



SAFEWAY INC.

Institutional Shareholder Services

April 2004



Safe Harbor Language

This presentation may contain forward-looking statements. Such statements may relate to topics such as sales, gross margins, earnings growth, operating improvements, cost reduction, capital spending, acquisitions and dispositions, debt reduction, labor relations and other related subjects.

These statements are based on Safeway's current plans and expectations and are subject to risks and uncertainties that could cause actual events and results to vary significantly from those implied by such statements. We ask you to refer to Safeway's reports and filings with the SEC for a further discussion of these risks and uncertainties, including those set out under "forward-looking statements" in Safeway's annual report to stockholders included in Safeway's most recent form 10-K and subsequent quarterly reports on form 10-Q.

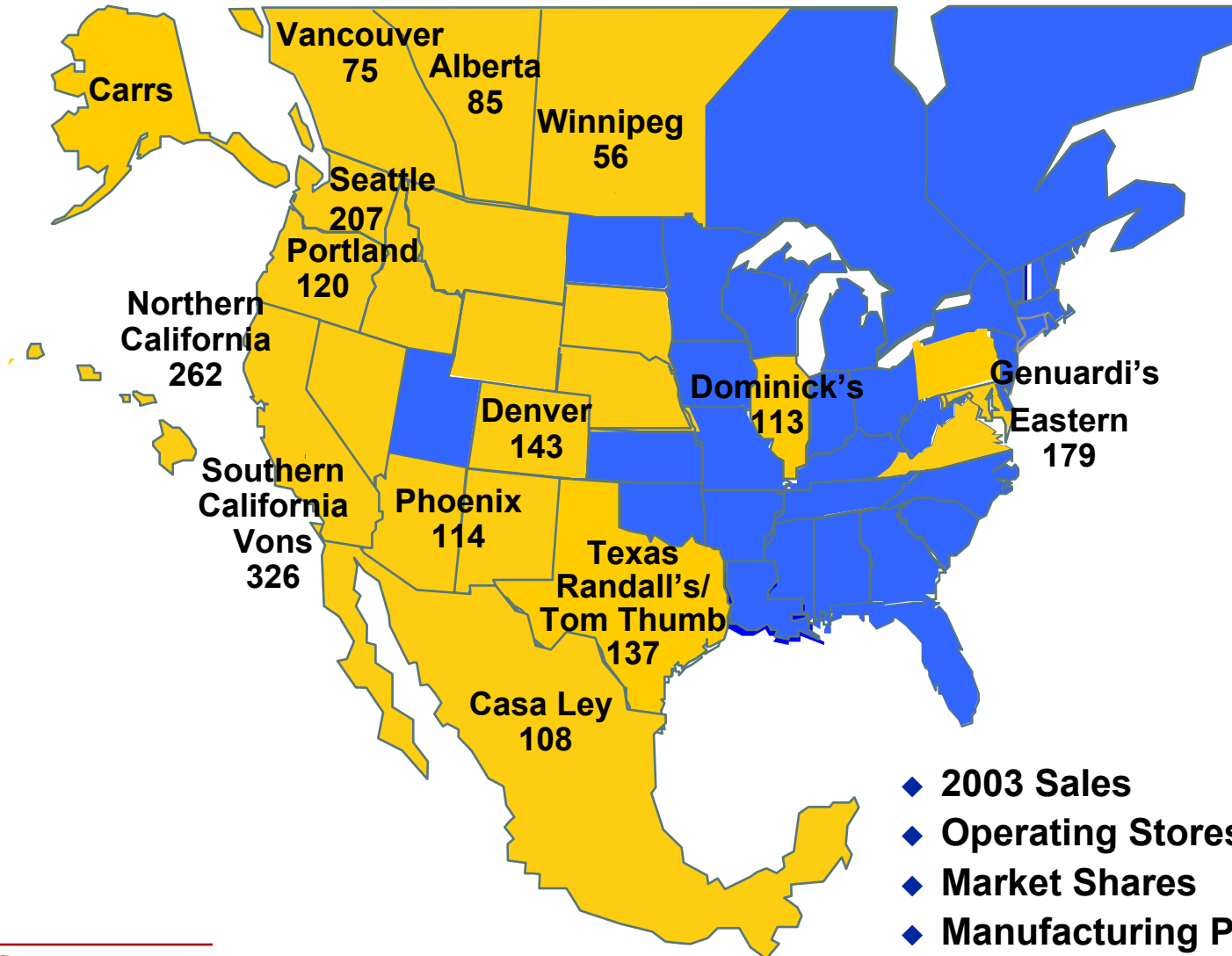


Attendees

- | | |
|---------------------|---|
| ■ Paul Hazen | Independent Director |
| ■ Steve Burd | Chairman, President And CEO |
| ■ Robert Edwards | EVP And Chief Financial Officer |
| ■ Larree Renda | EVP - Retail Ops, HR, Public Affairs,
Labor And Government Relations |
| ■ Robert Gordon | SVP And General Counsel |
| ■ Alan Miller | Innisfree M&A |
| ■ Jennifer Shotwell | Innisfree M&A |
| ■ Peter Comisar | Goldman Sachs |



Safeway Inc.



- ◆ 2003 Sales **\$35.6 Billion**
- ◆ Operating Stores **1,817**
- ◆ Market Shares **#1 And #2**
- ◆ Manufacturing Plants **34**



Agenda

- **Committed To Creating Superior Shareholder Returns**
- **Focused On Executing A Strategy To Address The Changing Competitive Environment**
- **Committed To Excellent Corporate Governance**



