Annual Report 2003

COSTCO WHOLESALE

YEAR ENDED AUGUST 31, 2003

2003

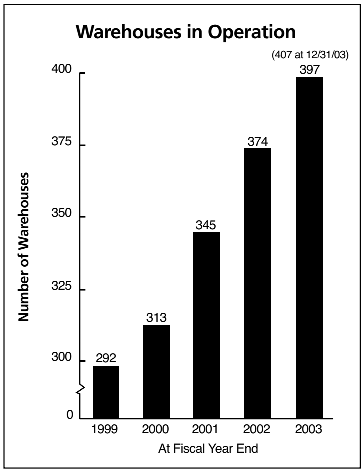
THE COMPANY

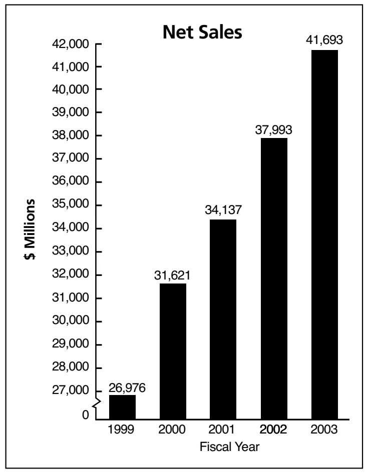
Costco Wholesale Corporation ("Costco" or the "Company") began operations in 1983 in Seattle, Washington. In October 1993, Costco merged with The Price Company, which had pioneered the membership warehouse concept in 1976, to form Price/Costco, Inc., a Delaware corporation. In January 1997, after the spin-off of most of its non-warehouse assets to Price Enterprises, Inc., the Company changed its name to Costco Companies, Inc. On August 30, 1999, the Company reincorporated from Delaware to Washington and changed its name to Costco Wholesale Corporation, which trades on the NASDAQ under the symbol "COST".

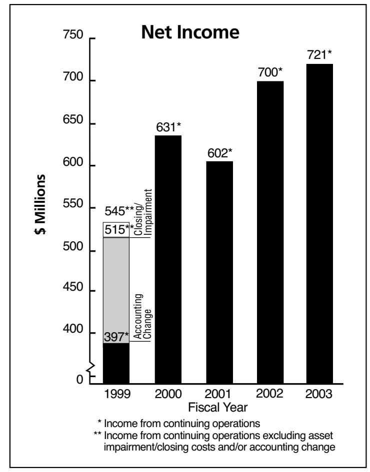
Costco operates a chain of membership warehouses that sell high quality, nationally branded and selected private label merchandise at low prices to businesses purchasing for commercial use, personal use, or resale, and also to individuals who are members of selected employee groups. The Company's business is based upon achieving high sales volumes and rapid inventory turnover by offering a limited assortment of merchandise in a wide variety of product categories at very competitive prices. As of December 2003, the Company operated a chain of 430 warehouses in 36 states and Puerto Rico (318 locations), nine Canadian provinces (62 locations), the United Kingdom (15 locations), Korea (five locations), Taiwan (three locations, through a 55%-owned subsidiary) and Japan (four locations), as well as 23 warehouses in Mexico through a 50%-owned joint venture.

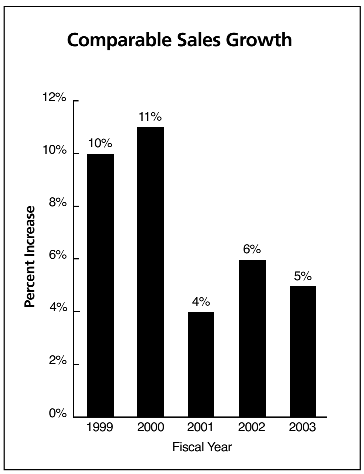
CONTENTS

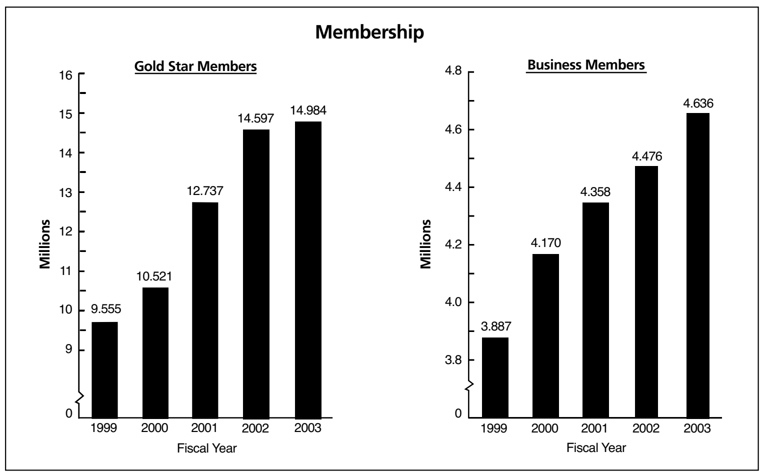
FINANCIAL HIGHLIGHTS









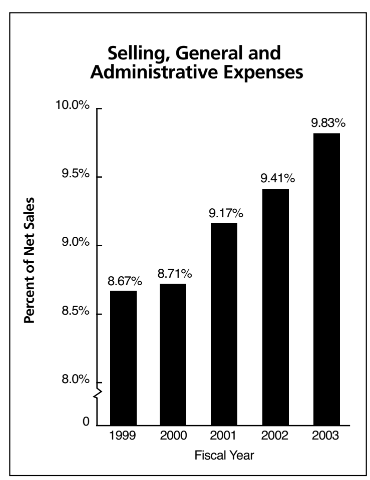


Average Sales Per Warehouse *
(Sales In Millions)

Year Opened	# of Whses*	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
2003	**24**										$67
2002	**29**									$58	62
2001	**32**								$57	63	72
2000	**21**							$57	65	77	85
1999	**15**						$65	77	86	97	105
1998	**17**					$50	58	72	77	82	86
1997	**10**				$56	70	85	99	106	113	115
1996	**18**			$46	53	61	68	80	83	87	94
1995	**19**		$51	58	69	76	82	92	93	97	103
1994 & Before	**212**	$76	77	81	88	94	102	111	115	120	124
Totals	**397**	$76	$75	$77	$83	$87	$94	$101	$101	$103	$105

Fiscal Year

*First year sales annualized.



