



investing in our **environment**



2006 SUMMARY REPORT
environmental initiatives



**Safeway is the country's
fourth largest purchaser
of renewable energy.**

We use wind energy to power all our fuel stations in the United States, our headquarters complexes in Northern California, and all of our stores in San Francisco, California and Boulder, Colorado.

In addition to being a leading user of renewable energy, we are converting our truck fleet to operate with cleaner burning biodiesel, utilizing new technologies for lighting and refrigeration that conserve and reduce energy, and recycling nearly 500,000 tons of materials annually.

We have made environmental protection for current and future generations of Americans a top priority.

Environmental protection: everyone's business

The global consciousness about environmental responsibility continues to awaken. Measures taken by millions of individuals around the world are being adopted on a larger scale by collective entities, including corporations. While the concept of environmental friendliness may seem at odds with maximizing profits, business practices can be modified in numerous ways that benefit both the environment and the bottom line.

Safeway has been at the forefront of this consciousness for decades. While we believe in corporate responsibility, we also believe that environmentally friendly business is smart business. Increasingly, consumers are demanding environmental accountability from suppliers of the goods and services they buy. As we continue to respond to this growing trend, we are branding ourselves as a practitioner of good corporate citizenship while helping sustain the finite resources of the planet we all share.

As evidenced by this year's progress report, Safeway takes its allegiance to environmental stewardship seriously.



Our commitment to the environment

ENVIRONMENTAL POLICY

Safeway maintains the following corporate environmental policy:

We recognize that the air, water, soil and vegetation in our communities are vital resources and must be kept as free as possible from negative impacts. To assure that we do our part to protect against harmful environmental impacts, it is Safeway policy to:

- 1) Conduct our business and operate our facilities in an environmentally responsible manner
- 2) Comply with all applicable environmental laws and regulations

- 3) Minimize waste and reduce pollution sources in our stores and manufacturing and distribution facilities
- 4) Minimize our environmental liabilities in the acquisition and disposition of properties
- 5) Assist our customers in utilizing sound environmental practices

We believe every Safeway employee has a responsibility to minimize the environmental impact of his or her job whenever possible. This includes following all laws, regulations, rules and standards, and making appropriate reports to management and regulatory agencies. We also encourage employees to develop ways to improve environmental performance.



Being responsible in every detail



ENVIRONMENTAL ASSESSMENT

At Safeway, we know that every building we occupy – whether it's a store, distribution center or supply plant – will have an impact on the land beneath it. That's why environmental assessments are performed for every real estate purchase, sale or lease that may result in an adverse effect on the environment.

A Phase I assessment looks at current and historical records and other information to determine if there are potential environmental impacts associated with

the property. A Phase II assessment, which involves on-site sampling of soil, groundwater and/or other media, is conducted at sites where further assessment beyond Phase I is necessary. A Phase II assessment is conducted at every proposed Safeway fuel station site to establish baseline conditions. In cases where soil or groundwater impacts are identified, corrective measures are taken to assure that there is no potential harm to human health or the environment.

Promoting our environmental principles

EDUCATION & TRAINING

Safeway provides several training programs for employees in the environmental arena. These include environmental modules in our New Employee Orientation, Retail Leadership Development and Safety Champions programs. There are also specific programs for Clean Water Compliance training on source reduction, recycling and environmental compliance. In addition, our Environmental Affairs Department maintains a web site on our

intranet that features numerous resource materials for our employees' access.

Through public service announcements and other communication vehicles, we also go to great lengths to educate our customers about energy management and about Safeway's participation in numerous state and federal programs aimed at reducing energy use in our stores and support facilities.

Through our comprehensive recycling program,

**Safeway recycles
nearly 500,000 tons**

of materials each year. That's equivalent
to saving 8.5 million trees.



Helping manage and reduce waste

RECYCLING PROGRAMS

Safeway facilities participate in a number of recycling programs.

These include recycling of:

- Paper (including customer re-use of bags)
- Plastics (plastic bags dropped off by customers, plastic film, miscellaneous plastic)
- Corrugated cardboard
- Compostable material
- Miscellaneous materials

Each of these programs – carried out at stores and distribution centers – diverts solid waste away from landfills and into material re-use or recycling. This reduces the cost of waste hauling and disposal. It also helps cities and counties reach mandated

reductions in solid waste disposal to landfills. In California, for instance, each of Safeway's stores diverts over 85% of its total solid waste from landfill disposal—well above the state-mandated goal of 50%.