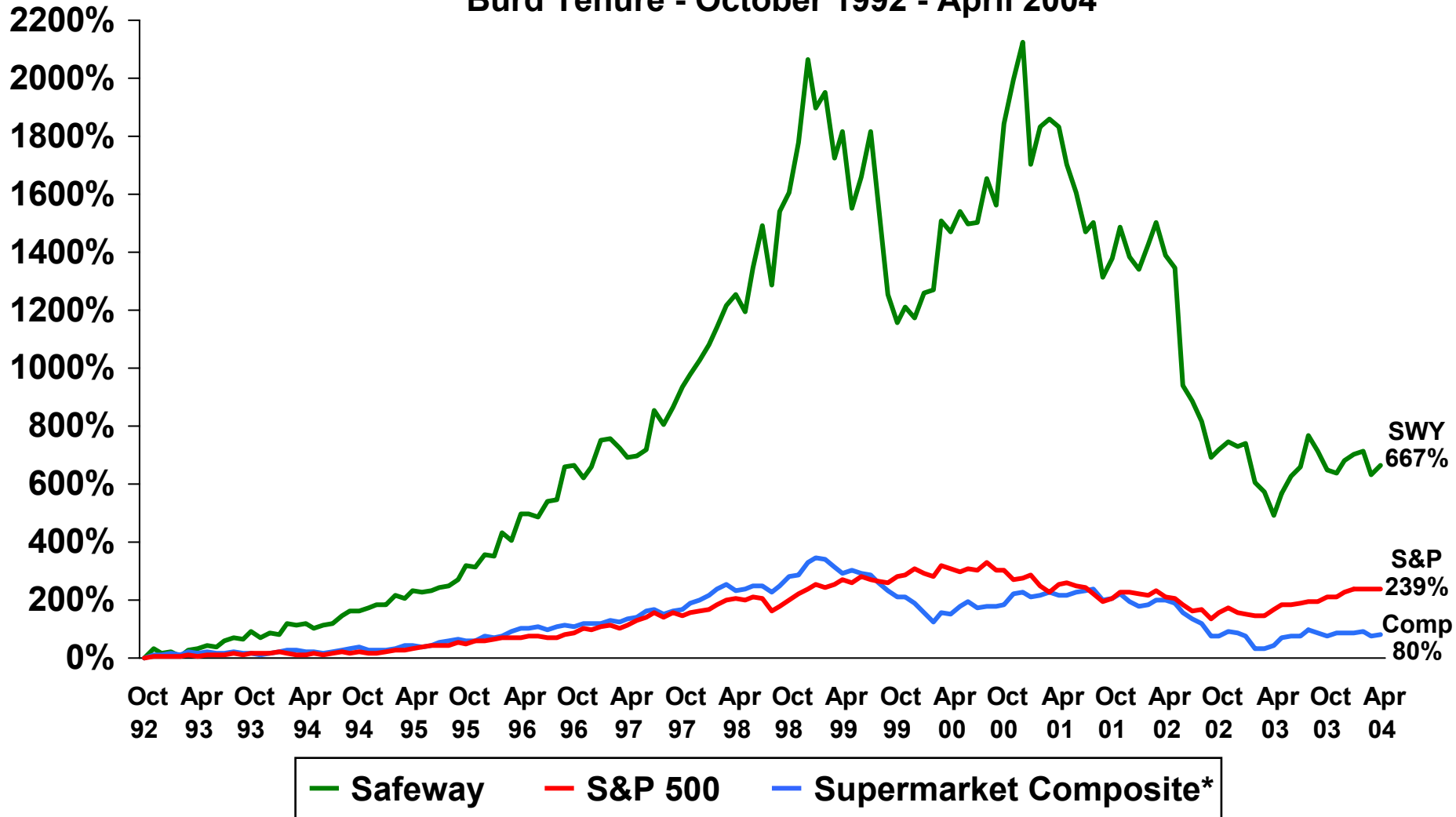
Creating Superior Shareholder Returns

- **Long-Term Returns To Shareholders Have Been Superior To The Market And Our Peer Group**
- **Recent Share Price Performance Is In-Line With Our Peer Group**
- **Safeway Continues To Operate With Industry-Leading Margins And Returns To Shareholders**



