

LETTER TO STAKEHOLDERS

Dear Fellow Stakeholders:

I would like to begin by appreciating our team members for their hard work and dedication as well as our customers, suppliers, and shareholders for their continued support. We began 2008 with high hopes, producing sales growth of 31% and comparable store sales growth of over 9% in the first quarter. The deterioration of the economy throughout the year presented challenges to consumers of all income levels however, and by the fourth quarter, our comparable stores sales growth, along with that of many retailers, had decelerated to historical lows.

While 2008 was the toughest year in our history, we still produced strong growth for our company and stakeholders, with sales increasing 24% to \$8 billion and comparable store sales increasing 5%. During the year, 135 of our stores set all-time single-week sales records. Our average weekly sales were \$656,000* per store, a 4% increase year over year, translating to sales per square foot of \$882*.

On top of the record 21 new stores we opened in 2007, we opened 20 stores in 2008, expanding into three new cities, including Honolulu, Hawaii. Our average weekly sales were \$538,000 per new store, translating to sales per square foot of \$528.

Our Kensington store in London produced high sales during its first year; however, we were disappointed in our overall results in the U.K. We continue to believe there is great growth potential in the U.K. and are diligently seeking to improve all aspects of our operations there. We have closed one of our Fresh & Wild stores and expect steady year-over-year sales growth and improved

financial performance at our Kensington store to drive a reduction in our operating losses. We hope to approach breakeven in fiscal year 2011.

In the fourth quarter, we passed the one-year anniversary of our merger with Wild Oats, having successfully integrated the Wild Oats stores into our culture and into our company. During the year, we converted all of the stores to our purchasing and information systems; transitioned team members to our payroll and benefits plans; and eliminated all positions at the Wild Oats corporate office. As with all of our past mergers, we made many up-front investments to raise the shopping experience in the Wild Oats stores up to our high standards, including investments in lower prices, expanded perishable offerings, increased staffing levels at higher rates of pay, and \$33 million in remodeling efforts, all of which have benefited customers. We closed 19 stores, six in connection with the opening of new Whole Foods Market stores, and re-branded 45 stores to Whole Foods Market store fronts and signage. As sales and profits continue to improve over the coming years, we believe this merger, as with so many of our past mergers, will produce solid returns for our shareholders.

For the fiscal year, we produced \$326 million in cash flow from operations and received approximately \$18 million in proceeds from the exercise of stock options. We invested \$522 million in capital expenditures, \$358 million of which was for new stores, and paid shareholders \$109 million in dividends. We ended the year with \$31 million in cash and cash equivalents, including restricted cash, and total debt of \$929 million, including \$195 million drawn on our \$350 million credit line.

* Excludes acquired Wild Oats stores.

FINANCIAL HIGHLIGHTS

	2008	2007	2006	2005	2004
SALES (000s)	\$7,953,912	\$6,591,773	\$5,607,376	\$4,701,289	\$3,864,950
NUMBER OF STORES AT END OF FISCAL YEAR	275	276	186	175	163
AVERAGE WEEKLY SALES PER STORE	\$570,000	\$617,000	\$593,000	\$537,000	\$482,000
COMPARABLE STORE SALES GROWTH	4.9%	7.1%	11.0%	12.8%	14.9%
IDENTICAL STORE SALES GROWTH	3.6%	5.8%	10.3%	11.5%	14.5%

While we continued to produce healthy cash flow, the negative impact of the challenging economic environment on our sales and bottom line in the second half of the year prompted us to take a more conservative approach to our growth and business strategy over the short term, which included the following proactive measures:

- ✓ We implemented certain cost-containment measures at the global, regional and store levels, including the elimination of 306 positions, saving an estimated \$16 million in labor and benefits annually.
- ✓ We lowered our planned new store openings for fiscal year 2009 to 15 from a prior range of 25 to 30. In addition, we terminated 13 leases totaling approximately 679,000 square feet and downsized nine leases by an average of 13,000 square feet each.
- ✓ We cut all discretionary capital expenditure budgets not related to new stores by 50%.
- ✓ We suspended our cash dividend.
- ✓ We sold \$425 million of Series A Preferred Stock to affiliates of Leonard Green & Partners, L.P.

The decision by Leonard Green & Partners, one of the most experienced and successful retail investors, to make such a significant investment in our company is a strong vote of confidence in our business model and future prospects. While none of us can foresee how deep this recession may go or how long it may last, we believe that through these actions we now have adequate liquidity to see us through these difficult times and are better positioned to fulfill our core values and realize our long-term growth potential.

We walk our talk when it comes to our core values.

