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Safeway Shareholders Discuss Corporate Governance Issues

Citing the company's dismal performance and pervasive conflicts on the Board, some of the nation's largest institutional investors today urged Safeway Inc. shareholders to withhold their votes from the CEO and two other directors during a presentation in New York leading up to the company's May 20th annual meeting.

Fund managers representing about 55 percent of Safeway stockholders participated in a "Wall Street Briefing" during which financial leaders outlined their reasons for withholding 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 annual meeting.

Making the presentation were New York State Comptroller, Alan Hevesi, sole trustee of the New York State Common Retirement Fund, Treasurer Denise Nappier, principal fiduciary of the Connecticut Retirement Plans and Trust Funds, William C. Thompson for the New York City Employees' Retirement System and William Atwood, Chief Executive of the Illinois Board of Investment.

The withholding campaign follows months of unsuccessful efforts by the leaders of the funds to meet with Rebecca Stirn, Safeway's lone independent director and chair of the Board's nominating committee, regarding the independence of the Board's outside directors and a process for nominating alternative candidates to the board.

Fund officials said Safeway shares have declined by 60 percent over the past five years, 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 percent of Safeway's outstanding shares, compared with 66 percent of Disney's shares.

Officials noted that under Burd's leadership, Safeway invested billions of dollars in unsuccessful acquisitions and costly stock buybacks, 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.
On March 25, 2004, institutional investors held a press conference in Washington D.C. announcing plans to withhold votes from the three managers because of poor performance and allegations of conflicts of interest. Safeway then issued its own statement saying that Safeway has provided an excellent return for shareholders and that pension fund officials are being urged on by unions in the wake of a labor dispute and by political motives.

"This is not about politics. This is about performance. It is the millions of people who depend on the pension funds for their retirement who are being hurt by Mr. Burd's ineffective leadership and the Board's lack of independence," said New York State Comptroller Alan Hevesi. "To say that unions

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and political interests are behind this campaign is ludicrous. We're capitalists. We are measured by our performance. The shareholders have lost billions of dollars because of poor management. We want to see new leadership that can not only help Safeway recover, but move the company forward."

"Just eleven days ago, shareholders with holdings of about 2 percent of Safeway's outstanding stock came forward. Today, we have brought together investors with nearly 55 percent of Safeway's shares, to begin their own due diligence before deciding how to cast their own proxy votes," said Connecticut Treasurer Denise L. Nappier. "By virtually any measure, this company has stalled. The numbers and the facts tell the story, and what they say is quite compelling. 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 investor concerns form the basis of our decision to withhold support."

"A critical component required to insure investor confidence in any corporation is the faith and knowledge that a committed board of directors is in place to act as fiduciaries for investors and to hold management accountable," Atwood said. "This simply is not the case at Safeway. The company needs, and we as its owners demand, that the board be reconstituted so that, first and foremost, it will place the interests of shareholders ahead of those of management, and secondly, that it can be relied upon to objectively, constructively and aggressively evaluate the performance of management".

"The 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, Jr., who serves as a trustee and advisor to the City's five pension funds. "It sends a clear message to Safeway's board that it will be held accountable for the company's abysmal performance."

In Oregon last week, State Treasurer Randall Edwards led the Oregon Investment Council in adopting the proxy voting guidelines of Proxy Voter Services (PVS), which has indicated its intent to withhold votes from Burd, Tauscher and MacDonnell. The Council oversees the $44 billion Oregon Public Employees Retirement Fund.

Fund officials also noted that 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.

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; Connecticut, 117,000 shares; and Oregon, 566,000 shares.

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