Dear Costco Shareholders:

Recently we celebrated our 20th anniversary, having opened our first Costco warehouse in Seattle, Washington on September 15, 1983. We thank you, our shareholders, for your confidence and trust in our Company. Over the years your support has been a significant factor in the success of Costco, and we hope you share our pride in what has been accomplished. We have built a company that excels in the highly competitive field of discount retailing, and that enjoys the reputation of a good corporate citizen that values the interests of all its stakeholders.

Since that first warehouse in Seattle, we have grown to our current count of 430 Costcos… 418 warehouses at our August 31st fiscal year-end, plus 12 openings since then… operating in 36 U.S. States and Puerto Rico and seven countries. Our mission has been to consistently bring quality goods and services to our members at the lowest possible price in every market where we do business. Our reputation has been firmly established as "the" single retailer that has established "pricing authority" for everything we sell. This is not just public relations "babble"; this is how others in the retail industry view us.

As the two founders of the business, we truly believe that our greatest contribution has been assembling a top notch management team that is not only capable of running a large and challenging business, but is highly regarded and highly targeted by our industry.

A hallmark of our Costco warehouses has always been the extraordinary sales volume we achieve. Costco's average annual sales per warehouse in fiscal 2003 stood at $105 million ($112 million per U.S. building). We had 65 units where sales last year exceeded $150 million, with 11 of those exceeding the $200 million mark. These figures, which are nearly twice those of our nearest competitor, continue to increase every year; and we believe they will continue to increase in fiscal 2004. Recently, the American Customer Satisfaction Index* again ranked Costco as the top specialty retailer in terms of customer satisfaction; and there is good reason for that. We have always believed the most important thing we can do is to continue to delight our customers; and we are dedicated to exceeding their expectations in terms of quality, value and service. That commitment is evident in everything we do, and it enables us to continue to widen the gulf between Costco and our competitors. By faithfully living our mission statement… to *bring the highest quality goods to market at the lowest possible price…* we have rewarded our shareholders time and again over the past 20 years; and we are committed to rewarding you, our shareholders, for many years to come.

Despite what was a challenging year, both for us and for the economy in general, we are proud to have finished our 2003 fiscal year with record sales and earnings. We are now the sixth largest retailer in the United States and the ninth largest in the world. At number 33 in the Fortune 500, Costco's fiscal 2003 net sales were $41.7 billion, representing an increase of 10% over last year's $38.0 billion and a 5% comparable warehouse sales increase. Since the beginning of fiscal year 2004, sales have remained strong, with the first three months of September, October and November enjoying a 14% overall increase in sales and an 11% comparable sales increase. In terms of earnings in fiscal year 2003, net income increased to a record $721 million, or $1.53 per share, from $700 million, or $1.48 per share, the prior year.

Our expansion continued in fiscal 2003, as 24 new warehouses were opened and six others were relocated. Of the 24 new locations, nine were opened in new markets and 15 in existing markets. This represents a change in "mix" for us, with 63% of these new openings going into what were already strong markets for Costco. By comparison, 28% (17 of 61) of the locations opened during fiscal years 2001 and 2002 represented openings in strong existing markets. Even with other successful units nearby, we have found that many of the markets where we operate are far from being saturated. In fact, both existing and new buildings have ultimately seen increased

* The American Customer Satisfaction Index is produced through a partnership of the University of Michigan Business School, The American Society for Quality and CFI Group.

sales from our "in-filling" strategy; and the return on investment for these new warehouses is generally higher sooner than in new markets. In terms of the six relocations, these allowed us to increase the size of our sales floor, improve access and parking, and add important ancillary businesses such as gas stations and optical departments. In every case, we have experienced significant, double-digit increases in sales as a result of the relocation.

In the United States, 19 new warehouses were opened in fiscal 2003: six in new markets (Avon and Mayfield Heights, Ohio; Castleton and Fortune Park, Indiana; S. St. Louis, Missouri; and Carolina, Puerto Rico); and 13 in established markets (Tracy, Rohnert Park, North Fresno, Vacaville and Folsom, California; Avondale, Arizona; Glenview and Naperville, Illinois; Everett, Massachusetts; Kirkland, Washington (the Costco Home store); Ocean Township, New Jersey; Clearwater, Florida; and Wilsonville, Oregon).

Internationally, we believe that the Costco concept both fills a void in the distribution cycle and satisfies a broad desire for American goods. In fiscal 2003, we opened five new international warehouses: one in the United Kingdom (new market), two in Japan (new markets), one in Canada (existing market) and one in Mexico (existing market). Our international sales continue to grow, and we see great potential in our international markets in the years to come.

Looking forward, we expect to spend more than one billion dollars during the current fiscal year as we plan to open more than 25 new warehouses, situated in both existing and new markets. Twelve of these will be operating by calendar year-end, including two buildings in Mexico, two in California, and one each in Washington (Costco Business Center), Virginia, Michigan, Alabama, Utah, Texas, North Carolina, and Quebec.

We are expanding in other areas, as well. Costco Home, a high-end furniture and accessories warehouse with typical Costco pricing and values, opened in Kirkland, Washington in December 2002. This new venture had good first year volumes and is already operating at a profit. In addition to helping us build and strengthen vendor relationships in several furniture and home furnishings categories, we believe that this new format allows us to test and, ultimately, introduce many of its successful items to our 400+ traditional Costco warehouses. We are currently evaluating the opportunity to take this concept into other strong Costco markets on an individual basis.

A new Costco Business Center debuted in Fife, Washington in November 2003, bringing our total for this venture to five locations. Offering convenient delivery and containing print and copy centers, these units feature an abundance of items chosen specifically for the small business and also carry specialty foodservice items that are not found at our standard warehouses.

