, and grocery unit sales of Kroger brands reached a record-high 35%. High-velocity, lower retail items – such as bread, canned tuna, and canned vegetables – explain a substantial portion of the difference between these two figures.

In addition to the grocery category, Kroger carries a wide selection of our own brand products in other departments throughout our stores. We continue to expand and refine our offering in meat, seafood, deli, floral, produce, health & beauty care, and general merchandise in support of our corporate brands vision.

### Product Quality

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Consumer research, the finest ingredients, and our rigorous testing produce the quality behind Kroger's own brands. This is an important part of the everyday value that is found in all our products. This consistent focus on quality provides the foundation of our strong corporate brands program.

Our own brand strategy focuses on providing choices to our customers through a three-tier offering of price points and product experiences:

1. **Private Selection<sup>®</sup>** is our premium quality brand, made from only the finest ingredients to provide our customers with an extraordinary experience that makes bliss-filled moments out of everyday meals.

We now offer more than 1,000 unique Private Selection<sup>®</sup> items.

2. Our "**banner brand**" (Kroger, Ralphs, King Soopers, etc.), which represents the majority of our own brand items, is designed to be the great quality our customers and their families expect, with a wide breadth of products to meet their many needs. As with all of our own

brands, quality is the key ingredient. Before Kroger will carry a banner brand product, the quality must be tested with key customers to ensure overall liking and product quality versus the competitive set.

3. Our **Value**™ brand aims to offer our price sensitive customers a choice of basic products that are priced to fit their budget. The Value™ brand offers practical, economical solutions for everyday needs.

Kroger's three-tier own brands strategy generates strong profit margins. Our "good, better, best" approach enables us to serve a very broad and diverse customer base.

### **Meeting Customer Needs**



Understanding our customers and responding to their needs through product innovation is a key part of our own brands strategy.

In 2008, our Private Selection® brand reached \$1 billion in annual sales, driven by strong innovation. Our PS Tiger Shrimp, with our cook in-shell and proprietary deveining technology delivers superior taste, texture, color, and appearance, creating culinary delight when consumed. We introduced a complete line of fresh, premium, cleaned, and cut vegetables in microwave bags under the Private Selection® brand, and we stole the show with our award-winning PS Black Cherry Pie in Deli Bakery.

Our banner brand also delivered unique items that meet our customers' needs. In the frozen aisle, our Banner brand "Three Minute Pizza" provides a fast and easy way for our customers to have after-school snacks or quick meals. Our Banner brand frozen chicken chunks with Bourbon, Caribbean, Mexican, or Mole sauce offer new and exciting flavor experiences for our customers. We introduced Banner brand tortilla chips – which we manufacture in one of our own plants – in a new bag size to bring a unique \$1 price point to bagged snacks that is popular in the recent challenging economy. Finally, Banner brand cake mixes with edible images brought a unique way of decorating cakes to our Banner brand moms. These are just a few examples of how our Banner brands met customers' needs in 2008.

Our Value™ brand brought solutions to our budget-focused customers through innovative price points and new basic offerings. Our Value™ brand fresh potatoes brought new purchasers into our produce department, and our pre-priced Value brand bread (along with other pre-priced items)

drove sales and demonstrated our commitment to providing lower prices every day.

Kroger continues to see ample opportunity to grow the market share of our exclusive brands in health & beauty care (HBC) categories. Our successful over-the-counter introduction of Banner brand Omeprazole (Prilosec<sup>®</sup> equivalent) and 12 Hour All Day Allergy PSE Tablets are just two examples. All own brand items that we carry in the HBC category are procured products manufactured for Kroger to meet our product specifications. These products are held to the same high standards as our Kroger-manufactured products.

Kroger also carries a variety of general merchandise corporate brands led by “Everyday Living<sup>®</sup>”. In 2008, we launched CFL light bulbs under the Everyday Living<sup>®</sup> brand to help our customers save energy and money. Other important general merchandise brands include seasonal “Holiday Home<sup>®</sup>” items, upscale “HD Design<sup>®</sup>” products for home, “MotoTech<sup>®</sup>” products in the automotive category, and “Office Works<sup>®</sup>” in the office and school supplies category.



## **KROGER MANUFACTURING**

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Approximately 40% of the corporate brand units sold in our stores are produced in Kroger's 40 manufacturing plants; the remaining corporate brand items are produced to the Company's strict specifications by outside manufacturers. The Company performs a "make or buy" analysis on corporate brand products and decisions are made based upon a comparison of market-based transfer prices adjusted for plant profit versus open market purchases. Kroger's manufacturing plants produce breads, dairy products, meat and thousands of other grocery items. By manufacturing our own products, we lower our costs and pass on savings to our customers.

Kroger's 15 dairies and three ice cream plants operate at nearly full capacity and produce all varieties of fluid milk, orange juice, cultured products such as yogurt and cottage cheese, ice cream, novelty treats and non-carbonated beverages. In all of our markets, Banner brand milk is the "national brand" for most customers. Kroger also operates two cheese plants, which produce a variety of natural and processed cheeses for our supermarkets.

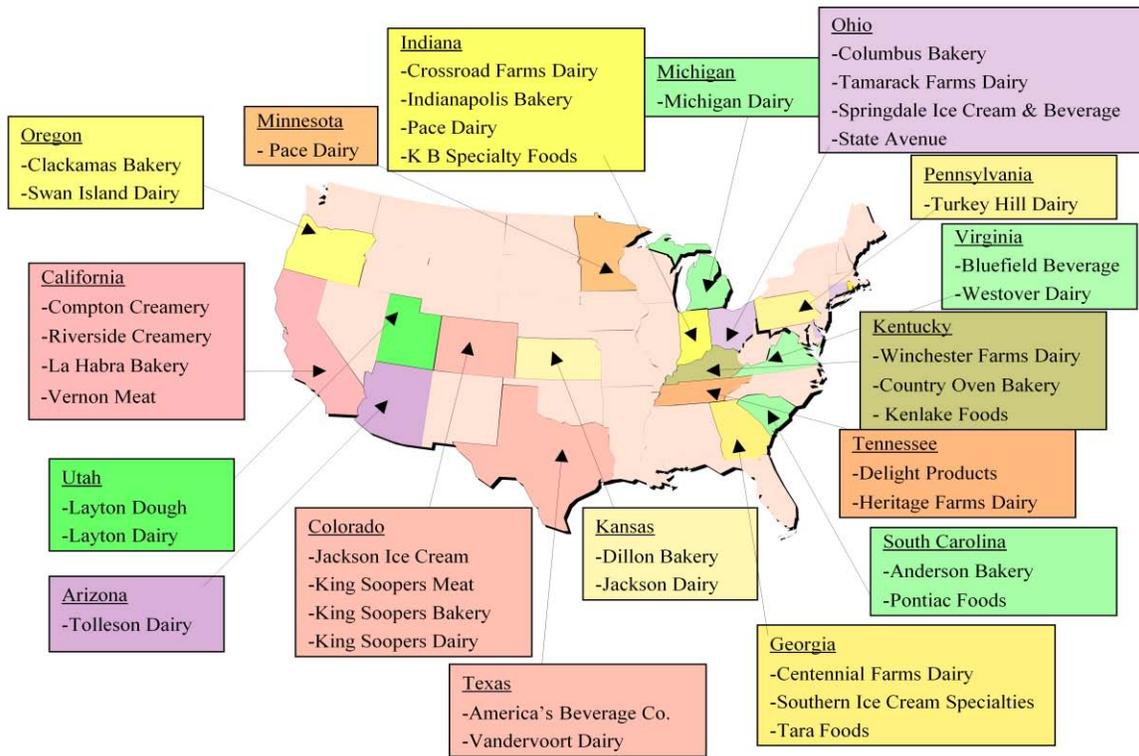
Kroger's two meat plants produce a variety of packaged meats, retail meats, sausages, and home meal replacements.

Kroger's seven bakeries supply cakes, donuts, cookies, bagels, muffins, crackers, snacks, and rolls to Kroger retail stores and outside customers. In addition, two frozen dough plants in Bowling Green, Kentucky and Salt Lake City, Utah supply frozen cakes and dough to our retail stores. KB Specialty Foods, a deli plant, manufactures a wide variety of deli salads, puddings, desserts, glazes, cakes, icings, etc.

Grocery products, beverages, and water are produced in the Company's five grocery and three beverage plants. Corporate brand grocery items include pet foods, sugar-based products like drink mixes, hot cereal, coffee, spices, salad dressings, and peanut butter. Beverages include Kroger's Big K<sup>®</sup> corporate brand soft drink line.

The quality of product carrying our banner brands is monitored by Kroger's in-house quality assurance group. All such product is sold in most divisions with the following guarantee: "Try it, like it, or get the national brand free."

