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NEWS

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LEADING INVESTORS ANNOUCE PLANS TO WITHHOLD VOTE ON CEO, DIRECTORS OF SAFEWAY, INC.; CONCERNS INCLUDE FINANCIAL PERFORMANCE, BOARD INDEPENDENCE, CORPORATE GOVERNANCE

"Wall Street Briefing" Planned to Encourage Investors to Withhold Support

Citing pervasive conflicts of interest and dismal company performance, some of the nation's largest institutional investors announced today that they plan to withhold their votes from the CEO of Safeway Inc. and two other directors, and will be launching an effort to encourage other shareholders to join them.

The financial leaders said they would withhold support from Safeway CEO Steven Burd and Board members William Tauscher and Robert I. MacDonnell, the only Safeway board members that will be on the ballot at the company's May 20th annual meeting.

Making the announcement were Treasurer Denise Nappier for the Connecticut Retirement Plans and Trust Funds, State Comptroller Alan G. Hevesi for the New York State Common Retirement Fund, Comptroller William C. Thompson for the New York City Employees' Retirement System and Edward Smith, Chairman of the Illinois Board of Investment.

The funds said that they will lead a "Wall Street Briefing" for other institutional investors and leading money managers on April 5 in New York City to detail concerns about the Safeway board and the company's performance. The California Public Employees' Retirement System (CalPERS), the nation's largest public pension fund, will also be withholding votes from the three directors.

The decision to withhold votes comes after months of increasing concern and unsuccessful efforts by the leaders of the funds – joined by nearly a half-dozen other leading pension funds– to meet with Safeway's lone independent director, Rebecca Stirn, regarding the independence of the Board's outside directors and a process for nominating alternative candidates to the Board.

"The board's astonishing lack of responsiveness to serious issues raised by a growing coalition of shareholders is both disappointing and unsatisfactory. The track-record of Safeway's leadership, the drastic decline in shareholder value, the absence of adequate board independence and the reluctance to confront substantial concerns that continue to be raised by shareholders have only intensified our concern, and forms the basis of our decision to withhold our support," said Connecticut Treasurer Denise L. Nappier.

Safeway's share price over the past five years has declined by 60%, more than four times the decline in the S&P 500 index and more than twice as severe as the losses suffered by Walt Disney Co. shareholders during the same period. Institutional investors hold about 86% of Safeway's outstanding shares, while they hold only about 66% of Disney's shares.

Last December, and again last month, Treasurer Nappier formally requested a meeting with Stirn, joined by State Treasurers from Massachusetts, Oregon, Iowa, Washington and Maine, New York's State Comptroller, and finance and pension officials from California and Illinois.

"The decision to withhold our votes from all three directors on the proxy ballot this year is based on a deep concern about decisions made by these directors that have severely injured the company's performance and shareholder value. This is about failure to perform," said New York State Comptroller Alan G. Hevesi.

The officials noted that under Burd's leadership, Safeway invested billions of dollars on unsuccessful and costly stock buyouts, lost four of its top executives in little more than a year, and has pursued a confrontational labor strategy that has caused long-term damage to its relations with both customers and employees.

"Incredibly, eight of Safeway's nine directors have derived financial benefit from business relationships with Safeway," said Edward Smith, Chairman of the Illinois Board of Investment.

According to the fund officials, Safeway's board includes four directors affiliated with Kohlberg Kravis Roberts (KKR), a leverage buyout firm with a history of multi-million dollar related-party transactions with Safeway. Although KKR sold its remaining Safeway shares in 2000, KKR-affiliated directors continue to hold four out of nine Board seats at Safeway. MacDonnell is a retired KKR partner and beneficiary of related party transactions with Safeway. A fifth director, William Tauscher, has personally engaged in a series of related-party transactions with Safeway. Tauscher is chair of the Board's Compensation Committee, and sits on all of the key Board committees.

"This withhold campaign is a critical first step toward restoring strength to Safeway and value to its shareholders," said New York City Comptroller William C. Thompson.

CalPERS owns 2.7 million shares of Safeway, New York State 2.4 million shares, New York City 1.6 million shares, Illinois 156,000 shares and Connecticut 117,000 shares – totaling in excess of 7 million shares.