Our first two Core Values are to sell the highest quality natural and organic foods available and to satisfy and delight our customers. This year, we were recognized by *Health* magazine as the healthiest grocery company in the U.S., and for the second year in a row, we made *Fortune's* list of "America's Most Admired Companies." In the Food and Drug Stores category, our peers ranked us #4 overall, with #1 rankings in innovation, social responsibility, and quality of products.

High quality is one of Whole Foods Markets' most important brand attributes and is what our customers want and expect from us. In the current economy, customers are also focused on stretching their food dollars. Over the last several years we have successfully increased the range of lower-priced items offered within our grocery and Whole Body departments, without sacrificing our quality standards. Our hard work is producing returns, as those departments have continued to produce

positive comparable store sale growth even as consumers have become more value-conscious.

This year, we expanded our value push into our perishable areas as well. In July, we launched our Whole Deal program, which includes a quarterly in-store guide providing specially-priced product discounts, money-saving coupons and tips, as well as budget-minded recipes. We believe that strengthening our value image throughout the store is the right strategy over the short and long term, and while we know that we are not going to change perceptions overnight, we believe that we are gaining increasing credit for the values we offer, as evidenced by many positive mentions in the media.

The product differentiation we experienced as a business over our first twenty-eight years has narrowed over the past several years. Driven in large part by our success, the marketplace has fundamentally changed, and there is a much broader acceptance of the importance of healthy foods. Today, most food retailers have competitively evolved to incorporate many of our products and practices, and new formats are being developed.

Our goal is to minimize the number of branded grocery products in our stores that can also be found in other places. We are making positive strides in differentiating our product selection in ways that speak to our core customers and to our authenticity and leadership role within natural and organic products, including expanding our exclusive offerings in private label, control brands and branded products. We launched our Whole Trade product line two years ago, enabling customers to use their buying power to help ensure a healthy working environment for producers in developing countries. We have more than doubled our offerings under this line from 442 products last year to over 1,000 products today—ranging from bananas and chocolate to cleaning products and body care items.

During the year we announced our newly-enhanced farmed seafood standards, becoming the first food retailer to require that our vendor partners successfully pass an independent, third-party audit to ensure compliance with our standards. These enhanced standards were created to minimize environmental impacts and are the end result of two years of hard work by our quality standards team. Greenpeace cited our new quality standards as one of the factors in Whole Foods Market once again being named the nation's #1 retailer in seafood sustainability.

We are committed to helping create alternatives to the "factory farm" methods of raising livestock. We have encouraged innovative animal production practices to improve the quality and safety of the

meat and poultry sold in our stores, while also supporting humane living conditions for the animals. Our goal is to make it easy for our shoppers to make informed choices, and in 2009 we plan to roll out a 5-Step Animal Welfare Rating system to our U.S. stores. This program, developed by the Global Animal Partnership foundation, ranks and recognizes farmers and ranchers for their animal welfare practices and conditions, and was inspired by the animal welfare labeling program which debuted last year in our London store. This year we scored the highest among the top 25 U.S. grocery retailers for availability of humanely labeled foods in a survey conducted by the World Society for the Protection of Animals. According to their survey, we offered twice as many humanely-labeled products per store as the second-ranked company. We believe through the implementation of the 5-Step Animal Welfare Rating system, not only will we retain our #1 ranking next year, we will significantly widen the gap between the #1 and #2 rankings.

We believe that by continuing to raise the bar on quality standards, we will retain our leadership position in natural/organic foods retailing for many, many years to come.

We support team member happiness and excellence and were very pleased to have earned the No. 22 spot on *Fortune's* annual list of the "100 Best Companies to Work For." We are one of only 13 companies to be ranked every year since the list's inception 12 years ago.

In keeping with our core value of caring about our communities and the environment, we made charitable donations of over 5% of our net after-tax profits in fiscal year 2008. In addition, our Whole Planet Foundation, whose mission is to empower the poor through microcredit in communities that supply our stores with product, has committed over \$7.9 million in grants to 12 microlending projects in 11 countries, with a focus on the developing world.

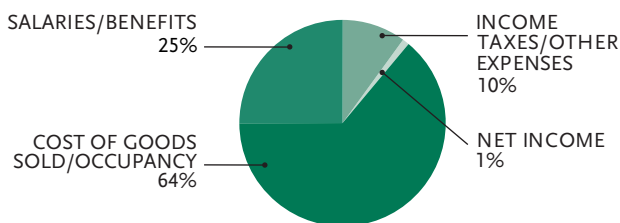
Last January, we were the first U.S. supermarket to commit to completely eliminating disposable plastic grocery bags at the checkouts in all of our stores. Our effort was embraced by our customers who purchased more than four million of our Better Bags, and we estimate between Earth Day and the end of this year alone, we prevented 100 million new plastic grocery bags from being introduced into our environment. In addition, our annual green power purchases, which help reduce the environmental impact of electricity use and support the development of new renewable generation capacity nationwide, ranked as the sixth highest among leading organizations within the U.S.