# Kroger Manufacturing Plants



## DAIRY

Centennial Farms Dairy  
Compton Creamery  
Crossroad Farms Dairy  
Heritage Farms Dairy  
Jackson Dairy  
Jackson Ice Cream  
King Soopers Dairy  
Layton Dairy  
Michigan Dairy  
Pace Dairy  
Pace Dairy of Indiana  
Riverside Creamery  
Southern Ice Cream Specialties  
Swan Island Dairy  
Tamarack Farms Dairy  
Tolleson Dairy  
Turkey Hill Dairy  
Vandervoort Dairy  
Westover Dairy  
Winchester Farms Dairy

## GROCERY

America's Beverage  
Bluefield Beverage  
Delight Products  
Kenlake Foods  
Pontiac Foods  
Springdale Ice Cream & Beverage  
State Avenue  
Tara Foods

## MEAT

King Soopers Meat  
Vernon Meat

## BAKERY

Anderson Bakery  
Clackamas Bakery  
Columbus Bakery  
Country Oven Bakery  
Dillons Bakery  
Indianapolis Bakery  
KB Specialty Foods  
King Soopers Bakery  
La Habra Bakery  
Layton Dough

## Corporate Brand Categories Produced at Our Manufacturing Facilities

### DAIRY

- Ice Cream
- Ice Cream Cakes
- Milk
- Yogurt
- Cottage Cheese
- Processed Cheese
- Natural Cheese
- Sour Cream
- Frozen Novelties
- Orange Juice
- Fruit Juices/Drinks
- Citrus Punch
- Bottled Water

### BAKERY

- Breads
- Buns
- Rolls
- English Muffins
- Bagels
- Donuts
- Cookies
- Crackers
- Cheese Curls
- Corn Snacks
- Tortilla Chips
- Popcorn
- Flour Tortillas

### DELI

- Bread & Rolls
- Spreads/Dips
- Icings/Glazes
- Danish
- Salads
- Dessert Salads
- Meat Salads
- Seafood Salads
- Salsa
- Cakes
- Pies
- Cupcakes
- Cookies
- Bagels
- Muffins

### BEVERAGE

- Soft Drinks (A)
- Spring Water
- Purified Water

### MEAT

- Packaged Meats
- Retail Meats
- Sausages

### PET FOOD

- Dry Dog Food
- Dry Cat Food

### GROCERY

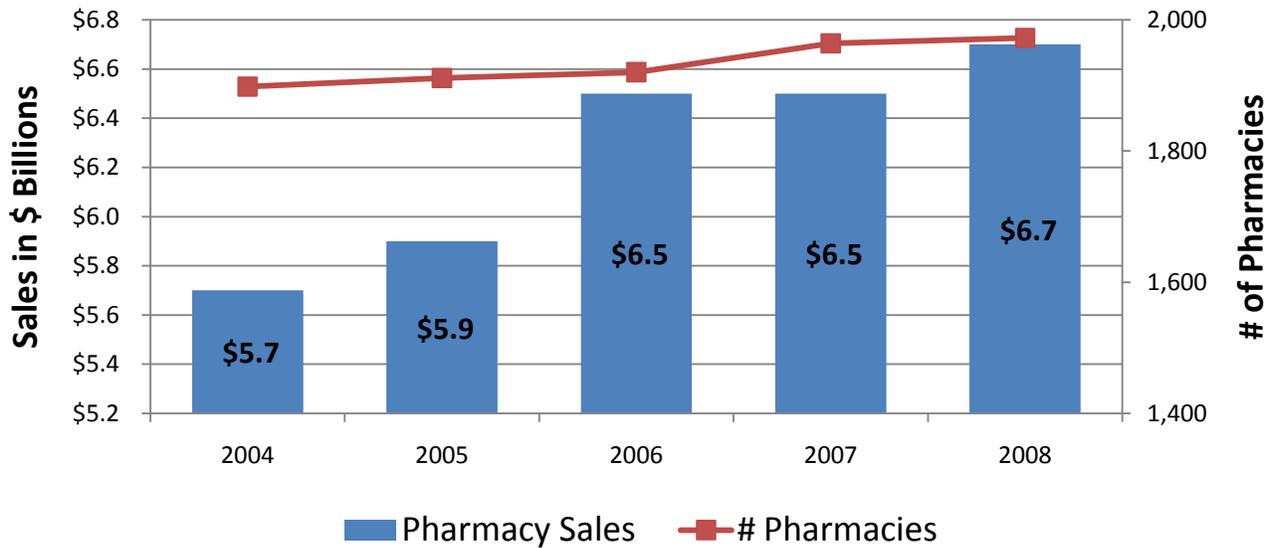
- Peanut Butter
- Salad Dressing
- Red Sauces
- Steak Sauces
- Worcestershire Sauce
- Soy Sauce
- Lemon Juice
- Vinegars
- Coffee
- Powdered Drinks
- Salted Nuts
- Hot Cereal
- Jelly
- Preserves
- Syrups
- Broth
- Spices
- Food Coloring
- Flavorings (Processed)

(A) Carbonated and Non-Carbonated

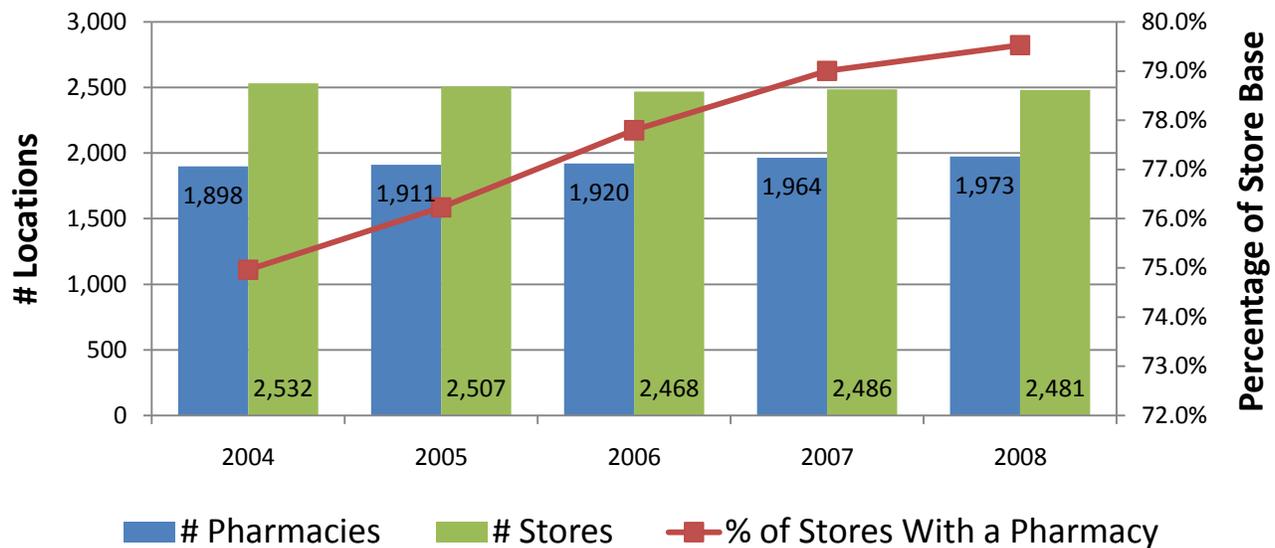
## PHARMACY

Kroger is the fifth-largest pharmacy operator in the United States in number of locations, operating retail pharmacies in over 1,900 of our food stores. During fiscal 2008, Kroger pharmacists filled over 131 million prescriptions at a retail value of approximately \$6.7 billion, an increase of approximately 3.1% versus fiscal 2007.

### Kroger Pharmacy Growth



### Kroger Pharmacy Growth



Pharmacy continues to be an important part of Kroger's convenient "one-stop shopping" strategy, and we are focusing on improving our customers' pharmacy experience. Our drive-thru pharmacies offer convenience to customers and expand their access to our pharmacy services. Since 2000, we have installed over 557 new drive-thru windows. At year-end 2008, 723 of our stores offered this convenience to customers.

In addition to convenience, our pharmacies strive to provide good value to customers. Our \$4 generic pricing program includes over 300 drugs priced at just \$4 for a typical 30-day supply. Drugs for heart, blood pressure, diabetes, infection, arthritis, cholesterol, and many other ailments are included. We also offer 90-day supplies of many of these prescriptions for \$10, and we have increased the number of women's health medications that we offer at discounted prices. Customers can access our drug list by visiting our stores, at [www.kroger.com](http://www.kroger.com), or by calling (877) 4RX-LIST.

In May 2008, Kroger announced a partnership with The Little Clinic LLC to bring walk-in medical clinics and quality, affordable consumer health solutions to stores across the country. The Little Clinic locations are staffed with licensed and Board Certified Advanced Registered Nurse Practitioners (ARNPs) and Certified Physician Assistants. They are authorized to diagnose, treat, and write prescriptions for common illnesses such as flu, bronchitis, respiratory, sinus and ear infections, as well as for minor injuries. The clinics also provide services such as physicals, back-to-school and sports exams, screenings and a number of vaccinations. At year-end 2008, The Little Clinic operated 44 walk-in medical clinics inside Kroger's family of stores.