Fiscal 2003 sales were strong in all of our ancillary businesses, with total ancillary business sales topping $4 billion, an increase of 20% over fiscal 2002. Our members like to shop Costco for pharmacy, gasoline, food service, optical, hearing aid and 1-hour photo because they know we offer the best quality at the best price for these services, just as we do on the other fine products we sell.

Many of you have probably seen television news programs, appearing in communities across the U.S., reporting that Costco's pharmacy prices are the lowest in that market. These independent news reports underscore the importance of our absolute pricing authority, which is a priority of Costco merchandising, whether in the warehouse or, more recently, over the internet. Our Costco.com e-commerce site is profitable and frequently has daily sales that are among the top ten units in the Company. Fiscal 2003 sales for this venture came in at $226.2 million, a 64% increase over 2002, making it one of the more successful "dot coms" today. Year-to-date in fiscal 2004, Costco.com's sales are up an additional 62%.

All of these activities and businesses not only expand Costco's presence in the marketplace, but also serve to enhance the "treasure hunt" atmosphere at our buildings. Special-order kiosks, which were rolled out in 2002, continue to provide our members access to hundreds of additional upscale items. Costco Road Shows, too, regularly bring a variety of unique products to each of our buildings.

All of these offerings augment our every-day exceptional mix of quality items, from paper goods to fine jewelry. Providing our members the opportunity to purchase basic items at low cost so they can splurge on luxury items that are value-priced is a big part of what makes Costco such an exciting place to shop. We continue to develop new items for our high-value, private label, Kirkland Signature, as well as build relationships with new merchandise vendors. Some of our new vendors this year are Crane and Co., See's Candies, Sony electronics, Nautica sportswear, Cuisinart, Black and Decker (DeWalt) tools, Jacob & Co. Watches, Bowflex, Schwinn Exercise, Celestron Telescope, Head Ski Gloves, Kurt Adler, Fender Guitar, Gateway Computer and Krups household appliances.

Of course, underlying Costco's success are our 20+ million loyal members, representing 40+ million loyal cardholders. Of these, 2.5 million are Executive Members, who pay $100 a year to utilize the many Executive Member services the Company offers, as well as earn a 2% Executive Member reward on their qualified purchases. Based on the success of the Executive Member program in the United States, we recently rolled out this program in Canada. To date, we are very pleased with the Canadian program results. Evidencing the continued value of the Costco membership, renewal rates are high for each member category and ran 86%, overall, in fiscal 2003.

Currently, the U.S. Executive Membership Program offers 17 services, including three services that were added in 2003: home equity loans, roadside assistance and online investing. We are currently testing additional services in fiscal year 2004 and would expect to roll out several of these over the next year.

While we are extremely proud of Costco's achievements during Fiscal 2003, we want you to know that we have many opportunities to improve our business, and we are not satisfied with our recent performance in controlling expenses. Expense leverage continues to be our greatest challenge and, we believe, our greatest opportunity.

While our fiscal 2003 sales and margins were fine, our operating expenses as a percent of sales continued to climb, increasing from 9.41% in 2002 to 9.83% in 2003. For the past three fiscal years in the aggregate, our operating expenses as a percent of sales are up 112 basis points. These figures are unacceptable, and we are working hard to reverse this trend.

While sales and margins have been strong, we, like most companies, are dealing with escalating employee health care costs and out-of-control workers' compensation issues, particularly in California. Both of these factors have had a significant impact on our earnings. Some companies have chosen to pass these costs on to their customers or to their employees, but we will not compromise the values that have made our Company great. We prefer to find creative solutions to help us lower costs, while still having a positive impact on our earnings. We are concentrating our energy in this area, challenging expenses at every level of our Company, and we are confident that we can drive down our expense ratios and improve our profitability in the future, hopefully with visible results during the current fiscal year.

In terms of employee health care, we have designed new programs, which are currently being rolled out, that call for our employees to participate more in their health care costs. We have also instituted a campaign to teach them to be better consumers of health care. Even with these financial changes, our benefits programs are still the best in our industry; and we intend to keep them that way. We have been and continue to be leaders in workers' compensation initiatives and legislation reform in California, and we will direct our attention to other states, as needed, to help get these issues resolved in an equitable manner for all concerned. We have also made changes that should enable us to better analyze and control our workers' compensation costs. We are also hopeful that legislative changes currently underway in California will help in getting these costs under control.

Utilizing our state-of-the-art depot system, we have recently instituted what we call "rapid receiving," which increases the efficiency and speed with which we can receive and stock dry goods in our buildings. We expect this to create a significant labor savings for the Company. We are also increasing efficiencies at the front-end of our warehouses in order to help offset the costs of additional front-end personnel that were recently added to improve member service at check-out. While the current economic climate is still tumultuous, we believe Costco is well-positioned to gain tighter control of expenses and continue profitable operations and successful growth while increasing market share.

Regarding the important issues of corporate governance and regulatory requirements, you should know that we are fully compliant with all aspects of the new, expanded standards: we have added two, new independent members to our Board of Directors (see below); the Audit Committee of the Board has been reconfigured to comply with the independence requirements of all the various regulatory agencies; and we have, without exception, complied with all standards required by the Sarbanes-Oxley Act of 2002 and other corporate governance standards. And while many of these new regulatory requirements are extensive and expensive to implement, they are consistent with the basic tenets of honesty and integrity—corporately and individually—on which we built this Company over the last 20 years.

This past year we welcomed to our Board of Directors two outstanding individuals with careers in both public and private service: Daniel J. Evans and William H. Gates, II. Mr. Evans is Chairman of Daniel J. Evans Associates, a consulting firm, and was previously a United States Senator and three-term Governor of the State of Washington. Mr. Gates is the CEO and Co-Chair of the Bill and Melinda Gates Foundation, and was previously a senior partner with the law firm of Preston Gates and Ellis. We are fortunate to have them on our team.

We have set the standard of excellence for our industry, and our financial position is strong. As mentioned earlier in this letter, we are led by the most talented and creative management team in the business; and our employees, 103,000 in all, are dedicated, disciplined and hard-working. All of us are thoroughly committed to doing the very best that we can for our members, our suppliers, our communities and, of course, our shareholders.