Share Price Performance

Burd Tenure - October 1992 - April 2004

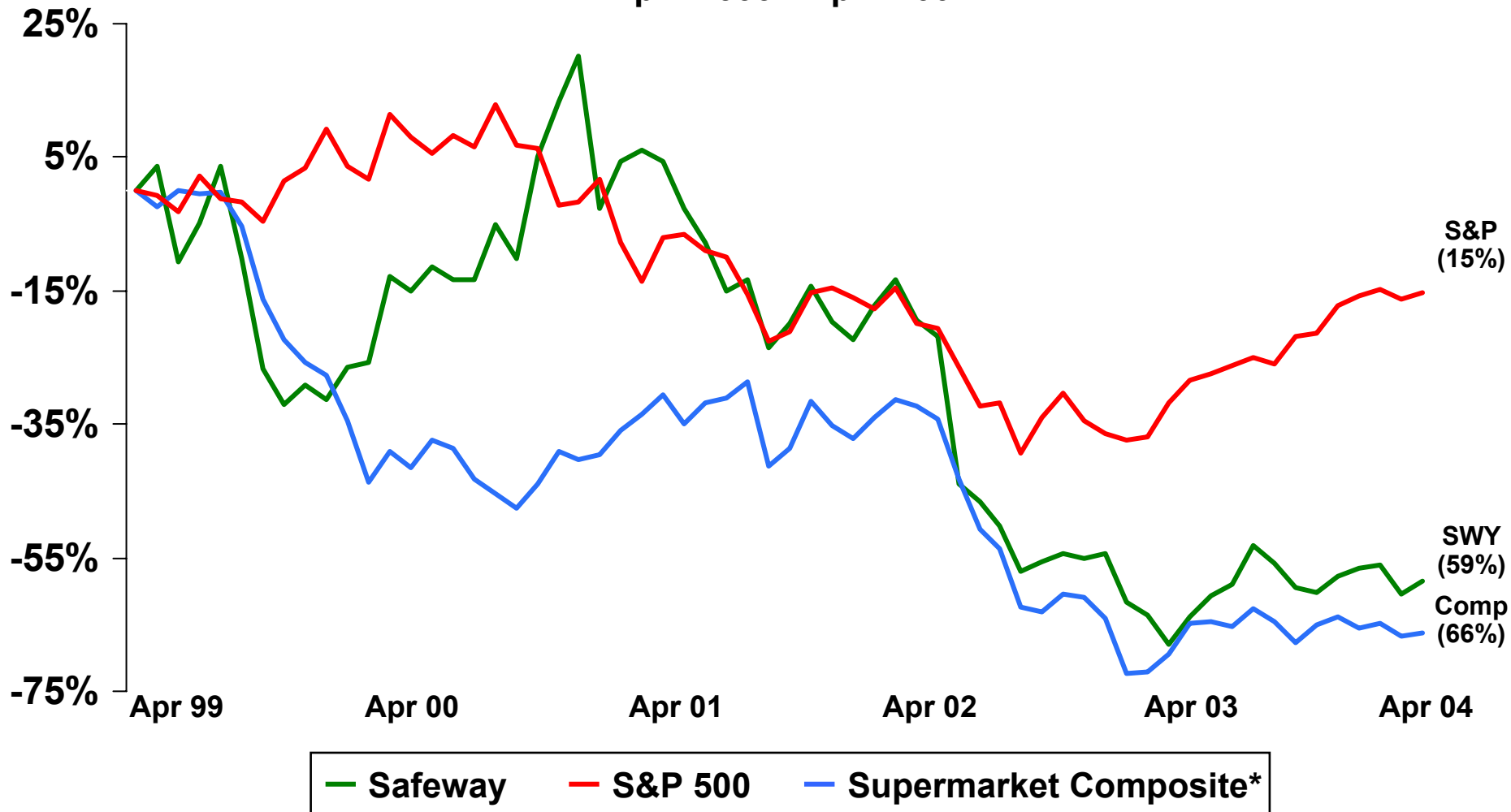


*Supermarket Composite Consists Of Albertsons, Kroger, A&P, Ahold And Winn-Dixie



Recent Share Price Performance

April 1999 - April 2004



*Supermarket Composite Consists Of Albertsons, Kroger, A&P, Ahold And Winn-Dixie



Drivers Of Share Price Decline

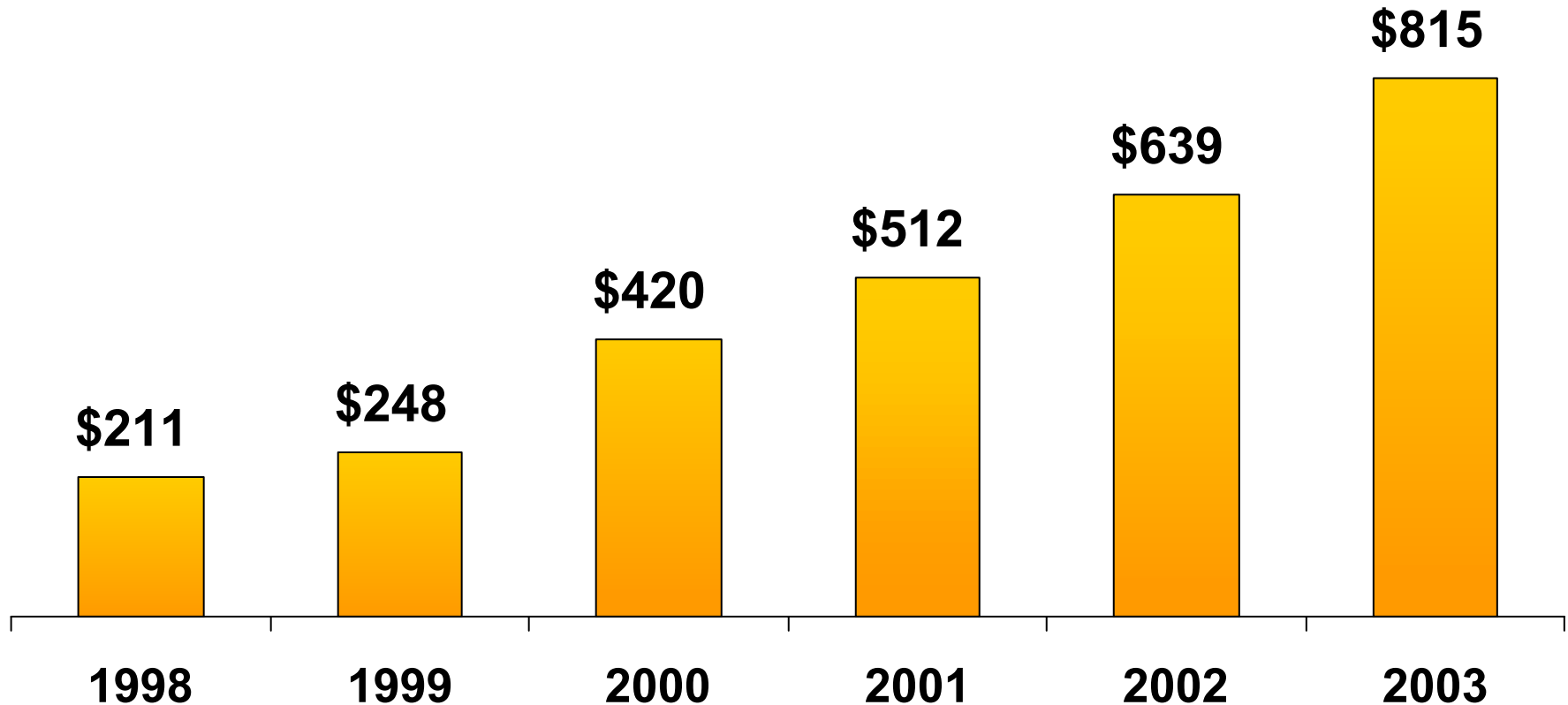
- **Price/Earnings Multiple Decline**
 - **A Marketplace Concern That Wal-Mart Will Dominate Food Retailing At The Expense Of Conventional Supermarkets**
 - **Slow Down In Industry Consolidation**

- **Softer Earnings Resulting From:**
 - **Weaker Sales/Economy**
 - **Escalating Employee Costs**



Strong Cash Generation

Free Cash Flow*



***Net Cash Flow From Operating Activities Less Net Cash Flow Used By Investing Activities
Excluding Cash Paid For Acquisitions**



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Executing A Clear Strategy

- **Positioning For Long-Term Competitiveness**
- **Creating A Superior Retail Offering**
- **Securing A Long-Term Future For Our Employees, Customers And Shareholders**