## NATURAL AND ORGANIC FOODS

Consumer interest in healthier lifestyles and better nutrition has fueled significant growth in the natural and organic foods industry over the past several years. In response to this interest, Kroger customers can find a variety of natural and organic products throughout our stores, from our produce and meat departments to our grocery and HBC aisles. Additionally, Kroger caters to the natural and organic customer in varying department formats based on a particular store's size and customer segmentation:

- "Nature's Markets" are located in most Kroger-bannered stores, as well as in Fry's and Dillons;
- Nutrition Centers are located in Fred Meyer stores;
- Ralphps, King Soopers, Smith's, QFC, and City Market use a variety of formats, including both segregated and integrated sets.

Our stores typically offer 3,000 SKUs of all-natural and organic foods, vitamins, energy bars, sports drinks, and herbs. The offering varies based on square footage dedicated to Natural Foods, which can expand to over 1,400 square feet in some stores.

In addition to over 2,800 SKUs of branded product, Kroger offers over 160 items under our "Naturally Preferred<sup>®</sup>" corporate brand. Naturally Preferred<sup>®</sup> products are made from the finest quality, natural ingredients, but they are not always organic. Complementing our Naturally Preferred<sup>®</sup> brand is the expanded organic product offering sold under our exclusive Private Selection<sup>®</sup> brand. Our stores offer more than 290 Private Selection Organic<sup>™</sup> items ranging from everyday staples like milk, ketchup, butter and eggs to new items like cereal, salads, and snacks. Every Private Selection Organic<sup>™</sup> product contains at least 95% organic ingredients and is USDA certified, assuring our customers that these products are grown and processed without preservatives, artificial colors or flavors. We continue to add new items to this proprietary product line to make organics accessible and affordable for everyone.



## RETAIL FUEL OPERATIONS

Kroger believes that gasoline is a natural addition to our “one-stop” shopping strategy because it offers our customers tremendous convenience and value. Fuel centers also allow Kroger to build on our decades of experience in selling gasoline at our convenience stores. Despite low margins, fuel centers can deliver a high return on investment because of their extraordinary inventory turns and positive effect on overall store sales.

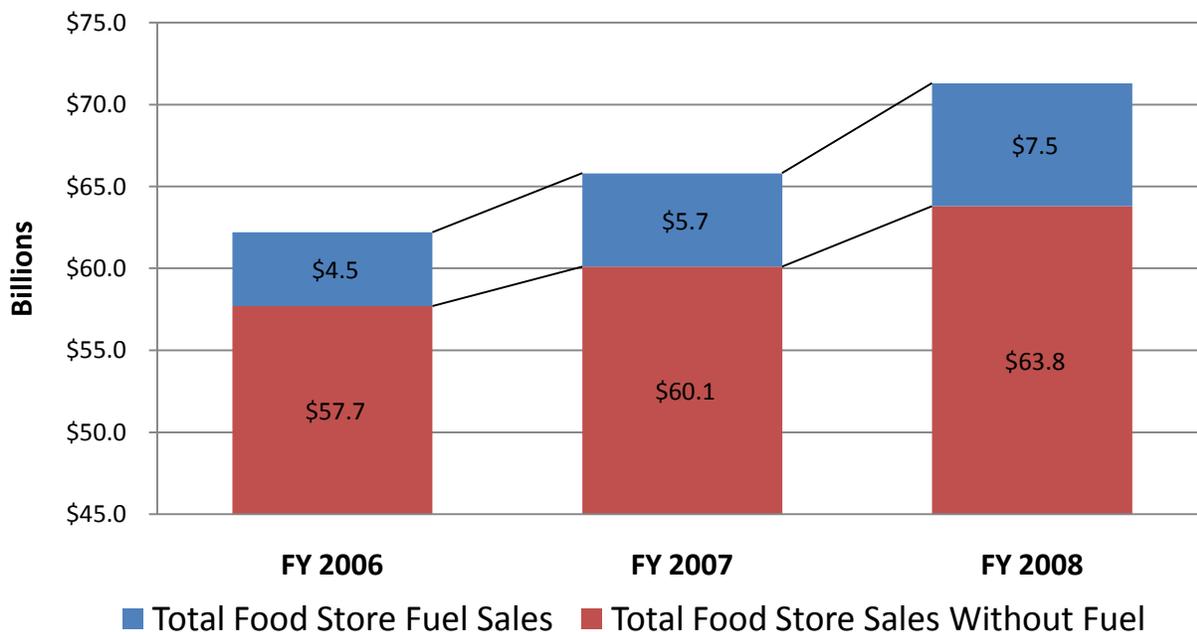
The typical supermarket fuel center consists of three to seven multi-product dispensers covered by a well-lit canopy, and an 8’ x 12’ kiosk from which cigarettes, soft drinks, snacks, candy and miscellaneous automotive-related products are sold.

At year-end 2008, Kroger’s retail fuel operations included 781 supermarket fuel centers in 30 states and 699 convenience stores that sell fuel. (We operate 771 convenience stores in total. See the “Convenience Stores” section on Page 19 of this Fact Book.)

### Financial Impact

#### Sales

Fuel sales affect certain financial indicators. They comprise a portion of the Company’s total food store sales results.



Fuel sales also affect identical and comparable supermarket sales:

| <b>Identical Supermarket Sales</b> | <b>FY 2006</b> | <b>FY 2007</b> | <b>FY 2008</b> |
|------------------------------------|----------------|----------------|----------------|
| Including Supermarket Fuel Centers | 6.4%           | 6.9%           | 6.9%           |
| Excluding Supermarket Fuel Centers | 5.6%           | 5.3%           | 5.0%           |
| Difference ( <i>basis points</i> ) | 80 bp          | 160 bp         | 190 bp         |

| <b>Comparable Supermarket Sales</b> | <b>FY 2006</b> | <b>FY 2007</b> | <b>FY 2008</b> |
|-------------------------------------|----------------|----------------|----------------|
| Including Supermarket Fuel Centers  | 6.7%           | 7.2%           | 7.2%           |
| Excluding Supermarket Fuel Centers  | 5.7%           | 5.5%           | 5.3%           |
| Difference ( <i>basis points</i> )  | 100 bp         | 170 bp         | 190 bp         |

### FIFO Gross Margin (Note A)

Retail fuel sales lower our FIFO gross margin rate due to the very low FIFO gross margin on retail fuel sales as compared to non-fuel sales. On a GAAP basis, our FIFO gross margin rates were 24.27%, 23.65%, and 23.20% in 2006, 2007, and 2008, respectively. A portion of the decrease in our FIFO gross margin rate is due to Kroger's growing retail fuel business. The decrease in our non-fuel FIFO gross margin rate reflects Kroger's continued reinvestment of operating cost savings into lower prices for our customers. In addition, FIFO gross margin in 2008, compared to 2007, decreased due to high inflation in product costs.

| <b>&lt;Decrease&gt; in FIFO Gross Margin Rate</b> | <b>FY 2006</b> | <b>FY 2007</b> | <b>FY 2008</b> |
|---|----------------|----------------|----------------|
| GAAP Basis  | <53 bp>        | <62 bp>        | <45 bp>        |
| Excluding Retail Fuel Operations                  | <26 bp>        | <20 bp>        | <15 bp>        |

**Note A:** *FIFO gross margin is an important measure used by management to evaluate merchandising and operational effectiveness. We calculate First-In, First-Out ("FIFO") gross margin as sales minus merchandise costs, including advertising, warehousing and transportation, but excluding the Last-In, First-Out ("LIFO") charge. Merchandise costs exclude depreciation and rent expense.*

### Operating, General, and Administrative Expenses (Note B)

Retail fuel sales also lower Kroger's operating, general, and administrative ("OG&A") rate due to the very low OG&A rate on retail fuel sales as compared to non-fuel sales. On a GAAP basis, Kroger's OG&A rates were 17.91%, 17.31%, and 16.95% in 2006, 2007, and 2008, respectively. A portion of the decrease in our OG&A rate is due to Kroger's growing retail fuel business. The decrease in our non-fuel OG&A rate reflects Kroger's strategy of producing operating cost leverage through strong identical sales growth, increased productivity, and cost control.

| <Decrease> in OG&A Rate          | FY 2006 | FY 2007 | FY 2008 |
|----------------------------------|---------|---------|---------|
| GAAP Basis                       | <30 bp> | <60 bp> | <36 bp> |
| Excluding Retail Fuel Operations | <9 bp>  | <33 bp> | <3 bp>  |

**Note B:** Operating, general, and administrative expenses consist primarily of employee-related costs such as wages, health care benefit costs and retirement plan costs, utilities, and credit card fees. Rent expense, depreciation and amortization expense, and interest expense are not included in OG&A.