Finally, we would like to thank our employees for their outstanding efforts this past year, and our shareholders for their continued confidence and support. Together, let us celebrate Costco's 2003 achievements: record sales and profits; a loyal and growing membership base; expanded operations in both new and in-fill markets; new cost-savings initiatives; great merchandising; and a strengthened balance sheet. We believe all of these factors help to position Costco for long-term growth and success, including increased profitability and shareholder value. We are excited about Costco's future, and look forward to sharing our vision with you at our Annual Meeting of Shareholders on January 29, 2004, in Bellevue, Washington. We send good wishes to you and yours for a happy, healthy Holiday Season and a New Year filled with peace and success.

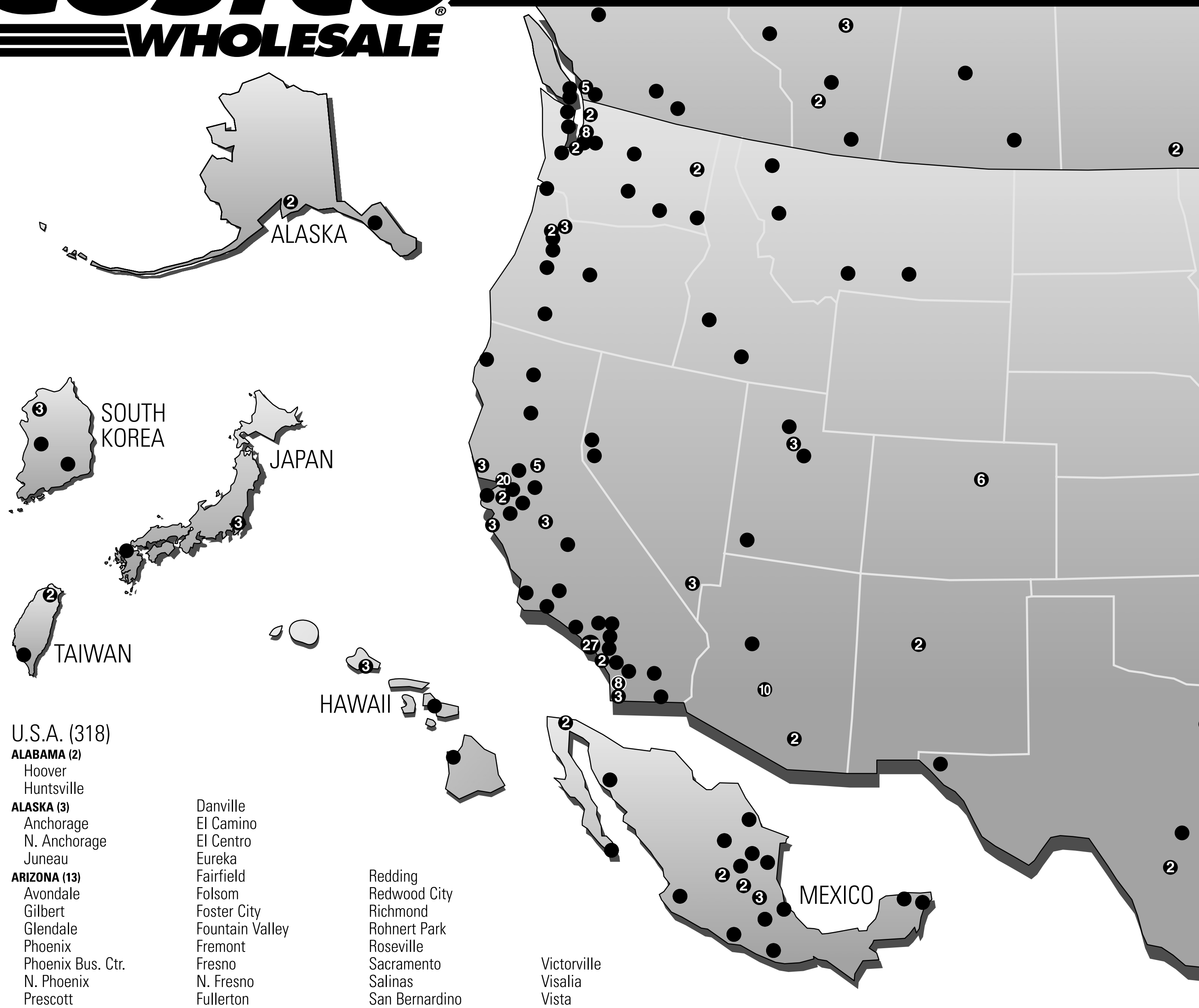
Cordially,

Jeff Brotman
Chairman of the Board

Jim Sinegal
President & CEO

COSTCO WHOLESALE

430 LOCATIONS AS



U.S.A. (318)

ALABAMA (2)
Hoover
Huntsville

ALASKA (3)
Anchorage
N. Anchorage
Juneau

ARIZONA (13)
Avondale
Gilbert
Glendale
Phoenix
Phoenix Bus. Ctr.
N. Phoenix
Prescott
Scottsdale
Superstition Springs
Tempe
Thomas Road
Tucson
NW Tucson

CALIFORNIA (98)
Alhambra
Antioch
Azusa
Bakersfield
Burbank
Cal Expo
Canoga Park
Carlsbad
Carmel Mountain
Chico
Chino Hills
Chula Vista
Citrus Heights
City of Industry
Clovis
Coachella Valley
Concord
Corona
Culver City
Danville
El Camino
El Centro
Eureka
Fairfield
Folsom
Foster City
Fountain Valley
Fremont
Fresno
N. Fresno
Fullerton
Garden Grove
Gilroy
Goleta
Hawthorne
Hayward
Inglewood
Irvine
La Mesa
Laguna Niguel (2)
Lancaster
Livermore
Los Feliz
Merced
Mission Valley
Modesto
Montclair
Montebello
Moreno Valley
Mountain View
Northridge
Norwalk
Novato
Oxnard
Rancho Cordova
Rancho Cucamonga
Rancho del Rey
Redding
Redwood City
Richmond
Rohnert Park
Roseville
Sacramento
Salinas
San Bernardino
San Diego
SE San Diego
San Francisco
S. San Francisco
San Jose (2)
San Juan Capistrano
San Leandro
San Marcos
Sand City
Santa Clara
Santa Clarita
Santa Cruz
Santa Maria
Santa Rosa
Santee
Signal Hill
Simi Valley
Stockton
Sunnyvale
Temecula
Torrance
Tracy
Tustin
Vacaville
Vallejo
Van Nuys
Victorville
Visalia
Vista
Westlake Village
Yorba Linda

