

Dear Fellow Stakeholders:

Our core values reflect the sense of collective fate among our stakeholders and are the soul of our company. Our Team Members, customers, shareholders, vendors, community and environment must flourish together through their affiliation with us or we are not succeeding as a business. It is leadership's role to balance the needs and desires of all our stakeholders and increase the productivity of Whole Foods Market. By growing the collective pie, we create larger slices for all of our stakeholders.

In last year's letter, I shared three challenges that I saw in fiscal year 2003: continuing to improve our operations, increasing our store development pipeline, and successfully integrating the Harry's stores into our company. During a year full of unusual events including continued weakness in the economy, the outbreak of war, extreme weather across various parts of the country, and a power blackout in the Northeast, I am pleased that we successfully met these challenges and delivered strong results.

Our sales grew 17% to just over \$3.1 billion. Our comparable store sales increased 8.6% for the year despite a tough 10% comparison in the prior year. We opened 12 new stores, ending the year with 145 stores totaling approximately 4.5 million square feet. During the year, we signed 29 new store leases, increasing our store development pipeline to 35 stores and a record 1.6 million square feet. By the end of the year our Harry's stores were producing comparable store sales growth above the overall company average, reflecting the success of our remodeling efforts as well as the implementation of our culture and empowerment systems in those stores.

Excluding a \$3 million gain for proceeds from the sale of Blooming Prairie Cooperative in the third quarter, our adjusted net income increased 21% and we earned \$1.63 in adjusted earnings per share, in line with our upwardly revised guidance issued at the beginning of the year. We posted two quarters of positive EVA, and for the full year, EVA improved \$1.5 million to negative \$9.5 million. We produced cash flow from operations of \$280 million, ending the year with approximately \$166 million in cash.

We are fortunate to have predictable cash flow and a strong balance sheet with sufficient cash on hand to fund our growth, and as an EVA company that believes in maximizing returns on capital to our shareholders, we proudly announced our first quarterly dividend of \$0.15 per share payable on January 16, 2004. We are hopeful that our continued success will allow us to steadily increase this dividend over time.

This year I toured all of our eight regions, visiting 135 stores across the country and talking to thousands of Team Members. It was a very rich, meaningful, and educational experience for me, and I am proud to say that the Whole Foods Market corporate culture of empowerment is alive and well. Our stores have never looked better than they do right now and our Team Members are serving our customers well.

We strive to offer our customers a unique shopping experience, and this has resulted in a continual evolution of our store design concept. Ten years ago, our average store size was 20,000 square feet with approximately 57% of our sales in perishable departments. Today, our stores average 31,000 square feet with 66% of sales in perishables. By building larger stores with an emphasis on perishable products, we have differentiated ourselves from our competitors while attracting many of our most loyal shoppers.

First-time visitors to Whole Foods Market are often awed by our perishables. We devote more space to fresh fruits and vegetables, including an extensive selection of organics, than most of our competitors. Our meat and poultry products are natural-no artificial ingredients, minimal processing, and raised without the use of artificial growth hormones, antibiotics or animal by-products in their feed. Our seafood is either wild-caught or sourced from aquaculture farms where environmental concerns are a priority. Also, our seafood is never treated with chlorine or other chemicals, as is common practice in the food retailing industry. With each new store or renovation, we challenge ourselves to create more entertaining, theatrical, and scintillatingly appetizing prepared foods areas. We bake daily, using whole grains and unbleached, unbromated flour and feature European-style loaves, pastries, cookies and cakes as well as gluten-free baked goods for those allergic to wheat. We also offer many vegetarian and vegan products for our customers seeking to avoid all animal products. Our cheeses are free of artificial flavors, colors, and synthetic preservatives, and we offer an outstanding variety of both organic cheeses and cheeses made using traditional methods.

At the beginning of the 2003 calendar year, we put into place a new health insurance plan. We started paying 100% of the premiums for all full-time Team Members. In addition, the company funded Personal Wellness Accounts which could be used to pay the higher deductible and of which any unused balances could roll over and accumulate for future needs. Through interacting with thousands of Team Members during my store tours and meetings, I learned that one of their primary concerns was health care and benefits. While we believed that the new health plan was the best plan for the Team Members and the company, we decided that the way to ensure that we were providing the benefits that our Team Members considered most valuable was to empower them to select their own benefits package. This past summer, respecting that as a company we have a finite amount of money to put towards our benefit package, Team Members across the company actively contributed ideas, which were then compiled and voted on as our benefits package for the next three years.

We were pleased that 79% of our Team Members participated in our benefits vote, and they voted to keep our newly adopted health plan in place. The new health plan received 83% of the votes compared to only 17% of the votes for the two proposed alternative plans. We believe it is unprecedented for a company our size to approach its benefits in this way and hope that our success in this collaborative effort will encourage other companies to follow our lead.

Every five years Whole Foods Market goes through a process called "Future Search," where we bring together representatives of our various stakeholder groups, including customers, Team Members, investors, and vendors along with our Board of Directors, to help us collectively envision the future of the company. In October of 2003 we held our fourth Future Search with 135 people participating over a three-day period. It was a very successful event, and collectively we envisioned some very powerful goals and aspirations for Whole Foods Market over the next five years. The group came up with a fairly large list of goals; however, three in particular stood out as major priorities for our company over the next year:

1. Global expansion. There was tremendous collective passion around evolving Whole Foods Market into a global company. The group strongly believed that our company mission needs to extend beyond the borders of the U.S. and Canada and into Europe. We believe the U.K. is the most likely entry into the European market due to the advanced acceptance of organics and lack of language barriers in that country. While the exact timing is uncertain, we have begun exploring opportunities, and it is our hope to make some progress toward our global expansion goal in fiscal year 2004.

2. Animal Compassionate Standards. Over nine billion livestock animals are slaughtered for food every year in the U.S. The majority are processed through industrialized "factory farms" which Whole Foods Market believes cause the animals unnecessary pain and suffering. At Future Search, we decided the paradigm for animal production can and must change and that we have the scale and scope to make a difference. While our current meat and poultry product quality standards require animals to be raised humanely, we decided to raise the bar even higher by developing new Animal Compassionate Standards which focus on providing environments and conditions that best support each species' natural physical needs, behavior and well being.

3. Whole Foods Market University. The third area that generated a great deal of collective passion was creating a Whole Foods Market University to upgrade the training and information available to both our Team Members and customers. The vision is that Whole Foods Market University will be a virtual institution with course materials, teaching, and testing primarily occurring through our internal websites.

Throughout our rapid growth, we have remained a uniquely mission-driven company. Our motto-Whole Foods, Whole People, Whole Planet-emphasizes that our vision reaches far beyond just food retailing. We are focused on creating a better person, company and world through our dedication to our core values, stringent quality standards and principles of right livelihood, Team Member empowerment, community service, conscientious retailing and sustainable agriculture.

We look forward to sharing and extending our vision with the rest of the world as we work to fulfill our goal of \$10 billion in sales by the year 2010.

With thanks to all of our stakeholders,

John Mackey
Chairman of the Board
President & Chief Executive Officer