Kroger's retail fuel business can increase the volatility of our quarterly financial results because it is not uncommon for us to experience quarter-to-quarter gross margin fluctuations in the fuel business. This is a function of our significant fuel volumes and the volatility of wholesale fuel prices. During a period of rising wholesale fuel costs, our gross margins typically contract. During a period of declining wholesale fuel costs, our gross margins typically expand. This is why we believe it is important to consider a longer view when analyzing fuel margins to account for these fluctuations.

| Fuel Margins (Cents Per Gallon) | Q1   | Q2    | Q3    | Q4     | YR    |
|---------------------------------|------|-------|-------|--------|-------|
| FY 2008                         | 9.2¢ | 17.9¢ | 23.9¢ | 9.7¢   | 14.7¢ |
| FY 2007                         | 8.7¢ | 16.2¢ | 8.7¢  | 12.8¢  | 11.4¢ |
| Difference                      | 0.5¢ | 1.7¢  | 15.2¢ | <3.1¢> | 3.3¢  |

Note that Kroger's fuel margins exclude credit card fees. We include credit card fees in OG&A expense.



## LOYALTY DATA & CUSTOMER INSIGHT

Kroger's growth strategy is squarely focused on consistently meeting the needs of our customers. Our successful customer loyalty programs are one mechanism we are using to deliver value. Over several years, we have accumulated a substantial volume of consumer data through our loyalty cards. Approximately 40% of all U.S. households hold one of our shopper cards. As a result, Kroger has one of the largest retail customer databases in America. This data provides us with valuable insight into our customers' shopping behaviors.

The key to unlocking that insight and creating value for our customers and our Company has been a partnership we formed in May 2003 with a firm called "dunnhumby". London-based dunnhumby is a global leader in the fields of data management, customer analysis, and insight-led planning.

This partnership ("dunnhumbyUSA") is a unique competitive advantage for Kroger. It allows us to segment our customer base and design customized offerings for the individual needs of each segment. It also gives us the tools to target our promotional dollars and pricing investments toward our most profitable customers.

dunnhumbyUSA continues to grow and evolve. Each year this partnership helps us analyze our business in ways we may not have considered before. In addition to helping Kroger build customer loyalty and brand value, dunnhumbyUSA serves other manufacturing and non-grocery retail clients through offices in Atlanta, Chicago, and Cincinnati.



## KROGER PERSONAL FINANCE



Another unique competitive advantage for Kroger is Kroger Personal Finance® (“KPF”). Through KPF, we offer safe, simple financial products and services at competitive rates.

The cornerstone of our offering is the 1-2-3 REWARDS® MasterCard®, a points-based card that rewards customers for everyday purchases. Incremental points are earned for purchases in the Kroger family of stores and for purchases of Kroger’s corporate brand products. Customers also receive up to 15 cents per gallon off their qualified gasoline purchases at Kroger fuel centers in certain markets.

KPF offers many other personal financial products – including various types of insurance (car, home, renters, life, pet, and specialty), mortgages, home equity lines, identity theft protection, in-store money services, and a full line of gift card products at the One Stop Gift Card Shop. We consider these services to be an extension of Kroger’s overall “Customer 1<sup>st</sup>” strategy.

# MILLIONS OF REASONS TO GET YOURS



Join the millions of 1-2-3 REWARDS® MasterCard® customers who have earned over **\$69 Million** in free groceries\* and **\$3.2 Million** in extra fuel discounts!\*

**KROGER**  
Personal  
FINANCE.

**Get \$25 off** your first in-store purchase upon approval!

\*Free groceries reward nationwide total since 2005 through May 2009; Kroger Personal Finance® additional fuel discount nationwide total since 2008 through April 2009.  
\*Subject to credit approval and all terms and conditions. Must use your 1-2-3 REWARDS® MasterCard® (scan the bar code on the back and pay) for \$25 coupon to be valid. Must be 18 years or older to apply.  
1-2-3 REWARDS® MasterCard® is issued by RBS Citizens, N.A. on behalf of Kroger Personal Finance®



## TECHNOLOGY & LOGISTICS

Technology and logistics are very important parts of our business. The Kroger Co. invests significant capital and expense dollars to ensure that our information systems and logistics network are operating as efficiently and cost-effectively as possible. We also know that such investments are critical in serving our customers better.

Investments during the past few years have included:

- Self-checkout technology
- In-store wireless improvements
- E-commerce and electronic coupon upgrades
- Pharmacy systems
- Voice-pick technology for our distribution centers
- State-of-the-art, industry-leading automation and warehouse management systems
- Internet-based inbound freight management
- Customer loyalty and fuel systems
- Expanded handheld & mobile technologies
- New data center & network implementations
- Store labor forecasting systems
- Supply chain & transportation management programs
- Manufacturing planning & control systems
- Web-based application focus & improvement in user interfaces
- More fuel-efficient tractor trailer designs

All of these investments are producing returns above projected hurdle rates. In addition, several of these investments – such as self-checkout technology, loyalty systems, and supply chain management – are contributing to improvements in Kroger's Customer 1<sup>st</sup> strategy.



## **TECHNOLOGY**

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Kroger has refreshed a significant portion of our overall technology infrastructure – including data centers, core network, store and distribution center communications – to improve the overall availability and sustainability of our technology platforms. The technology focus has shifted to accelerated delivery of solutions that affect the customer experience in our stores in several areas covering interaction with our associates, product delivery, and other services that we offer.

### **Research and Development**

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Kroger is committed to internally-driven innovation. We carefully consider opportunities that have the potential to redefine existing operating processes while materially improving the shopping experience of our customers. We are currently testing several retail innovations that we will validate in our stores. We are optimistic about our ability to create a superior shopping experience for our customers while delivering improved operating efficiencies for our business.

## **LOGISTICS**

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Kroger's logistics network includes 34 distribution centers ("DCs"). An important part of our Customer 1<sup>st</sup> strategy involves investing in our logistics infrastructure to improve operational efficiency, lower costs, and upgrade product freshness, quality, and safety. Over the past several years, Kroger has made significant investments in leading edge distribution technology – including warehouse, transportation, and advanced automation systems. Our DCs contain state-of-the-art product handling systems, refrigeration, temperature and lighting controls. These technologies have allowed us to significantly reduce our energy use in the DCs, saving costs and reducing Kroger's carbon footprint.

Kroger employs a rigorous program of lean process engineering to continuously improve the efficiency of the supply chain. The program examines each step – from suppliers to the stores – streamlining processes, driving out waste, and reducing costs to enable continued investment in our Customer 1<sup>st</sup> strategy.

Many of Kroger's distribution centers and store delivery fleets have been outsourced to third-party logistics providers, giving the Company access to evolving approaches in distribution and more flexibility to implement them. The ongoing consolidation reduces the capital needed to maintain and

modernize the network, reduces working capital, and lowers product acquisition costs since larger quantity purchases are possible.

### **Three-Tier Distribution Network**

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Kroger is the only major supermarket with a nationwide three-tier distribution system. The first tier consists of local dry grocery, perishables, and freezer buildings that service stores – generally within a 200-mile radius – with quick turn and perishable products. These distribution centers also serve as the Company’s cross-dock centers for palletized merchandise that is going directly to a retail store.

The second tier consists of consolidation centers that service retail stores – within a roughly 350-mile radius – for slower turn pharmaceuticals, HBC items, and dry grocery merchandise. These regional consolidation centers allow Kroger to purchase in larger quantities at the lowest possible price bracket. The product is piece-picked, sleeve-picked, or case-picked depending on value and movement, and shipped directly to stores two or three times each week.

The third tier ships seasonal and promotional products from vendors around the world to stores in an even larger geography than the consolidation centers.

This tiered network system is supported with new technology for improved operations and more cost-effective store delivery. “Demand Forecasting” technology utilizes certain store-specific and market data to enhance the Company’s store ordering system capabilities. This capability enhancement is a reality with the creation of Kroger’s data warehouse, expanded corporate computing infrastructure, and current software systems. Voice-pick technology employed in our DCs uses wireless communication and voice instructions for picking product versus the previous paper label-based picking. Our real-time warehouse management system improves both the speed and accuracy of product assembly and shipping. The network is linked with a web-based freight management system to eliminate “empty” trucking miles and reduce freight expense through coordination with our suppliers and fleet operators. Advanced automation technology is being implemented for select case and piece picking operations, which dramatically improves store service, reduces costs, and enhances worker safety.

## Transportation Management

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Our fleet of 1,800 tractors and 8,500 trailers make about 3,000 deliveries every day. In 2008, that translated to traveling almost 300 million miles to our stores and facilities. Of our fleet, Kroger owns approximately 90% of the 8,500 trailers and 70% of the 1,800 tractors used for deliveries.

With rising fuel and operational costs, Kroger is further leveraging its investments in network-based transportation management systems to improve utilization of its store delivery and inbound fleets. Fleet capacity management across all markets and business units is being integrated into these tools to maximize coordination and utilization. Some of our other efforts in this area include: improving the aerodynamic design of tractors and trailers for better fuel economy; expanding the usage of multi-temperature trucks to transport frozen, refrigerated or dry goods in one truck; improving the insulation of our refrigerated trucks; and standardizing top speeds and idling protocols.