Executing A Clear Strategy

Positioning For Long-Term Competitiveness

- **Narrowing Price Gap With Discounters**
- **Restructuring Labor Agreements**
- **Reinventing Each Business Process**

Creating A Superior Retail Offering

- ◆ **Differentiating With Superior Perishables**
- ◆ **Moving From Best In Class To Legendary Service**
- ◆ **Investing Capital To Support Differentiation**



Competitive Pricing Strategy

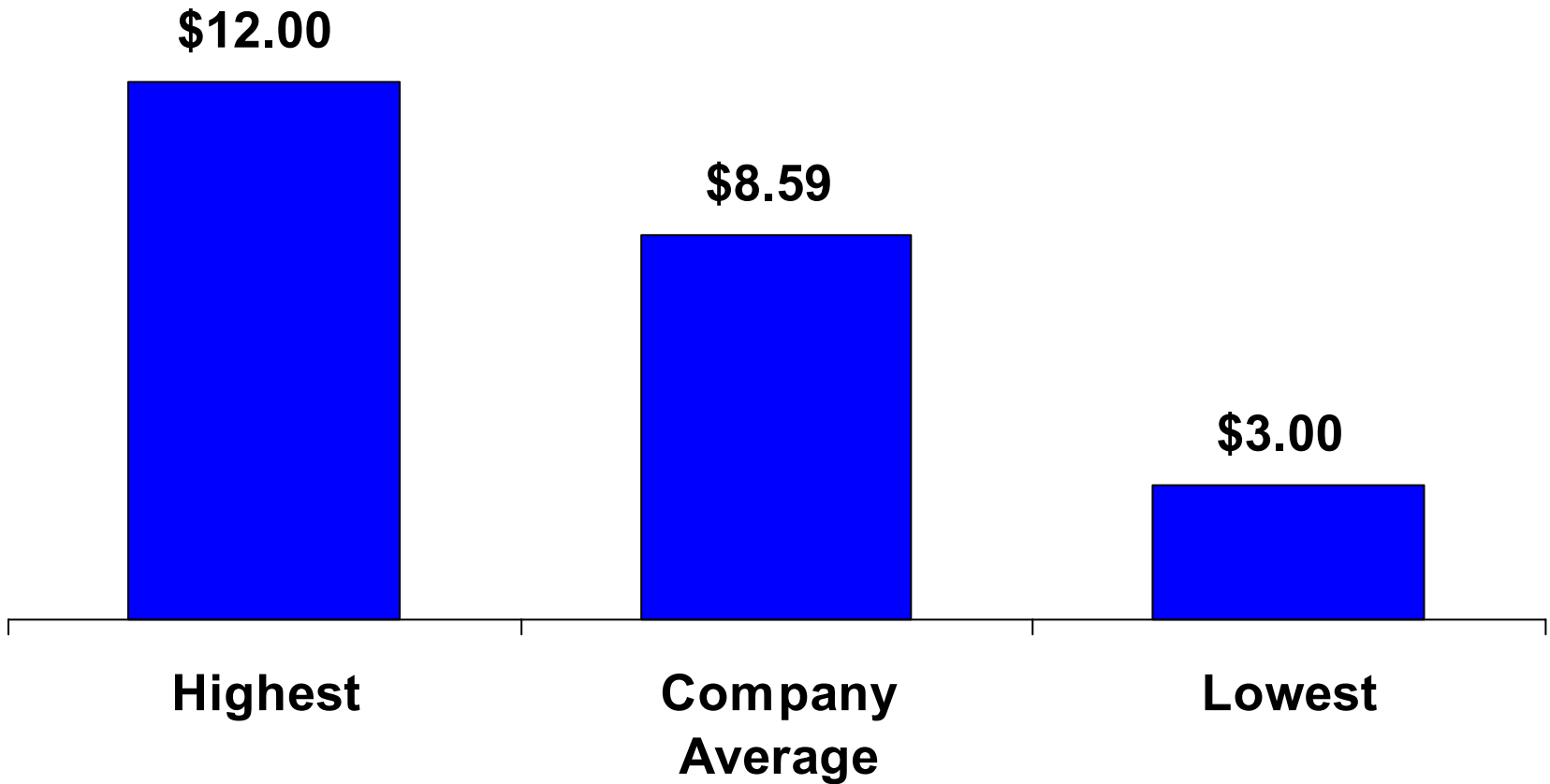
- **Narrow Price Gap With Discounters Over Time**
 - **Lowering Regular Retail Prices**
 - **Remaining Promotional**

- **Finance Price Reductions By:**
 - **Restructuring Labor Contracts**
 - **Executing Cost Reductions**
 - **Driving ID Sales**