In recognition of our recycling and source reduction efforts at our stores and distribution centers in California, Safeway once again received WRAP (Waste Reduction Award Program) awards in 2006 from the California Integrated Waste Management Board (CIWMB). In addition, the CIWMB awarded Safeway the prestigious WRAP of the Year award in 2005, honoring our commitment to environmental conservation.

The programs described below diverted a total of 497,636 tons of recyclable materials in 2006.

The totals for each program are as follows:

Corrugated Cardboard Recycling: 316,041 tons

Nearly all cardboard is collected and baled for sale to cardboard brokers for recycling into other fiber products.

Plastics Recycling: 8,920 tons

Customers have been able to return plastic bags to bins at Safeway stores for years. Bags and other plastics (e.g., trays and pallet wrap) are collected and baled for sale to recyclers for use in mixed plastic products such as parking lot bumpers and plastic lumber products. This total does not include beverage bottles returned for deposit under state recycling programs.

Composting: 87,949 tons

Participating stores collect compostable materials (e.g., produce trimmings, unsalable produce and bakery products, waxed boxes, etc.) that we send to a composting site, where they are turned into soil amendment products.

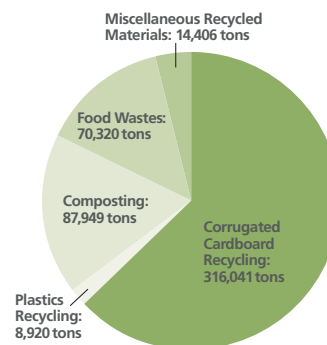
Food Wastes: 70,320 tons

This includes food production wastes at our supply plants, such as bread, dairy

products and cooking oil, and fat and bone from our store meat departments. These materials are recycled into a number of products such as animal feed, supplements and biodiesel fuel.

Miscellaneous Recycled Materials: 14,406 tons

Miscellaneous materials include aluminum and other metals, paper, wood, batteries, oil and refrigerant. This also includes paper bag re-use by customers.




Total Recycled: 497,636 tons

What does 497,636 tons of recycled materials look like? If it were as dense as soil, it would be 385,000 cubic yards – enough soil to cover an area the size of a football field piled over 190 feet high.



Using renewable and sustainable energy

ENERGY, BUILDING AND MAINTENANCE

 Since Safeway is one of the largest retail consumers of energy, we have chosen to be a leader in renewable and socially responsible energy procurement and use. We have committed to reducing greenhouse gas (GHG) emissions and continue to search for ways to lessen our dependence on traditional fossil fuels. We have made it our policy to apply green and sustainable development concepts in the planning, design, construction, environmental management, operation, maintenance and disposal of buildings and

infrastructure projects. In addition, we have proactively implemented programs to reduce energy consumption through energy-efficient building design and conservation projects throughout our retail and manufacturing facilities. In 2006, we developed a greenhouse gas initiative that includes partnerships with a number of state and federal entities, including the Environmental Protection Agency (EPA), the Chicago Climate Exchange and the California Climate Action Registry.

Here are just some of our innovative steps and achievements:

- We implemented a program to reduce GHG emissions by 6% below year-2000 levels by 2010 – equivalent to 390,000 tons of carbon dioxide.
- We became the only retail organization to join both the Chicago Climate Exchange – the world’s first and North America’s only voluntary, legally binding GHG gas emissions reduction, registry and trading program – and the California Climate Action Registry, that state’s only official registry for greenhouse gas emissions reduction projects.
- In 2006, we purchased 87 million kilowatt-hours (kWh) of wind energy, enough to power all 291 of our U.S. fuel stations, as well as all company offices in Northern California (including headquarters) and all our San Francisco, California and Boulder, Colorado stores. This made Safeway the fourth largest retail user of renewable energy in the country. Based on EPA estimates, that amount of renewable energy cuts carbon dioxide emissions into the atmosphere by some 121 million pounds – the equivalent of 45,500 acres of pine or fir forests storing carbon for one year.
- Safeway was presented the EPA Green Power Purchaser of the Year award in 2005 and continues to be a participant in the Green Power Partner program.
- Additionally, we have achieved energy savings in our stores through innovative programs such as our “Power to Save” initiative, which saves 18.5 million kWh annually. Other savings stem from lighting retrofits, energy management controls and refrigeration upgrades. In all, we are saving more than 98 million kWh of electricity annually, significantly reducing our power bills while cutting carbon dioxide emissions by almost 100 million pounds.
- We systematically review energy and resources use and waste generation in our manufacturing plants and distribution centers. In conjunction with this review, we have developed and are in the process of implementing several energy management strategies, technical surveys and conservation programs. Outcomes include more efficient lighting, refrigeration, mechanical and electrical systems; better energy conservation practices, including enhanced employee awareness; improved waste-water neutralization and control; and new roofing technologies. We also anticipate higher recycling volume in our plants and distribution centers as a result of these efforts.
- In addition, we completed numerous packaging initiatives and redesign projects to reduce material waste and improve sustainability for our private label products.