Improving the operational efficiency of our fleet not only lowers our costs, it also helps reduce Kroger's impact on the environment. Please see our 2009 Sustainability Report for additional information about our efforts and achievements in this important area.



## CUSTOMER 1<sup>st</sup> STRATEGY

The Kroger team did an outstanding job in 2008 of consistently delivering results in an increasingly difficult economic environment. Our efforts to help customers and their families navigate the difficult economy are driven by our Customer 1<sup>st</sup> strategy.

Listening closely to our customers is the foundation of this approach. We focus intently on its four keys:

- Our People are great!
- I get the products I want, plus a little.
- The shopping experience makes me want to return.
- Our prices are good.

This is a journey that we began over seven years ago. Since then, our strategy has helped us strengthen our connection with customers.

Our business model is straight-forward: increase annual earnings per share through the combination of strong, sustainable identical sales growth and slightly improved operating margins, both excluding our retail fuel operations. Investments in our customer's shopping experience help us drive strong and sustainable identical sales growth. These investments can take several forms – including improved customer service, better product quality and selection, and lower prices. We are able to fund these investments through operating cost reductions and productivity enhancements in several areas of our business.

A cornerstone of our business strategy is balance. We seek to consistently deliver strong financial results in the near-term while making meaningful investments for our future. We believe our Customer 1<sup>st</sup> strategy can serve customers, associates, and investors well in a variety of economic and competitive conditions.



## MARKET SHARE

Kroger serves customers in 42 major markets. We define “major market” as a metropolitan area in which we operate nine or more stores. Over 70% of our stores are located in these markets. The 2008 market share figures reported below are based on our internal estimates. We include all retail outlets that sell merchandise comparable to our own – including supercenters and other non-traditional retail formats.

For 2008, Kroger held the #1 or #2 share in 39 of our 42 major markets. According to our estimates, Kroger’s share increased in 36 of these 42 major markets in 2008 and declined in six. On a volume-weighted basis, Kroger’s overall market share rose 61 basis points during 2008 in our 42 major markets.

This is the fourth consecutive year Kroger has achieved significant market share gain. Over the past four years combined, Kroger’s share in our major markets has increased roughly 225 basis points.

Kroger competes against a total of 1,418 supercenters. There are 35 major markets where supercenters have achieved at least a #3 market share position. In 2008, Kroger’s market share increased in 30 of those 35 markets and declined in five. On a volume-weighted basis, Kroger’s market share expanded 87 basis points in those 35 markets during 2008.

Kroger competes against 1,125 Wal-Mart supercenters. This reflected an increase of 60 stores compared to the prior year. Wal-Mart supercenters have achieved at least a #3 share position in 33 of the 35 major markets where we have significant supercenter competition. Kroger’s market share increased in 29 of those markets and declined in four. On a volume-weighted basis, Kroger’s market share grew 86 basis points in those 33 markets during 2008.

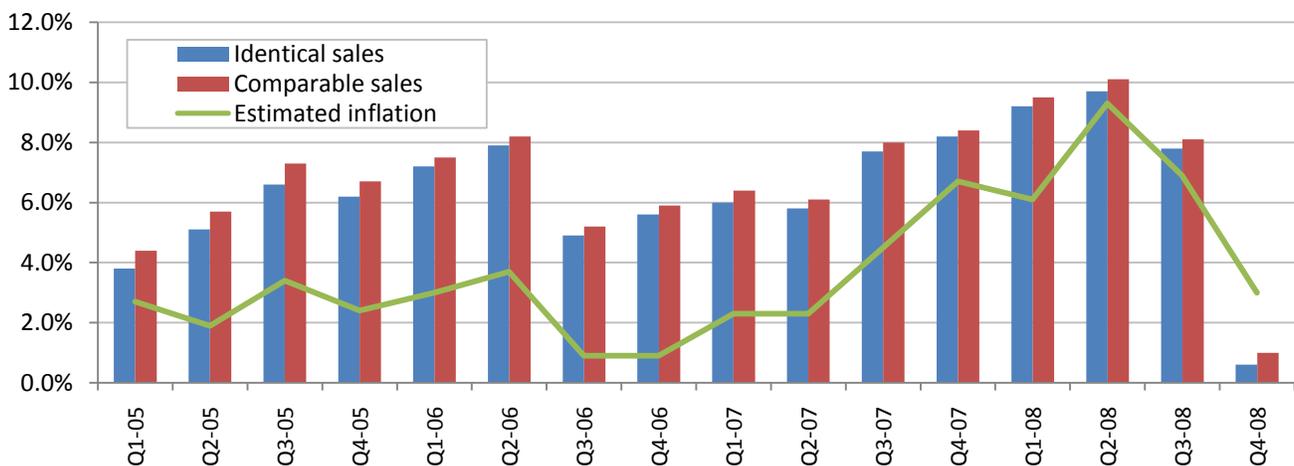
These are impressive market share results, and they demonstrate that Kroger’s long-term strategy is working. As population growth continues in the major markets where we operate, we intend to continue to grow Kroger’s business by maintaining our existing strong market share and by building on additional opportunities for sales growth. We calculate that approximately 45% of the share in our major markets – as much as \$100 billion – is held by competitors who do not have Kroger’s economies of scale. We estimate that the market share of those competitors has declined about 1% during each of the last four years. We continue to look for ways to capture additional market share.

## IDENTICAL & COMPARABLE SUPERMARKET SALES

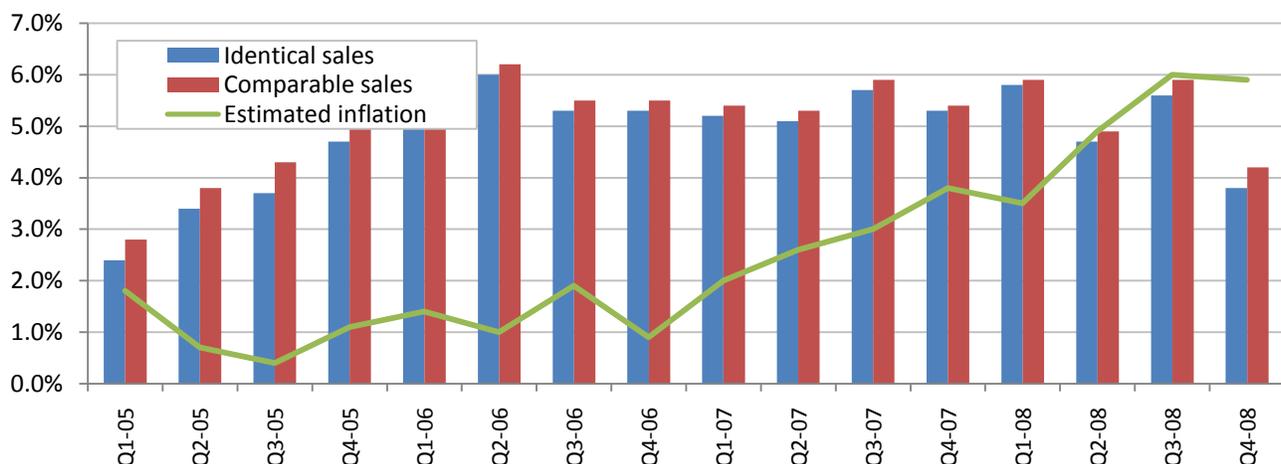
Identical (“ID”) and comparable (“comp”) supermarket sales are a key measure of health in the retail food industry. Kroger defines a supermarket as “identical” when it has been open without expansion or relocation for five full quarters. “Comparable” supermarket sales include expansions and relocations and more closely resemble industry-defined “same store sales”. Other companies in our industry may calculate identical or comparable sales differently than Kroger does, limiting the comparability of these measures.

Gasoline sales at our supermarket fuel centers have a measurable impact on our identical and comparable supermarket sales results. Therefore, the second chart depicts identical and comparable supermarket sales trends excluding supermarket fuel sales.

### INCLUDING FUEL



### EXCLUDING FUEL



## CAPITAL EXPENDITURES

Total capital expenditures for 2008 were \$2.2 billion, excluding acquisitions. Approximately 61% of Kroger's 2008 capital dollars was used to build, acquire, expand, or remodel food stores. The balance was allocated among the Company's other operating and administrative segments, including convenience stores, jewelry stores, manufacturing facilities, as well as technology, logistics and distribution, and other miscellaneous projects.