Labor Cost Gap With Non-Union Competition

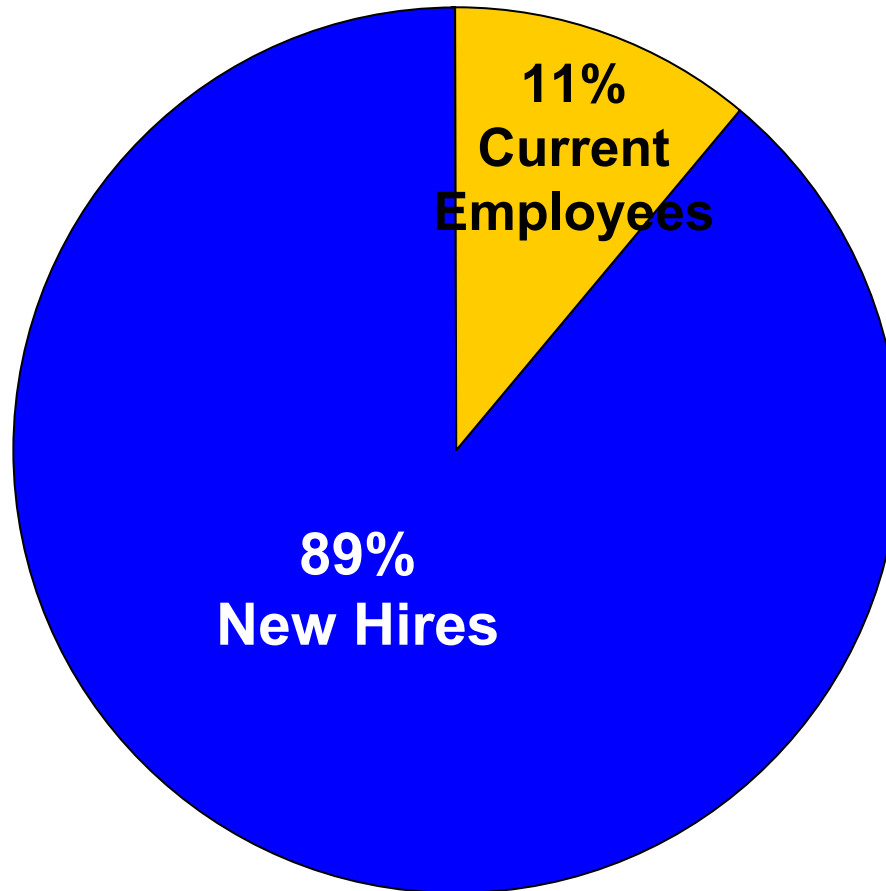
Cost Per Hour





Run Rate Hourly Savings Vs 2003

End Of Year 3





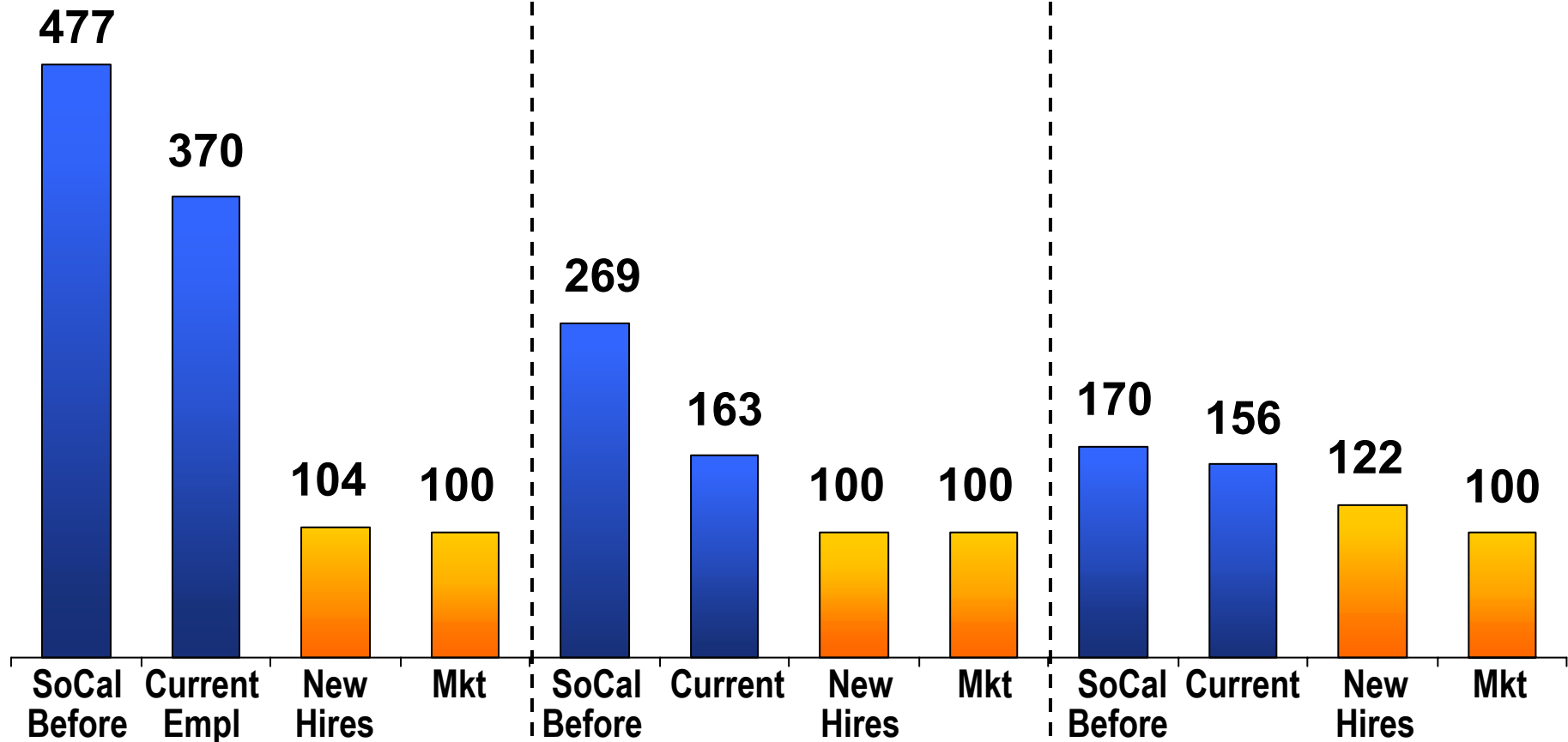
Narrowing The Cost Gap*

Southern California Settlement*

Health Care

Pension

Wages



*In 2003, Labor Costs Comprised 68% Of Safeway's Total Operating Expenses

**Indexed To Market = 100



Research Analysts Support Labor Strategy

“We continue to believe that SWY (along with ABS and KR) is doing the right thing to address its union labor cost structure in places like Southern California, despite the short-term costs.”

- *Chuck Cerankosky, McDonald Investments (December 11, 2003)*

“The [Southern California] strike resolution has helped the food retailers take a fairly significant step forward, in our view, in the quest to narrow the cost structure gap with Wal-Mart and other non-union operators.”