COLORADO (6)
Arvada
Aurora
SW Denver
Douglas County
Superior
Westminster

CONNECTICUT (4)
Brookfield
Milford
Norwalk
Waterbury

DELAWARE (1)
Christiana

FLORIDA (17)
Altamonte Springs
Boca Raton
Brandon
Clearwater
Davie
Fort Myers
E. Jacksonville
Kendall
Lantana
Miami
N. Miami Beach
Miami Lakes
Naples
E. Orlando
S. Orlando
Palm Beach Gardens
Pompano Beach

GEORGIA (4)
Gwinnett
Morrow
Perimeter
Town Center

HAWAII (5)
Hawaii Kai
Honolulu
Kailua-Kona
Maui
Waipio

IDAHO (2)
Boise
Twin Falls

ILLINOIS (9)
Bedford Park
Bloomingdale
Glenview
Lake Zurich
Lincoln Park
Naperville
Niles
Oak Brook
Schaumburg

INDIANA (3)
Castleton
N.W. Indianapolis
Merrillville

KANSAS (2)
Lenexa
Overland Park

MARYLAND (6)
Arundel Mills
Beltsville
Frederick
Gaithersburg
Glen Burnie
White Marsh

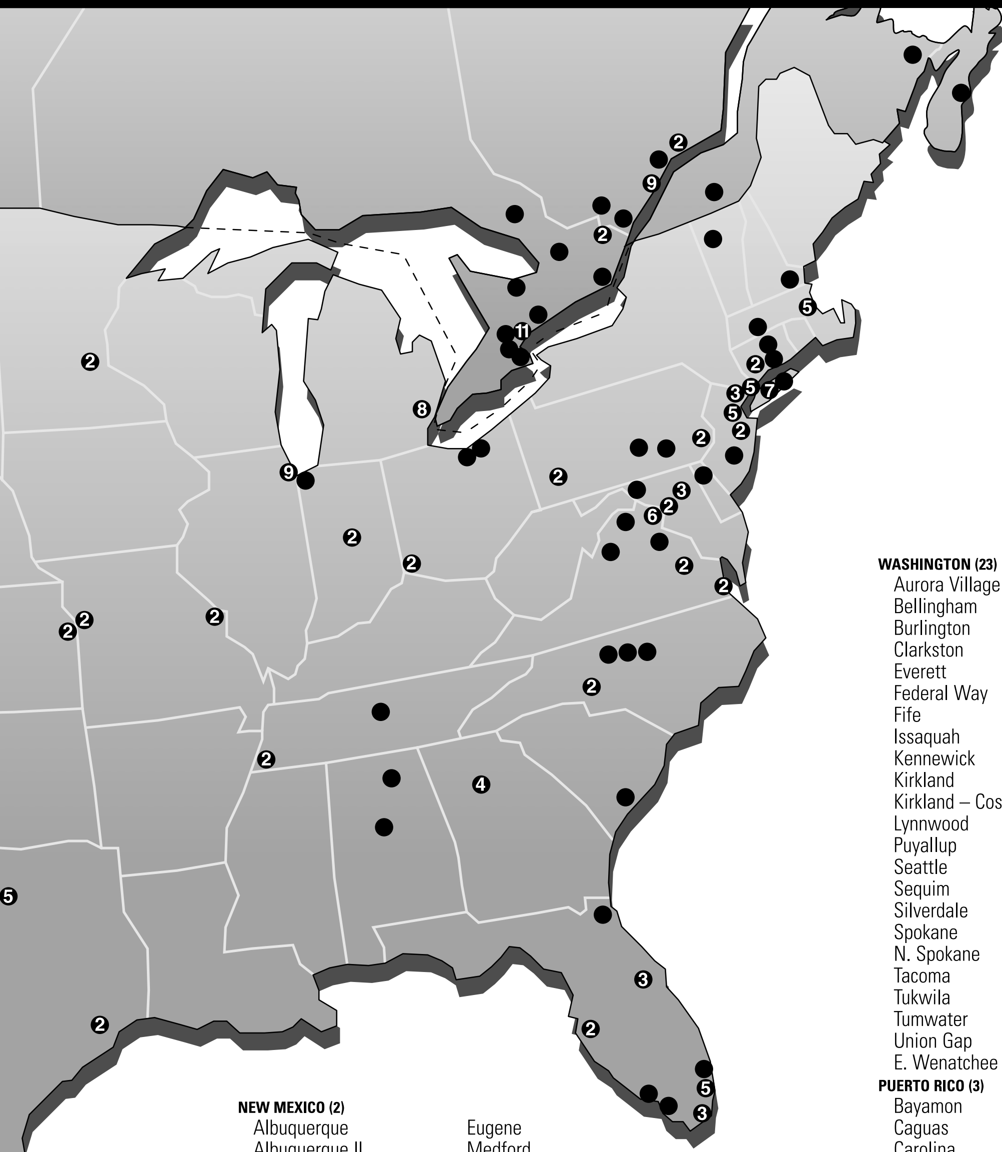
MASSACHUSETTS (6)
Avon
Danvers
Dedham
Everett
W. Springfield
Waltham

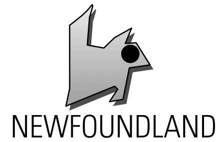
MICHIGAN (8)
Auburn Hills
Bloomfield
Commerce Township
Livonia I
Livonia II
Madison Heights
Roseville
Shelby Township