### 2008 Capital Investment Allocation



- Supermarkets, including real estate: 61.0%
- Technology & Logistics: 17.5%
- Mfg, C-Stores, Jewelry: 5.4%
- Other: 16.2%

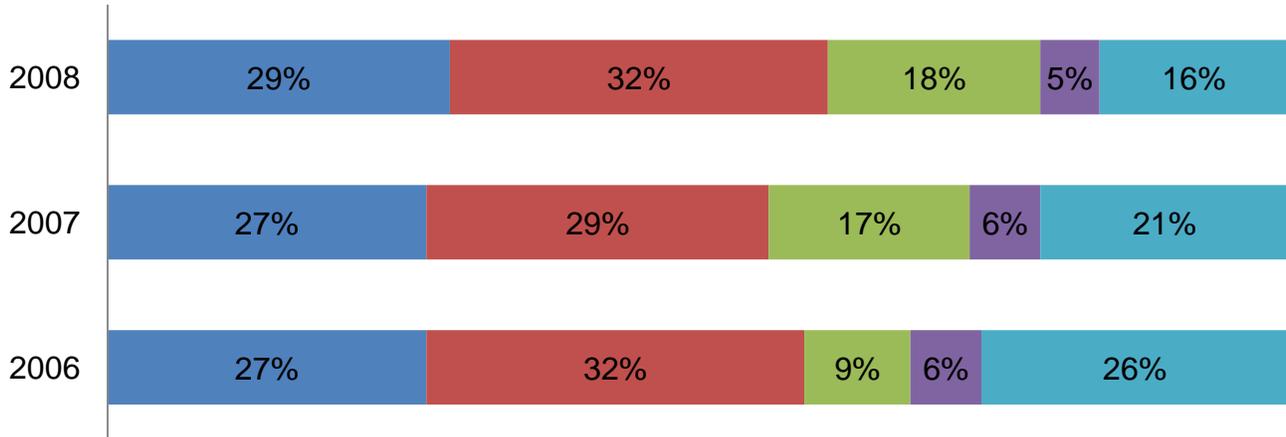
We allocate capital to projects that we expect to earn a rate of return in excess of our internal hurdle rate of 11.3% after-tax. These projects include new stores, major remodels and expansions of existing stores, as well as distribution facilities, technology and manufacturing investments.

We primarily target existing markets for new combination stores. In our experience, such "in-market" growth generally produces higher returns, with a lower level of risk, by leveraging fixed expenses such as warehousing, transportation, advertising, and other overhead costs across an expanding store base.

Capital expenditures reflect our strategy of growth through expansion and acquisition, as well as our emphasis on self-development and ownership of real estate, and logistics and technology improvements. Since 1995, Kroger has been aggressively purchasing the real estate associated with our storing program. At year-end, approximately 43% of the Company's 2,481 supermarkets were owned by Kroger. Kroger estimates that it saves approximately \$1 per square foot per year when owning versus leasing stores.

## Capital Investments

■ Supermarkets ■ Real Estate ■ Technology & Logistics ■ Mfg, C-Stores, Jewelry ■ Other



We believe that long-term shareholder value is determined, in part, by the return on invested capital and therefore we use a disciplined approach to evaluate every capital investment:

- Capital investments are assessed versus our after-tax hurdle rate with consideration given to the risk of the specific investment.
- The projected incremental sales and EBITDA from each capital expenditure are added to divisional and corporate bonus bases in order to motivate the entire organization to achieve returns above our hurdle rate.
- A quarterly re-analysis of each major project is conducted to ensure we understand the return from major capital projects.
- Kroger continues to aggressively close underperforming stores. In fiscal 2008, we closed 46 stores – 32 of these were operational closures. The term “operational closure” describes a store location that has been closed without opening another store in the same vicinity to replace it.

The chart on the following page provides Kroger’s real estate activity by quarter for fiscal 2006, 2007, and 2008.

### REAL ESTATE ACTIVITY BY QUARTER

| <b>FY 2006</b>            | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> | <b>YEAR</b> |
|---------------------------|-----------|-----------|-----------|-----------|-------------|
| Beginning # Stores        | 2,507     | 2,483     | 2,477     | 2,473     | 2,507       |
| New                       | 6         | 4         | 5         | 5         | 20          |
| Acquired – New            | 1         | -         | -         | -         | 1           |
| Acquired – Relocation     | -         | -         | -         | -         | -           |
| Relocations               | 5         | 3         | 3         | 6         | 17          |
| Total Stores Opened       | 12        | 7         | 8         | 11        | 38          |
| Expansions                | 4         | 4         | 2         | 5         | 15          |
| Total Store Projects      | 16        | 11        | 10        | 16        | 53          |
| Operational Closures      | <31>      | <10>      | <9>       | <10>      | <60>        |
| Ending # Stores           | 2,483     | 2,477     | 2,473     | 2,468     | 2,468       |
| Remodels                  | 39        | 34        | 39        | 46        | 158         |
| Square Footage (millions) | 141.2     | 141.3     | 141.4     | 141.6     |             |
| % Increase                | <0.2%>    | <0.2%>    | <0.2%>    | <0.2%>    |             |
| Convenience Stores        | 783       | 773       | 774       | 779       |             |
| Jewelry Stores            | 423       | 418       | 418       | 412       |             |
| Fuel Centers              | 593       | 608       | 619       | 631       |             |
| Pharmacies                | 1,911     | 1,911     | 1,913     | 1,920     |             |
| <b>FY 2007</b>            | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> | <b>YEAR</b> |
| Beginning # Stores        | 2,468     | 2,458     | 2,491     | 2,487     | 2,468       |
| New                       | 9         | 7         | 1         | 6         | 23          |
| Acquired – New            | -         | 37        | -         | 1         | 38          |
| Acquired – Relocation     | 1         | -         | -         | -         | 1           |
| Relocations               | 4         | -         | 2         | 3         | 9           |
| Total Stores Opened       | 14        | 44        | 3         | 10        | 71          |
| Expansions                | 6         | 6         | 10        | 9         | 31          |
| Total Store Projects      | 20        | 50        | 13        | 19        | 102         |
| Operational Closures      | <19>      | <11>      | <5>       | <8>       | <43>        |
| Ending # Stores           | 2,458     | 2,491     | 2,487     | 2,486     | 2,486       |
| Remodels                  | 71        | 30        | 54        | 45        | 200         |
| Square Footage (millions) | 142.0     | 141.3     | 144.2     | 144.6     |             |
| % Increase                | 0.6%      | 1.9%      | 2.0%      | 2.1%      |             |
| Convenience Stores        | 779       | 780       | 782       | 782       |             |
| Jewelry Stores            | 408       | 406       | 405       | 394       |             |
| Fuel Centers              | 652       | 664       | 678       | 696       |             |
| Pharmacies                | 1,929     | 1,960     | 1,960     | 1,964     |             |
| <b>FY 2008</b>            | <b>Q1</b> | <b>Q2</b> | <b>Q3</b> | <b>Q4</b> | <b>YEAR</b> |
| Beginning # Stores        | 2,486     | 2,474     | 2,476     | 2,477     | 2,486       |
| New                       | 5         | 4         | 2         | 10        | 21          |
| Acquired – New            | 3         | 1         | 2         | -         | 6           |
| Acquired – Relocation     | 3         | -         | -         | -         | 3           |
| Relocations               | 4         | 1         | 3         | 6         | 14          |
| Total Stores Opened       | 15        | 6         | 7         | 16        | 44          |
| Expansions                | 8         | 4         | 7         | 7         | 26          |
| Total Store Projects      | 23        | 10        | 14        | 23        | 70          |
| Operational Closures      | <20>      | <3>       | <3>       | <6>       | <32>        |
| Ending # Stores           | 2,474     | 2,476     | 2,477     | 2,481     | 2,481       |
| Remodels                  | 36        | 51        | 55        | 38        | 180         |
| Square Footage (millions) | 144.7     | 145.1     | 145.6     | 146.5     |             |
| % Increase                | 1.9%      | 0.8%      | 1.0%      | 1.3%      |             |
| Convenience Stores        | 778       | 779       | 778       | 771       |             |
| Jewelry Stores            | 392       | 393       | 392       | 385       |             |
| Fuel Centers              | 723       | 737       | 750       | 781       |             |
| Pharmacies                | 1,961     | 1,967     | 1,966     | 1,972     |             |

## DEBT OBLIGATIONS

### DEBT RATING

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Kroger's debt rating remains important to us as we execute our Customer 1<sup>st</sup> strategy. Management believes maintaining a solid investment grade rating provides the best cost of capital and the flexibility to execute our growth strategy in a competitive and consolidating industry.

Our current debt ratings are as follows:

|                         |                         |                           |
|-------------------------|-------------------------|---------------------------|
| Fitch                   | Moody's                 | S&P                       |
| BBB                     | Baa2                    | BBB –                     |
| <i>(stable outlook)</i> | <i>(stable outlook)</i> | <i>(positive outlook)</i> |

### FINANCIAL GOALS & STRATEGY

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1. Increase shareholder value.
2. Earn a return on assets that exceeds our cost of capital.
3. Maintain a strong capital program.
4. Smooth debt maturities.
5. Allocate cash flow to keep our store base current, reduce Kroger's leverage, and provide a solid return for shareholders.

### DEBT ISSUES

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At year-end 2008, Kroger had one credit facility:

- \$2.5 Billion Five-Year Credit Agreement maturing in 2011, unless earlier terminated by Kroger.