Our business model is very successful and continues to benefit all of our stakeholders.

We are hopeful that in 2009 our sales will stabilize and grow driven by improvements in the Wild Oats stores, fewer self-cannibalized stores, continued execution of our differentiation strategy, and increased awareness of the many value-oriented products available in our stores. Finding ourselves in these uncharted economic waters, however, we did not feel confident in predicting our comparable store sales growth for 2009. We instead provided base-case assumptions using flat comparable store sales, which would translate to total sales in the range of \$8.3 billion, reflecting the opening of eight net new stores.

While we cannot completely control the impact of the economy on our sales, we can control our capital expenditures and many of our costs. When we opened our enormously successful 80,000 square foot store in Austin in 2005, it had a ripple effect on store size and format throughout the company. With hindsight and some data points in front of us, we see that an average store size of around 40,000 square feet is more appropriate in most circumstances to maximize return on investment and EVA. While the really large stores are very powerful in limited markets and circumstances, we expect the majority of our new store leases to fall within a range of 35,000 to 50,000 square feet going forward, and

WHERE DID THE MONEY GO?



GROWTH SINCE IPO

	9/28/08	9/29/91*	CAGR
NUMBER OF STORES	275	10	21%
SALES	\$8.0 B	\$92.5 M	30%
EARNINGS PER SHARE	\$0.82	\$0.08	14%
OPERATING CASH FLOW	\$325.8 M	\$3.4 M	31%
TEAM MEMBERS	52,900	1,100	25%
STOCK PRICE	\$20.64	\$2.13	15%

*1991 results do not include the impact of subsequent pooling transactions and accounting restatements. Stock price is split-adjusted IPO price in January 1992.

we are actively working to drive down our average development cost per square foot. We believe we have disciplines in place for managing our cost of goods sold and direct store expenses in this challenging sales environment, and excluding estimated FTC-related legal costs, we expect G&A expenses of approximately 3.1% of sales in fiscal year 2009.

While we have owned and operated the Wild Oats stores for over a year, the FTC has begun administrative action in their own internal court system challenging the completed merger. A trial is scheduled to begin in April; however, we have asked the U.S. District Court to issue an injunction barring the FTC from holding its own internal administrative trial and from reviewing the case itself. While this would still allow the FTC to re-file the case in U.S. District Court, we believe it would result in a non-biased decision—something we don't believe can be achieved in the FTC's own internal administrative court system. We are hopeful that we will successfully resolve this issue over the coming year and be able to dedicate our full attention to operating stores once again, instead of wasting time and money dealing with government regulators concerning a merger we completed many months ago after receiving permission to do so from the U.S. District Court.

Our business model has been highly successful, and with fewer than 300 stores today, we remain very bullish on our long-term growth prospects, as demand for natural and organic products continues to grow and as our company continues to evolve. We have a loyal customer base that is aligned with our mission and our core values. We are dedicated to maintaining our leadership position as the authentic retailer of natural and organic foods. We believe it is this commitment to continuing to raise the bar that reinforces our authenticity and makes us the choice for customers aspiring to a healthier lifestyle. Our strengthened balance sheet, combined with our strong cash flow from operations, gives us the financial flexibility to manage through these difficult economic times while continuing to invest prudently in our long-term growth. From both an operational and capital expenditures standpoint, we have confidence that our current store development

pipeline is very manageable over the next four years, and we believe the investments we are making in our new, acquired and existing stores will result in substantial earnings growth in the near future.

Subsequent to the end of the year, we added four new members to our board of directors, bringing the size of the board to ten. These new board members bring unique wisdom and complement the experience of our current board members. In this challenging economic environment, we feel fortunate to have this fresh addition of intellectual capital.

2008 has been our most challenging year, but it has created an opportunity for us to reexamine all aspects of our business and refocus on what really makes us great and sets us apart in the marketplace. I believe that we have made several excellent strategic decisions that will create long-term value for all of our stakeholders. We greatly appreciate your support and look forward to getting past this recession and back to an upward growth trajectory.

Our motto—Whole Foods, Whole People, Whole Planet™—emphasizes that our vision reaches far beyond just food retailing. We look forward to sharing our vision with the rest of the world.



With warmest regards,

A handwritten signature in black ink that reads "John Mackey". The signature is written in a cursive, slightly slanted style.

John Mackey
Chairman of the Board, Chief Executive Officer,
and Co-Founder