- *Edouard Aubin, Deutsche Bank Securities (February 27, 2004)*

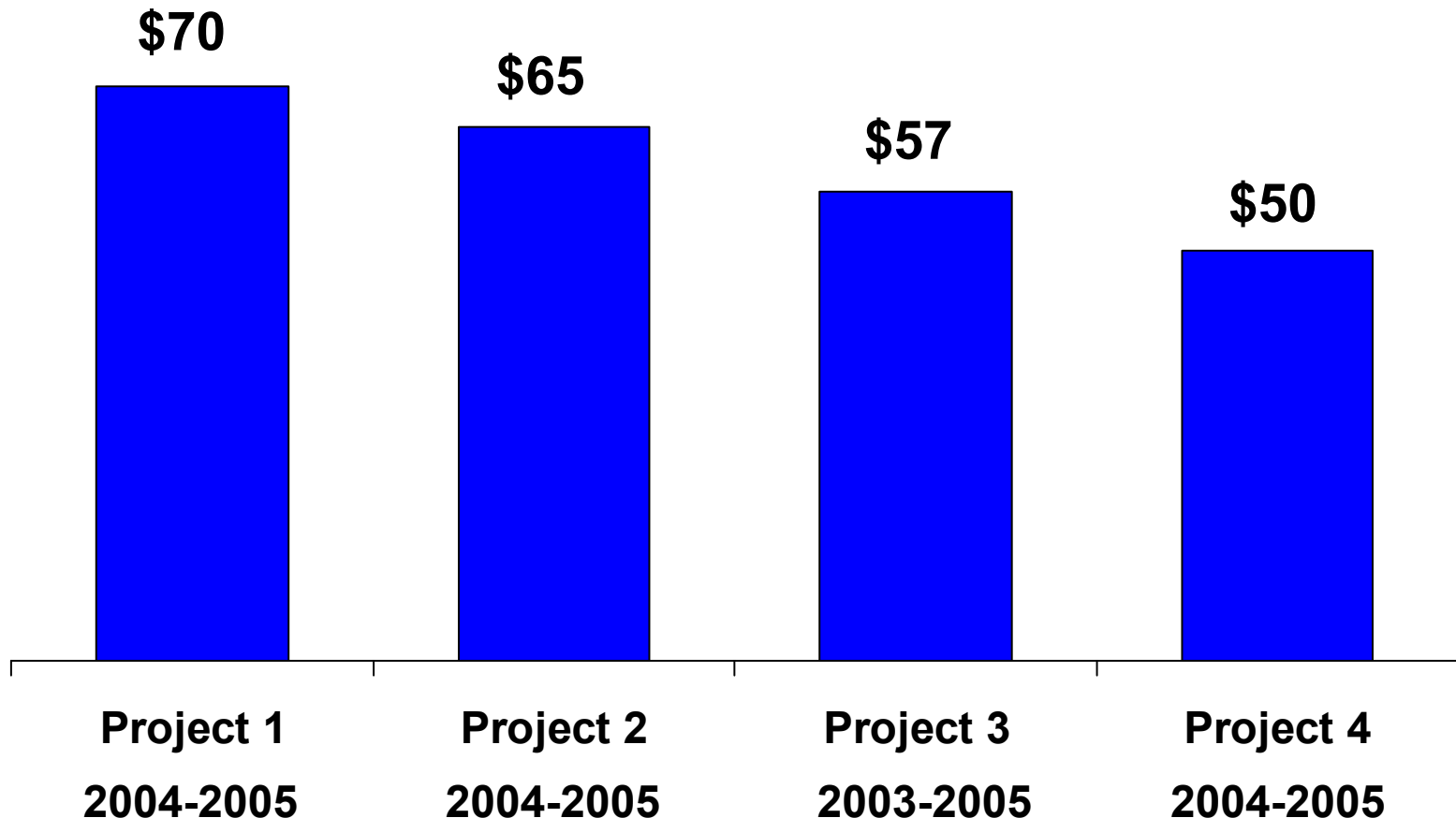
“The re-negotiation of labor contracts with unions is necessary for the chain to attempt to combat [the Wal-Mart] threat over time... The recent agreement associated with the Southern California contract (and the potential for upcoming contracts) ... could provide enough cost savings for Safeway and should be a catalyst for the stock over the upcoming year.”

- *J.P. Morgan Research (March 18, 2004)*



Major New Cost Reduction Programs

Annual Value \$Millions





Differentiate Offering With Quality Perishables

- **Meat** Offer The Most Tender And Flavorful Meat
- **Produce** Develop A Reputation For Having The Absolute Best Produce
- **Deli** Operate The Best Delis With A Superior Meals Program
- **Bakery** Operate The Best Supermarket Bakeries
- **Floral** Develop A Floral Reputation That Is Second To None



Safeway = Quality



Differentiate Offering With Quality Perishables

- Quality Improvements Result From Better
 - Merchandising
 - Product Quality
 - Selection
 - In-Store Environment