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than 98 million kWh**
of electricity annually.

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Protecting the ozone layer

OZONE-DEPLETING REFRIGERANTS

In recent years, more research about the detrimental effects of ozone-depleting refrigerants has come to light. That's why Safeway has been replacing Class I refrigerants (the most ozone-depleting) in its existing stores; new stores have been mandated to use non-ozone-depleting refrigerants exclusively.

Furthermore, at our distribution centers and many of our manufacturing plants with large-scale refrigeration systems, we use ammonia as a refrigerant. Ammonia does not contribute to ozone depletion or global warming.

Maximizing fuel efficiency

ENERGY-EFFICIENT TRANSPORTATION

In 2006 Safeway joined the SmartWay Transport Partnership, a voluntary public-private alliance launched by the EPA and the freight industry. SmartWay Transport Partners commit to adopt fuel-saving air-pollution-control strategies that reduce fuel costs and significantly decrease GHG emissions and other pollutants.

Using SmartWay's Freight Logistics Environmental and Energy Tracking (FLEET) performance model, last year Safeway established baseline fuel efficiency for its 900-plus unit truck fleet. We also completed an action plan to further improve fuel efficiency and reduce emissions over the next three years.



Results from the FLEET performance model show that, each year, our current initiatives and technologies are saving over 6.5 million gallons of diesel fuel and preventing 73,000 tons of carbon dioxide emissions. At last year's national average diesel cost of \$2.705 per gallon, our fleet efficiency efforts saved more than \$17.8 million in 2006.



Implementing environmentally safe measures

UNDERGROUND STORAGE TANKS

Under federal EPA regulations, all underground storage tanks (USTs) that contain petroleum were required to meet new standards for corrosion protection, overfill prevention and overspill prevention by year-end 1998. These were in addition to existing requirements for tank and piping leak detection capabilities. New underground tank systems in California have come under several phases of even stricter regulations for containment and monitoring.

All Safeway tanks that are subject to the federal upgrade standards have been approved by the appropriate authorities to

receive fuel deliveries. Our new tank systems exceed most state and federal standards, meeting many of the strict California requirements even for locations outside of that state.

In 2006, 57 USTs were added as new Safeway retail fuel centers were built and put into service. Each UST system meets standard Safeway specifications for design, installation and monitoring. The tank and piping systems are all double-walled and equipped with leak detectors and sensors, and an independent third-party contractor continuously monitors the leak detection systems.

PROCESS SAFETY MANAGEMENT AND RISK MANAGEMENT PLANS


Facilities with systems containing ammonia in amounts greater than 10,000 pounds are subject to the federal OSHA Process Safety Management (PSM) rule and the EPA's Risk Management Plan (RMP) rule. As of the end of 2006, 16 Safeway facilities in the United States are subject to PSM and RMP rules, including two facilities in California that are subject to a stricter version of the regulations.

PSM/RMP plans have been completed for all regulated facilities. A program to audit and update the PSM/RMP programs was begun in 1999 and was ongoing in 2006. As part of this program, PSM/RMP programs were updated and/or rewritten as necessary.

Seven facilities in Canada are subject to the Environmental Emergency ("E2") regulations. These facilities are registered with Environment Canada and have developed emergency response plans as required.



Looking forward to a cleaner, healthier and more sustainable environment

 The accomplishments listed on the preceding pages are not just things we've done. They are the result of practices we are continuously refining. In future progress reports, we look forward not only to providing even more impressive facts and figures, but also to highlighting environmentally harmonious innovations in other aspects of the grocery business that relate to both profitability and sustainability.