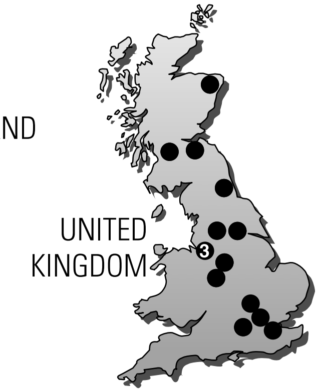
MINNESOTA (2)
Coon Rapids
St. Louis Park

MISSOURI (4)
Independence
Kansas City
So. St. Louis
St. Peters

OF DECEMBER 31, 2003







MONTANA (4)
Billings
Bozeman
Kalispell
Missoula

NEVADA (5)
Carson City
Henderson
Las Vegas
Reno
Summerlin

NEW HAMPSHIRE (1)
Nashua

NEW JERSEY (11)
Brick Township
Bridgewater
Clifton
Edison
Hackensack
E. Hanover
Hazlet
Ocean Township
Union
Wayne
Wharton

NEW MEXICO (2)
Albuquerque
Albuquerque II

NEW YORK (13)
Brooklyn
Commack
Holbrook
Lawrence
Melville
Nanuet
Nesconset
New Rochelle
Port Chester
Queens
Staten Island
Westbury
Yonkers

NORTH CAROLINA (5)
Charlotte
Durham
Greensboro
Matthews
Winston-Salem

OHIO (4)
Avon
Deerfield Township
Mayfield Heights
Springdale

OREGON (11)
Albany
Aloha
Bend
Clackamas
Eugene
Medford
Portland
Salem
Tigard
Warrenton
Wilsonville

PENNSYLVANIA (6)
Cranberry
Harrisburg
King of Prussia
Lancaster
Montgomeryville
Robinson

SOUTH CAROLINA (1)
Charleston

TENNESSEE (3)
Brentwood
NE Memphis
SE Memphis

TEXAS (11)
Arlington
Austin
East Plano
El Paso
Fort Worth
Katy Freeway
NW San Antonio
Sonterra Park
Southlake
West Plano
Willowbrook

UTAH (6)
Murray
S. Ogden
Orem
St. George
Salt Lake City
Sandy

VERMONT (1)
Colchester

VIRGINIA (13)
Chantilly
Chesterfield
Fairfax
Fredericksburg
Harrisonburg
W. Henrico
Manassas
Newington
Newport News
Norfolk
Pentagon City
Sterling
Winchester

WASHINGTON (23)
Aurora Village
Bellingham
Burlington
Clarkston
Everett
Federal Way
Fife
Issaquah
Kennewick
Kirkland
Kirkland – Costco Home
Lynnwood
Puyallup
Seattle
Sequim
Silverdale
Spokane
N. Spokane
Tacoma
Tukwila
Tumwater
Union Gap
E. Wenatchee

PUERTO RICO (3)
Bayamon
Caguas
Carolina

CANADA (62)

ALBERTA (8)
N. Calgary
S. Calgary
Edmonton
N. Edmonton
S. Edmonton
Grande Prairie
Lethbridge
Red Deer

BRITISH COLUMBIA (11)
Abbotsford
Burnaby
Kamloops
Kelowna
Langford
Nanaimo
Port Coquitlam
Prince George
Richmond
Surrey
Vancouver

MANITOBA (2)
E. Winnipeg
Winnipeg

NEW BRUNSWICK (1)
Moncton

NEWFOUNDLAND (1)
St. John's

NOVA SCOTIA (1)
Halifax

ONTARIO (21)
Ajax
Ancaster
Barrie
Brampton
Burlington
Downsview
Etobicoke
Gloucester
Kingston
Kitchener
London
Markham
Mississauga
Mississauga N.
Nepean
Newmarket
St. Catharines
Scarborough
Sudbury
Vaughan
Windsor

QUÉBEC (15)
Anjou
Brossard
Chicoutimi
Gatineau
Laval
Marché Central
Montréal
Pointe Claire
Québec
Sainte-Foy
Saint-Hubert
Saint-Jérôme
Sherbrooke
Terrebonne
Trois-Rivières-Ouest

SASKATCHEWAN (2)
Regina
Saskatoon

JAPAN (4)
Amagasaki
Hisayama
Makuhari
Tamasakai

SOUTH KOREA (5)
Daegu
Daejeon
Sang Bong
Yang Jae
Yang Pyung

TAIWAN (3)
Kaohsiung
Neihu
Shih Chih

UNITED KINGDOM (15)

ENGLAND (12)
Birmingham
Chingford
Derby
Gateshead
Haydock
Leeds
Liverpool
Manchester
Oldham
Reading
Thurrock
Watford

SCOTLAND (3)
Aberdeen
Edinburgh
Glasgow

MEXICO (23)
(50% Joint Venture)

AGUASCALIENTES (1)
Aguascalientes

BAJA CALIFORNIA (2)
Mexicali
Tijuana

BAJA CALIFORNIA SUR(1)
Cabo San Lucas

GUANAJUATO (2)
Celaya
León

GUERRERO (1)
Acapulco

JALISCO (1)
Guadalajara

MEXICO (2)
Interlomas
Satélite

MEXICO, D.F. (3)
Coapa
Mixcoac
Polanco

MICHOACAN (1)
Morelia

MORELOS (1)
Cuernavaca

NUEVO LEÓN (1)
Monterey

PUEBLA (1)
Puebla

QUERÉTARO (1)
Querétaro

QUINTANA ROO (1)
Cancún

SAN LUIS POTOSI (1)
San Luis Potosi

SONORA (1)
Hermosillo

VERACRUZ (1)
Xalapa

YUCATÁN (1)
Mérida

NUMBER OF WAREHOUSES AT FISCAL YEAR END

	Own Land and Building	Lease Land and/or Building	Total
UNITED STATES	243	66	309
CANADA	54	7	61
UNITED KINGDOM	13	2	15
KOREA	2	3	5
TAIWAN	—	3	3
JAPAN	—	4	4
Total	312	85	397

The following schedule shows warehouse openings (net of warehouse closings) by region for the past five fiscal years and openings (net of closings) through December 31, 2003:

Openings by Fiscal Year	United States	Canada	Other International	Total	Total Warehouses in Operation
1999 and prior	221	58	13	292	292
2000	16	1	4	21	313
2001	27	1	4	32	345
2002	26	—	3	29	374
2003	19	1	3	23	397
2004 (through 12/31/03)	9	1	—	10	407
Total	318	62	27	407	

As of August 31,2003, the Company operated (through a 50%-owned joint venture) 23 warehouses in Mexico. These warehouses are not included in the number of warehouses open in any period because the joint venture is accounted for using the equity method and therefore their operations are not consolidated in the Company's financial statements.