As of January 31, 2009, the Company had no borrowings under its credit agreement and borrowings totaling \$90 million under its P2/F2/A3 rated commercial paper program. Any borrowings under this program are backed by the Company's credit facility and reduce the amount available under the credit facility. In addition, the Company had borrowings under its money market lines totaling \$39 million.

| <b>DEBT ISSUES<br/>(Year-End 2008)</b>         | <b>MATURITY<br/>DATE</b> | <b>PRINCIPAL<br/>(\$ millions)</b> |
|--|--------------------------|------------------------------------|
| <b>Credit Facility</b>                         |                          | <b>\$129</b>                       |
| 7.25% Senior Notes (A)                         | 06/01/09                 | 350                                |
| 8.05% Senior Notes                             | 02/01/10                 | 500                                |
| 6.80% Senior Notes                             | 04/01/11                 | 478                                |
| 6.75% Senior Notes                             | 04/15/12                 | 500                                |
| 6.20% Senior Notes                             | 06/15/12                 | 350                                |
| 5.50% Senior Notes                             | 02/01/13                 | 500                                |
| 5.00% Senior Notes                             | 04/15/13                 | 400                                |
| 7.50% Senior Notes                             | 01/15/14                 | 599                                |
| 4.95% Senior Notes                             | 01/15/15                 | 300                                |
| 6.40% Senior Notes                             | 08/15/17                 | 602                                |
| 7.00% Senior Notes                             | 05/01/18                 | 200                                |
| 9.20% Certificates – Smith’s                   | 07/02/18                 | 15                                 |
| 6.80% Senior Notes                             | 12/15/18                 | 300                                |
| 6.15% Senior Notes                             | 01/15/20                 | 748                                |
| 7.70% Senior Notes                             | 06/01/29                 | 281                                |
| 8.00% Senior Notes                             | 09/15/29                 | 250                                |
| 7.50% Senior Notes                             | 04/01/31                 | 440                                |
| 6.90% Senior Notes                             | 04/15/38                 | 373                                |
| <b>Subtotal Senior Notes &amp; Debentures</b>  |                          | <b>\$7,186</b>                     |
| <b>Mortgages</b>                               | Through 2034             | <b>\$119</b>                       |
| <b>Other</b>                                   |                          | <b>\$163</b>                       |
| <b>Total Debt</b>                              |                          | <b>\$7,597</b>                     |
| <b>Capital Leases</b>                          |                          | <b>\$421</b>                       |
| <b>Total Debt Including Capital Leases (B)</b> |                          | <b>\$8,018</b>                     |

(A) These notes were repaid during Second Quarter 2009.

(B) Before SFAS No. 133 Adjustment.

## FREE CASH FLOW

Kroger's strong earnings results in 2008 would not be possible without our prudent and balanced long-term financial strategy. We believe it is important to allocate free cash flow to maximize its benefit for our equity and fixed income investors. In 2008, to preserve liquidity and financial flexibility, we reduced the amount of stock repurchased during the year, decreasing the cash used for stock purchases in 2008 compared to 2007.

We have focused on improving our leverage metrics. On a rolling four-quarters basis, Kroger's net total debt to EBITDA ratio was 1.89 for fiscal 2008 compared to 2.03 during the corresponding period for fiscal 2007. We ended fiscal 2008 with \$7.7 billion in net total debt, a decrease of \$24.1 million from a year earlier.

*Note:* Management believes net total debt is an important measure of liquidity, and a primary component of measuring compliance with the financial covenants under the Company's credit facility. Net total debt should not be considered an alternative to any GAAP measure of performance or liquidity and should be reviewed in conjunction with Kroger's financial results reported in accordance with GAAP. The following table provides a reconciliation of total debt to net total debt for year-end 2008 and 2007.

| <i>\$ millions</i>         | YE 2008   | YE 2007   |
|----------------------------|-----------|-----------|
| Total debt                 | \$8,062.5 | \$8,121.6 |
| Temporary cash investments | <46.6>    | <81.7>    |
| Prepaid employee benefits  | <300.0>   | <300.0>   |
| Net total debt             | \$7,715.9 | \$7,739.9 |

Our bias towards strengthening our leverage metrics remains. We believe this approach supports an appropriate level of liquidity and leverages Kroger's financial strength to continue delivering on our Customer 1<sup>st</sup> plan.

## SHARE REPURCHASE

### Board Repurchase Authorizations

We maintain stock repurchase programs that comply with Securities Exchange Act Rule 10b5-1 to allow for the orderly repurchase of our common stock, from time to time, even though we may be aware of material non-public information, as long as purchases are made in accordance with the plan. We made open market purchases totaling \$448 million, \$1.2 billion, and \$374 million under Board-authorized repurchase programs during fiscal 2008, 2007, and 2006, respectively. At the end of fiscal 2008, approximately \$493 million remained under the \$1 billion share repurchase program authorized by our Board in January 2008.

## Stock Option Program

In addition to the Board-authorized repurchase programs, in December 1999, Kroger initiated a program to repurchase common stock to reduce dilution resulting from our employee stock option plans. This program is solely funded by proceeds from stock option exercises, including the tax benefit from these exercises. We repurchased approximately \$189 million, \$270 million, and \$259 million under the stock option program during 2008, 2007, and 2006, respectively.

| \$ millions                    | FY 2006      | FY 2007        | FY 2008      |
|--------------------------------|--------------|----------------|--------------|
| Stock Option Program           | \$259        | \$270          | \$189        |
| Board Repurchase Authorization | \$374        | \$1,151        | \$448        |
| <b>TOTAL COST</b>              | <b>\$633</b> | <b>\$1,421</b> | <b>\$637</b> |

| Fiscal Year  | # Shares           | Cost                   | Avg Cost Per Share |
|--------------|--------------------|------------------------|--------------------|
| 2006         | 29 million         | \$633 million          | \$22               |
| 2007         | 53 million         | \$1,421 million        | \$27               |
| 2008         | 24 million         | \$637 million          | \$26               |
| <b>TOTAL</b> | <b>106 million</b> | <b>\$2,691 million</b> | <b>\$25</b>        |

## DIVIDENDS

During 2006, Kroger's Board of Directors adopted a dividend policy and paid three quarterly dividends of \$0.065 per share. During 2007, the Company paid one quarterly dividend of \$0.065 per share and three quarterly dividends of \$0.075 per share. During 2008, the Company paid one quarterly dividend of \$0.075 per share and three quarterly dividends of \$0.09 per share. Kroger paid a total of \$227 million, \$202 million, and \$140 million in cash dividends during 2008, 2007, and 2006, respectively.

Kroger's Board of Directors reviews the dividend annually, with an objective of increasing the amount of the dividend over time. Any changes in the dividend amount are made after consideration of the needs of the business, the interests of shareholders, cash flow trends, and other factors.

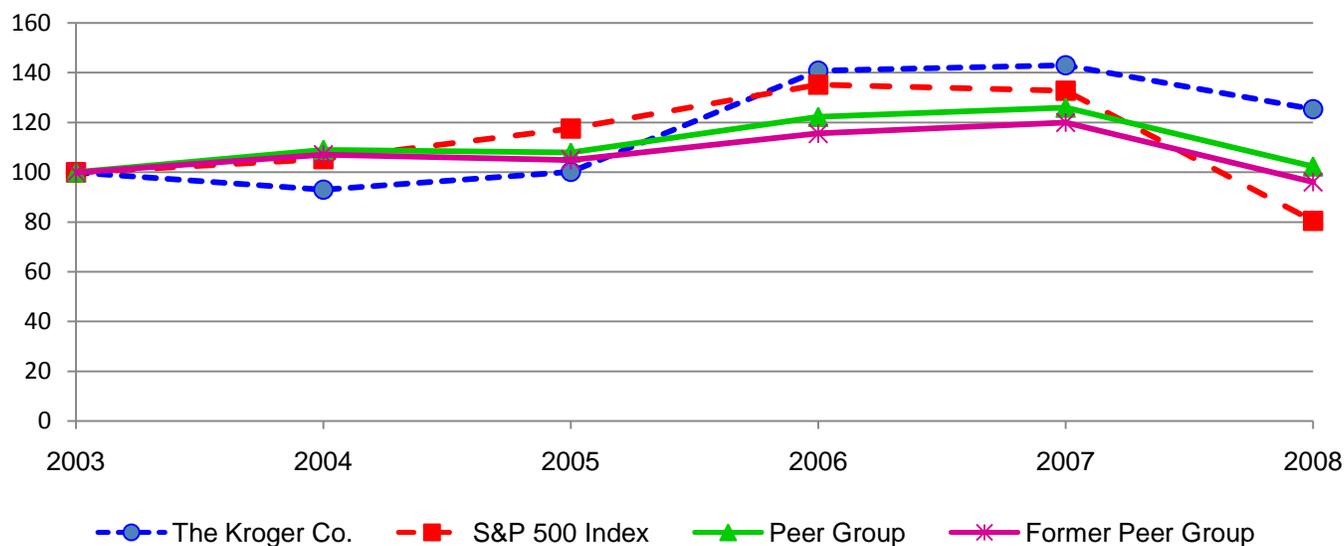


## PERFORMANCE GRAPH

Set forth below is a line graph comparing the five-year cumulative total shareholder return on the Company's common stock, based on the market price of the common stock and assuming reinvestment of dividends, with the cumulative total return of companies in the Standard & Poor's 500 Stock Index, a peer group composed of food and drug companies, and a former peer group.