Before



After



Differentiate Offering With Quality Perishables



- Better Produce

- And Increased Organic Offering



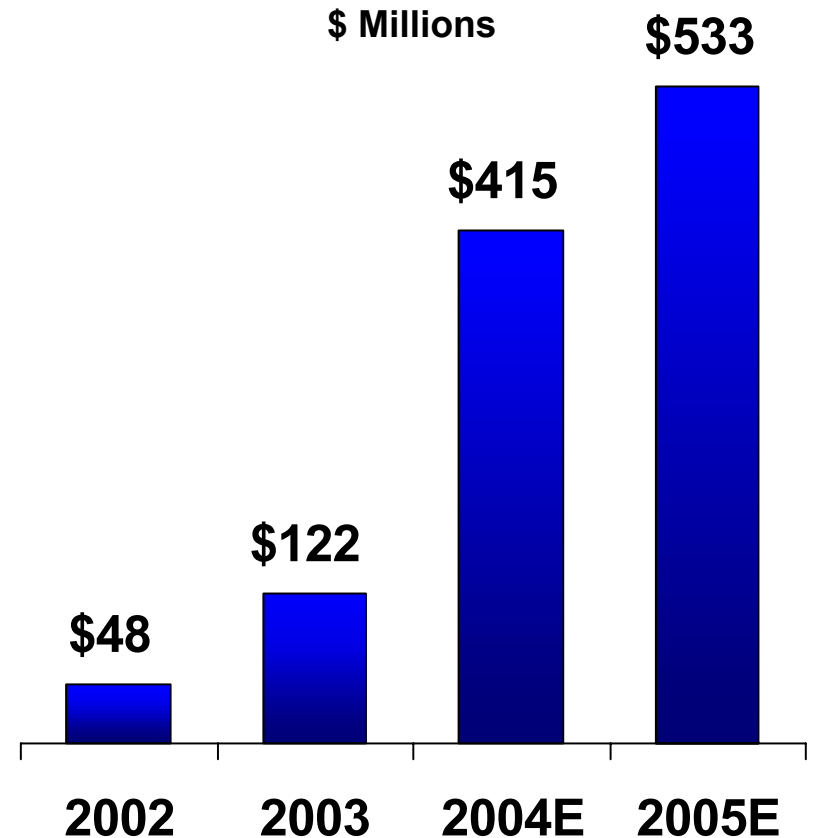


Showing Early Signs of Success

Initial Successes

- Consumer Reaction To Store Changes Has Been Overwhelmingly Positive
- Sales Results Are Very Encouraging
- Costs Of Remodels Are Falling Dramatically