The Company's headquarters are located in Issaquah, Washington. Additionally, the Company maintains regional buying and administrative offices, operates regional cross-docking facilities (depots) for the consolidation and distribution of certain shipments to the warehouses, and operates various processing, packaging, and other facilities to support ancillary and other businesses.

In addition to its broad range of high quality, nationally branded and private label merchandise, the Company has enhanced the warehouse club concept to include fresh products (meat, bakery, deli and produce) as well as a number of ancillary businesses, including the following as of December 31, 2003:

ANCILLARY BUSINESSES

	United States	Canada	Other International	Total
Pharmacy	307	40	0	347
Optical Dispensing Centers	306	58	22	386
One-Hour Photo	309	62	27	398
Food Court and Hot Dog Stands	313	62	27	402
Hearing Aid Centers	126	10	0	136
Copy Centers	9	0	0	9
Print Shops	2	0	0	2
Gas Stations	198	3	0	201

QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)
(dollars in thousands, except per share data)

The following table sets forth the results of operations by quarter for fiscal 2003 and 2002. This information includes all adjustments which management considers necessary for a fair presentation.

	52 Weeks Ended August 31, 2003					52 Weeks Ended September 1, 2002				
	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 16 Weeks	Total 52 Weeks	First Quarter 12 Weeks	Second Quarter 12 Weeks	Third Quarter 12 Weeks	Fourth Quarter 16 Weeks	Total 52 Weeks
REVENUE										
Net sales	$9,010,571	$ 9,920,324	$9,344,959	$13,416,845	$41,692,699	$8,297,076	$9,208,413	$8,436,807	$12,050,797	$37,993,093
Membership fees and other	188,014	193,843	198,112	272,884	852,853	169,477	174,439	179,940	245,550	769,406
Total revenue	9,198,585	10,114,167	9,543,071	13,689,729	42,545,552	8,466,553	9,382,852	8,616,747	12,296,347	38,762,499
OPERATING EXPENSES										
Merchandise costs	8,048,897	8,840,411	8,358,323	11,987,752	37,235,383	7,434,397	8,212,030	7,583,251	10,753,443	33,983,121
Selling, general and administrative	888,779	967,051	923,309	1,318,259	4,097,398	786,118	840,005	806,617	1,142,796	3,575,536
Preopening expenses	18,117	7,145	5,853	5,528	36,643	22,134	8,616	6,077	14,430	51,257
Provision for impaired assets and closing costs	5,000	4,500	6,000	4,000	19,500	8,550	3,000	4,500	5,000	21,050
Operating income	237,792	295,060	249,586	374,190	1,156,628	215,354	319,201	216,302	380,678	1,131,535
OTHER INCOME (EXPENSE)										
Interest expense	(8,468)	(8,003)	(8,715)	(11,734)	(36,920)	(6,238)	(6,199)	(8,643)	(8,016)	(29,096)
Interest income and other	7,634	8,983	9,179	12,729	38,525	6,977	7,926	9,624	11,218	35,745
INCOME BEFORE INCOME TAXES	236,958	296,040	250,050	375,185	1,158,233	216,093	320,928	217,283	383,880	1,138,184
Provision for income taxes	91,229	113,975	96,270	135,759	437,233	86,437	128,372	86,913	136,479	438,201
NET INCOME	$ 145,729	$ 182,065	$ 153,780	$ 239,426	$ 721,000	$ 129,656	$ 192,556	$ 130,370	$ 247,401	$ 699,983
NET INCOME PER COMMON SHARE:										
Basic Earnings per share:										
Net Income	$ 0.32	$ 0.40	$ 0.34	$ 0.52	$ 1.58	$ 0.29	$ 0.43	$ 0.29	$ 0.54	$ 1.54
Diluted earnings per share:										
Net Income	$ 0.31	$ 0.39	$ 0.33	$ 0.51	$ 1.53	$ 0.28	$ 0.41	$ 0.28	$ 0.52	$ 1.48
Shares used in calculation (000's):										
Basic	455,570	455,927	456,370	457,187	456,335	451,990	452,882	454,272	455,008	453,650
Diluted	478,857	478,564	479,183	480,384	479,326	477,395	479,931	480,256	479,240	479,262

TEN YEAR OPERATING AND FINANCIAL HIGHLIGHTS
(dollars in millions, except per share data)