Historically, the Company's peer group has consisted of the major food store companies. In recent years, there have been significant changes in the industry, including consolidation and increased competition from supercenters, drug chains, and discount stores. As a result, several years ago we changed our peer group (the "Former Peer Group") to include companies operating supermarkets, supercenters and warehouse clubs in the United States as well as the major drug chains with which Kroger competes. This year we changed our peer group (the "Peer Group") once again to add Tesco plc, as it has become a significant competitor in the U.S. market.

**COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN\***  
Among The Kroger Co., the S&P 500, Peer Group\*\*, and Former Peer Group\*\*\*



|                      | BASE PERIOD<br>2003 | INDEXED RETURNS |        |        |        |        |
|----------------------|---------------------|-----------------|--------|--------|--------|--------|
|                      |                     | Years Ending:   |        |        |        |        |
|                      |                     | 2004            | 2005   | 2006   | 2007   | 2008   |
| THE KROGER CO.       | 100                 | 93.04           | 100.22 | 140.78 | 143.01 | 125.42 |
| S&P 500 INDEX        | 100                 | 105.34          | 117.59 | 135.22 | 132.78 | 80.51  |
| PEER GROUP**         | 100                 | 108.99          | 107.87 | 122.24 | 125.95 | 102.29 |
| FORMER PEER GROUP*** | 100                 | 107.06          | 104.95 | 115.57 | 119.97 | 96.11  |

Note: The Company's fiscal year ends on the Saturday closest to January 31.

- \* Total assumes \$100 invested on February 1, 2004 in The Kroger Co., S&P 500 Index, the Peer Group, and the Former Peer Group with reinvestment of dividends.
- \*\* The Peer Group consists of Albertson's, Inc., Costco Wholesale Corp., CVS Corp, Delhaize Group SA (ADR), Great Atlantic & Pacific Tea Company, Inc., Koninklijke Ahold NV (ADR), Marsh Supermarkets Inc. (Class A), Safeway, Inc., Supervalu Inc., Target Corp., Tesco plc, Wal-Mart Stores Inc., Walgreen Co., Whole Foods Market Inc. and Winn-Dixie Stores, Inc. Albertson's, Inc. was substantially acquired by Supervalu in July 2006, and is included through 2005. Marsh Supermarkets was acquired by Marsh Supermarkets Holding Corp. in September 2006, and is included through 2005. Winn-Dixie emerged from bankruptcy in 2006 as a new issue and returns for the old and new issue were calculated then weighted to determine the 2006 return.
- \*\*\* The Former Peer Group consists of Albertson's, Inc., Costco Wholesale Corp., CVS Corp, Delhaize Group SA (ADR), Great Atlantic & Pacific Tea Company, Inc., Koninklijke Ahold NV (ADR), Marsh Supermarkets Inc. (Class A), Safeway, Inc., Supervalu Inc., Target Corp., Wal-Mart Stores Inc., Walgreen Co., Whole Foods Market Inc., and Winn-Dixie Stores, Inc. Albertson's, Inc. was substantially acquired by Supervalu in July 2006, and is included through 2005. Marsh Supermarkets was acquired by Marsh Supermarkets Holding Corp. in September 2006, and is included through 2005. Winn-Dixie emerged from bankruptcy in 2006 as a new issue and returns for the old and new issue were calculated then weighted to determine the 2006 return.

*Data supplied by Standard & Poor's.*



## FINANCIAL AND OPERATING STATISTICS

*(in millions, except per share amounts)*

|  | Q1         | Q2         | Q3         | Q4         | Year       |
|--|------------|------------|------------|------------|------------|
|  | (16 weeks) | (12 weeks) | (12 weeks) | (12 weeks) | (52 weeks) |

### Sales

|          |          |          |          |          |          |
|----------|----------|----------|----------|----------|----------|
| 2008     | \$23,107 | \$18,053 | \$17,580 | \$17,260 | \$76,000 |
| 2007     | \$20,726 | \$16,139 | \$16,135 | \$17,235 | \$70,235 |
| 2006 (A) | \$19,415 | \$15,138 | \$14,699 | \$16,859 | \$66,111 |

### Merchandise Costs (B)

|          |          |          |          |          |          |
|----------|----------|----------|----------|----------|----------|
| 2008     | \$17,852 | \$14,072 | \$13,552 | \$13,088 | \$58,564 |
| 2007     | \$15,834 | \$12,315 | \$12,402 | \$13,228 | \$53,779 |
| 2006 (A) | \$14,659 | \$11,598 | \$11,131 | \$12,727 | \$50,115 |

### Operating, General & Administrative

|          |         |         |         |         |          |
|----------|---------|---------|---------|---------|----------|
| 2008     | \$3,851 | \$2,956 | \$3,062 | \$3,015 | \$12,884 |
| 2007     | \$3,609 | \$2,827 | \$2,823 | \$2,896 | \$12,155 |
| 2006 (A) | \$3,528 | \$2,649 | \$2,685 | \$2,977 | \$11,839 |

### Rent

|          |       |       |       |       |       |
|----------|-------|-------|-------|-------|-------|
| 2008     | \$207 | \$151 | \$152 | \$149 | \$659 |
| 2007     | \$189 | \$149 | \$150 | \$156 | \$644 |
| 2006 (A) | \$196 | \$153 | \$139 | \$161 | \$649 |

### Depreciation & Amortization

|          |       |       |       |       |         |
|----------|-------|-------|-------|-------|---------|
| 2008     | \$432 | \$327 | \$335 | \$348 | \$1,442 |
| 2007     | \$404 | \$311 | \$315 | \$326 | \$1,356 |
| 2006 (A) | \$388 | \$290 | \$295 | \$299 | \$1,272 |

### Interest Expense

|          |       |       |       |       |       |
|----------|-------|-------|-------|-------|-------|
| 2008     | \$152 | \$112 | \$106 | \$115 | \$485 |
| 2007     | \$146 | \$104 | \$110 | \$114 | \$474 |
| 2006 (A) | \$155 | \$110 | \$107 | \$116 | \$488 |

### Earnings/(Loss) Before Income Tax Expense

|          |       |       |       |       |         |
|----------|-------|-------|-------|-------|---------|
| 2008     | \$613 | \$435 | \$373 | \$545 | \$1,966 |
| 2007     | \$544 | \$433 | \$335 | \$515 | \$1,827 |
| 2006 (A) | \$489 | \$338 | \$342 | \$579 | \$1,748 |

|  | <b>Q1</b>  | <b>Q2</b>  | <b>Q3</b>  | <b>Q4</b>  | <b>Year</b> |
|--|------------|------------|------------|------------|-------------|
|  | (16 weeks) | (12 weeks) | (12 weeks) | (12 weeks) | (52 weeks)  |

| <b>Income Tax Expense</b> |       |       |       |       |       |
|---------------------------|-------|-------|-------|-------|-------|
| 2008                      | \$227 | \$158 | \$136 | \$196 | \$717 |
| 2007                      | \$207 | \$166 | \$81  | \$192 | \$646 |
| 2006 (A)                  | \$183 | \$129 | \$127 | \$194 | \$633 |

| <b>Net Earnings/(Loss)</b> |       |       |       |       |         |
|----------------------------|-------|-------|-------|-------|---------|
| 2008                       | \$386 | \$277 | \$237 | \$349 | \$1,249 |
| 2007                       | \$337 | \$267 | \$254 | \$323 | \$1,181 |
| 2006 (A)                   | \$306 | \$209 | \$215 | \$385 | \$1,115 |

| <b>Net Earnings/(Loss) Per Diluted Common Share (C)</b> |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| 2008  | \$0.58 | \$0.42 | \$0.36 | \$0.53 | \$1.90 |
| 2007  | \$0.47 | \$0.38 | \$0.37 | \$0.48 | \$1.69 |
| 2006 (A)  | \$0.42 | \$0.29 | \$0.30 | \$0.54 | \$1.54 |

| <b>Average Number of Common Shares Used in Diluted Calculation</b> |     |     |     |     |     |
|--|-----|-----|-----|-----|-----|
| 2008   | 664 | 659 | 656 | 655 | 659 |
| 2007   | 715 | 709 | 685 | 676 | 698 |
| 2006 (A)   | 729 | 725 | 720 | 715 | 723 |

- (A) 2006 was a 53-week fiscal year. The Fourth Quarter contains the extra week.
- (B) Includes advertising, warehousing, and transportation.
- (C) Certain per share amounts may not sum accurately due to rounding.