New Food Service Items

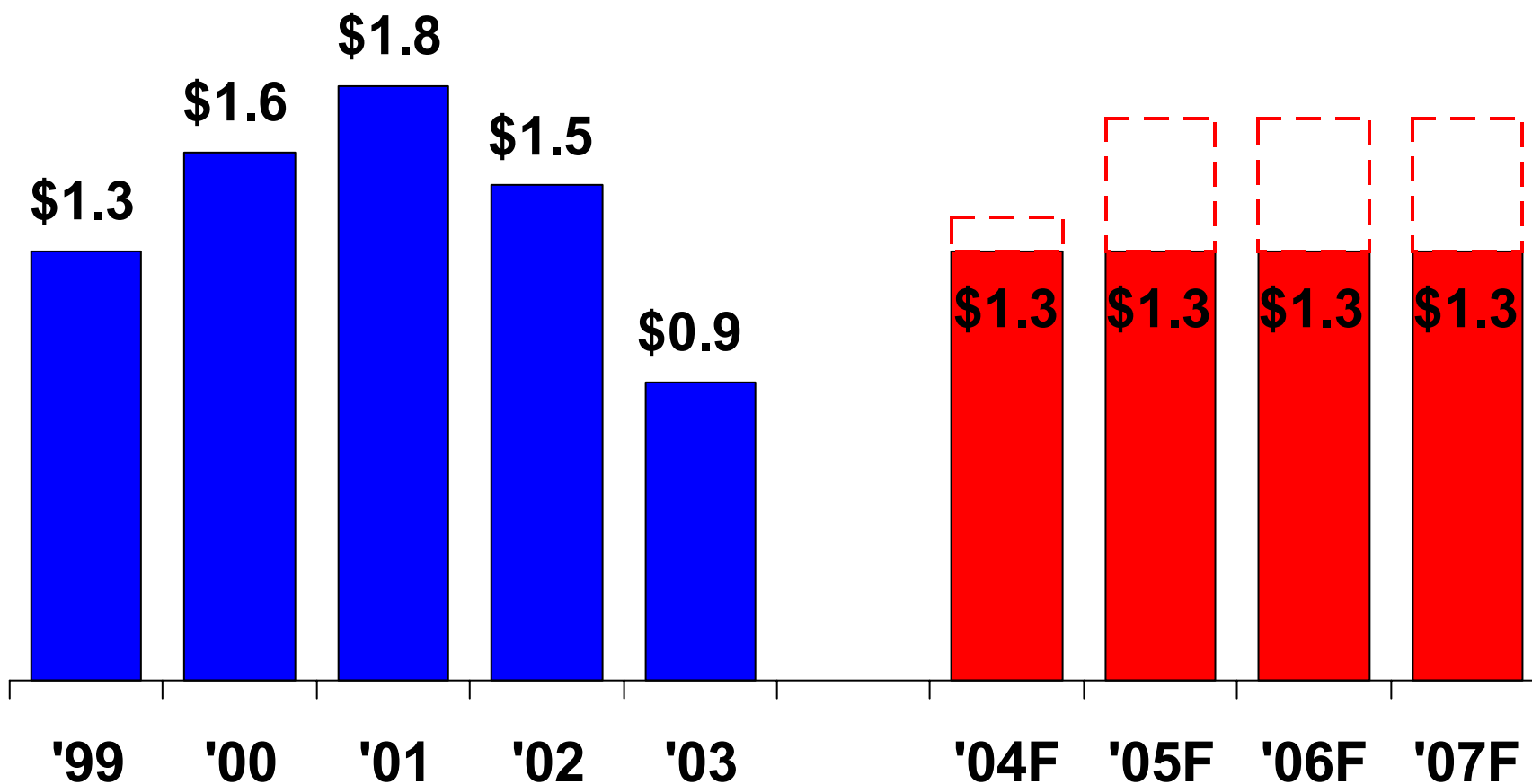


*3 Items



Capital Spending

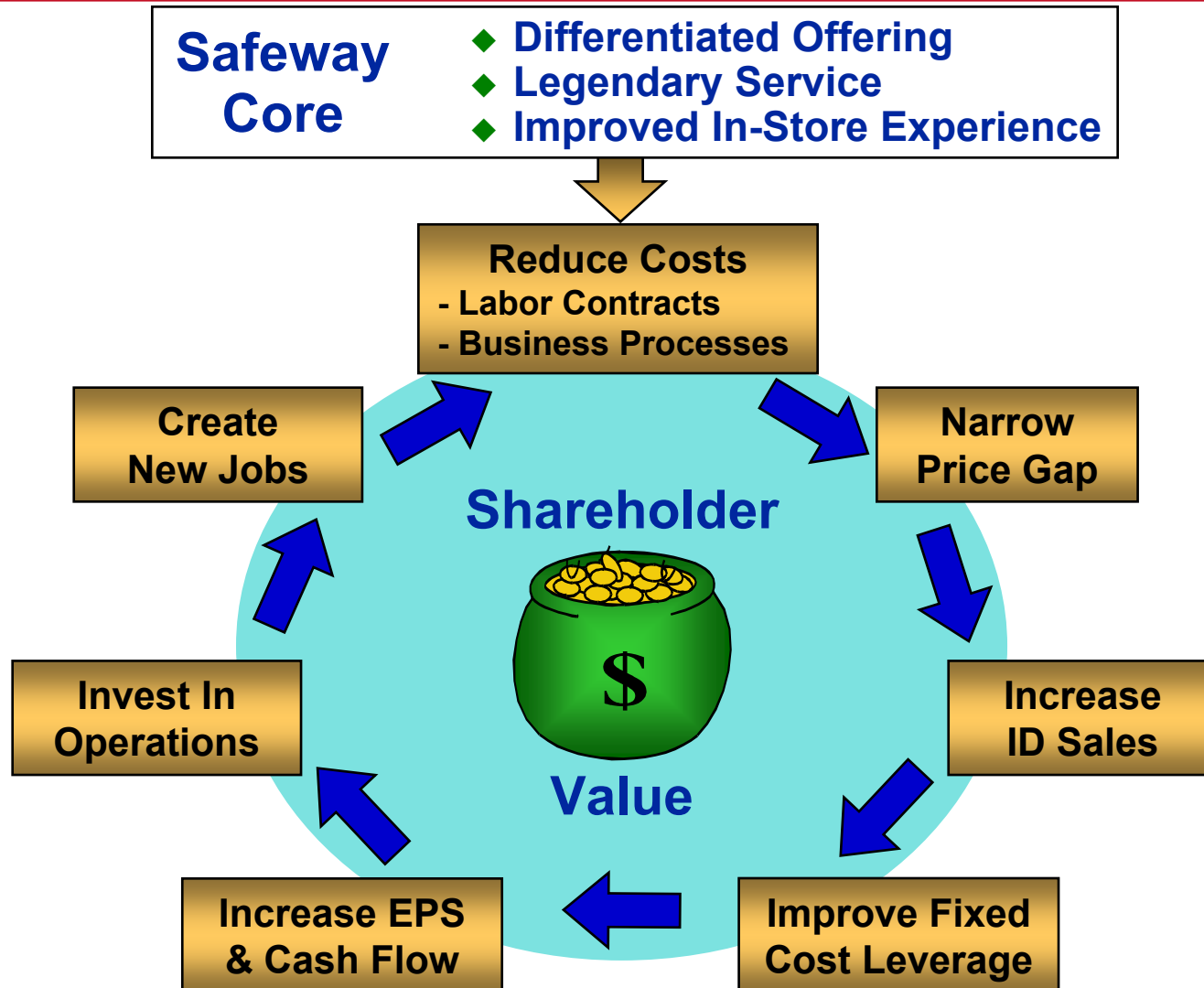
\$Billions







Increasing Shareholder Value





Agenda

- **Committed To Creating Superior Shareholder Returns**
- **Focused On Executing A Strategy To Address The Changing Competitive Environment**
- **Committed To Excellent Corporate Governance**



Committed To Excellent Corporate Governance

- **Effective Oversight By An Experienced And Invested Board**
- **Active Listening To Our Shareholders**
- **Continuous Improvement Of Our Corporate Governance**



Key Actions Already Taken

Board Issues

- **Board Will Be Declassified In 2005 (Subject To Shareholder Approval)**
- **Established A 1% Shareholder Director Nomination Process**
- **Adopted Process For Review Of Shareholder Communications To The Board**
- **Installed A Process To Evaluate And Consider Any Shareholder Proposal That Receives Majority Shareholder Vote**
- **Tightened The Definition Of Independence Beyond Current NYSE Requirements**
- **Formalized The Existing Practice Of Regularly Scheduled Meetings Of Outside Directors**



Key Actions Already Taken

Board Issues

- Enhanced An Existing *Code Of Business Conduct & Ethics* For Senior Executives
- Adopted Corporate Governance Guidelines That Are Posted On Company Website

Takover Defenses

- Instituted A Policy To Seek Shareholder Ratification If Board Adopts A Poison Pill

Audit Issues

- Established Pre-Approval Policy For Audit And Non-Audit Fees
- Formalized An Existing *Whistleblower* Policy



Sustaining A Culture Of Good Corporate Governance

- Ensuring Board Independence
 - Seven Of Nine Directors Are Independent By NYSE And Company Definition
 - Six Of Nine Directors Are Independent By ISS Scoring:
“A Substantial Majority Of The Board Members Are Independent Outsiders. We Commend The Company For Its High Degree Of Board Independence... We Support The Independent Nature Of The Key Board Committees, Which Include No Insiders Or Affiliated Outsiders”
- ISS Report, May 2003
 - Actively Listening To Our Shareholders And Other Constituencies To Ensure Continued Independent Oversight
- Continuing To Encourage Significant Equity Ownership By Board Members And Executive Officers (Currently 4.7%)
- Strengthening Process To Address Shareholder Communications, Director Nominations And Proposals Receiving Majority Votes



Highlights

- **Committed To Creating Superior Shareholder Returns**
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Appendix

April 2004



Free Cash Flow Reconciliation

\$ Million	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Net Cash Flow From Operating Activities	\$1,253	\$1,488	\$1,901	\$2,232	\$2,035	\$1,610
Cash Paid For Property Additions	(1,075)	(1,334)	(1,572)	(1,793)	(1,467)	(936)
Proceeds From Sale Of Property	48	143	159	133	113	189
Other	(14)	(50)	(68)	(59)	(42)	(48)
Net Cash Flow Used For Investing Activities, Excluding Acquisitions	(1,042)	(1,240)	(1,481)	(1,719)	(1,396)	(795)
Free Cash Flow	\$211	\$248	\$420	\$512	\$639	\$815

Note: Numbers May Not Add Due To Rounding

Free Cash Flow Is Calculated As Net Cash Flow From Operating Activities Less Net Cash Flow Used By Investing Activities, Excluding Cash Paid In Acquisitions. Free Cash Flow Should Not Be Considered As An Alternative To Net Cash From Operating Activities Or Other Increases And Decreases In Cash As Shown On Safeway's Consolidated Statement Of Cash Flows For The Periods Indicated. Other Companies May Calculate Free Cash Flow Differently Than Safeway.