WAREHOUSES IN OPERATIONS	2003		2002		2001		2000	
Beginning of year	374		345		313		292	
Openings	29		35		39		25	
Closings	(6)		(6)		(7)		(4)	
End of year	397		374		345		313	
OPERATING RESULTS								
Revenue								
Net Sales	$41,693	100.0%	$37,993	100.0%	$34,137	100.0%	$31,621	100.0%
Membership fees and other	853	2.0	769	2.0	660	1.9	543	1.7
Total revenue	42,546	102.0	38,762	102.0	34,797	101.9	32,164	101.7
Operating expenses								
Merchandise costs	37,235	89.3	33,983	89.4	30,598	89.6	28,322	89.6
Selling, general and administrative expenses	4,097	9.8	3,576	9.4	3,129	9.2	2,756	8.7
Preopening expenses	37	0.1	51	0.1	60	0.2	42	0.1
Provision for impaired assets and closing costs	20	0.0	21	0.1	18	—	7	—
Operating expenses	41,389	99.2	37,631	99.0	33,805	99.0	31,127	98.4
Operating income	1,157	2.8	1,131	3.0	992	2.9	1,037	3.3
Other income (expenses)								
Interest expense	(37)	(0.1)	(29)	(0.1)	(32)	(0.1)	(39)	(0.1)
Interest income and other	38	0.1	36	0.1	43	0.1	54	0.2
Provision for merger and restructuring expenses	—	—	—	—	—	—	—	—
Income from continuing operations before income taxes and cumulative effect of accounting change	1,158	2.8	1,138	3.0	1,003	2.9	1,052	3.3
Provision for income taxes	437	1.1	438	1.2	401	1.1	421	1.3
Income from continuing operations before cumulative effect of accounting change	721	1.7	700	1.8	602	1.8	631	2.0
Cumulative effect of accounting change, net of tax	—	—	—	—	—	—	—	—
Income from continuing operations	721	1.7	700	1.8	602	1.8	631	2.0
Discontinued operations:								
Income (loss), net of tax	—	—	—	—	—	—	—	—
Loss on disposal	—	—	—	—	—	—	—	—
Net income (loss)	$ 721	1.7%	$ 700	1.8%	$ 602	1.8%	$ 631	2.0%
Per Share Data—Diluted								
Income from continuing operations before cumulative effect of accounting change	$ 1.53		$ 1.48		$ 1.29		$ 1.35	
Cumulative effect of accounting change, net of tax	—		—		—		—	
Income from continuing operations	1.53		1.48		1.29		1.35	
Discontinued operations:								
Income (loss), net of tax	—		—		—		—	
Loss on disposal	—		—		—		—	
Net income (loss)	$ 1.53		$ 1.48		$ 1.29		$ 1.35	
Shares used in calculation (000's)	479,326		479,262		475,827		475,737	
Balance Sheet Data								
Working capital (deficit)	$ 700		$ 181		$ (230)		$ 66	
Property and equipment, net	6,960		6,524		5,827		4,834	
Total assets	13,192		11,620		10,090		8,634	
Short-term debt	47		104		195		10	
Long-term debt and capital lease obligations	1,290		1,211		859		790	
Stockholders' equity	6,555		5,694		4,883		4,240	
SALES INCREASE (DECREASE) FROM PRIOR YEAR								
Total	10%		11%		8%		17%	
Comparable units	5%		6%		4%		11%	
MEMBERS AT YEAR END (000'S)								
Business (primary cardholders)	4,636		4,476		4,358		4,170	
Gold Star	14,984		14,597		12,737		10,521	

1999		1998		1997		1996		1995		1994	
278		261		252		240		221		200	
21		18		17		20		24		29	
(7)		(1)		(8)		(8)		(5)		(8)	
292		278		261		252		240		221	
$26,976	100.0%	$23,830	100.0%	$21,484	100.0%	$19,214	100.0%	$17,906	100.0%	$16,161	100.0%
480	1.8	440	1.8	390	1.8	352	1.8	341	1.9	320	2.0
27,456	101.8	24,270	101.8	21,874	101.8	19,566	101.8	18,247	101.9	16,481	102.0
24,170	89.6	21,380	89.7	19,314	89.9	17,345	90.3	16,226	90.6	14,663	90.7
2,338	8.7	2,070	8.7	1,877	8.7	1,691	8.8	1,556	8.7	1,426	8.8
31	0.1	27	0.1	27	0.1	29	0.1	25	0.1	25	0.2
57	0.2	6	—	75	0.4	10	—	7	—	7	—
26,596	98.6	23,483	98.5	21,293	99.1	19,075	99.2	17,814	99.5	16,121	99.8
860	3.2	787	3.3	581	2.7	491	2.6	433	2.4	360	2.2
(45)	(0.2)	(48)	(0.2)	(76)	(0.4)	(78)	(0.4)	(68)	(0.4)	(50)	(0.3)
44	0.2	27	0.1	15	0.1	11	—	3	—	14	0.1
—	—	—	—	—	—	—	—	—	—	(120)	(0.7)
859	3.2	766	3.2	520	2.4	424	2.2	368	2.0	204	1.3
344	1.3	306	1.3	208	0.9	175	0.9	151	0.8	93	0.6
515	1.9	460	1.9	312	1.5	249	1.3	217	1.2	111	0.7
(118)	(0.4)	—	—	—	—	—	—	—	—	—	—
397	1.5	460	1.9	312	1.5	249	1.3	217	1.2	111	0.7
—	—	—	—	—	—	—	—	—	—	(41)	(0.3)
—	—	—	—	—	—	—	—	(83)	(0.5)	(182)	(1.1)
$ 397	1.5%	$ 460	1.9%	$ 312	1.5%	$ 249	1.3%	$ 134	0.7%	$ (112)	(0.7%)
$ 1.11		$ 1.01		$ 0.73		$ 0.61		$ 0.53		$ 0.25	
(0.25)		—		—		—		—		—	
0.86		1.01		0.73		0.61		0.53		0.25	
—		—		—		—		—		(0.09)	
—		—		—		—		(0.19)		(0.42)	
$ 0.86		$ 1.01		$ 0.73		$ 0.61		$ 0.34		$ (0.26)	
471,120		463,371		449,336		435,781		447,219		438,664	
$ 450		$ 431		$ 146		$ 57		$ 9		$ (113)	
3,907		3,395		3,155		2,888		2,535		2,146	
7,505		6,260		5,476		4,912		4,437		4,236	
—		—		25		60		76		149	
919		930		917		1,229		1,095		795	
3,532		2,966		2468		1,778		1,531		1,685	
13%		11%		12%		7%		11%		7%	
10%		8%		9%		5%		2%		(3%)	
3,887		3,676		3,537		3,435		3,318		3,228	
9,555		8,654		7,845		7,076		6,683		6,088	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For these purposes, forward-looking statements are statements that address activities, events, conditions or developments that the Company expects or anticipates may occur in the future. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. These risks and uncertainties include, but are not limited to, domestic and international economic conditions including exchange rates, the effects of competition and regulation, conditions affecting the acquisition, development, ownership or use of real estate, actions of vendors, rising costs associated with employees (including health care and workers' compensation costs), consumer and small business debt levels and spending patterns, and other risks identified from time to time in the Company's public statements and reports filed with the Securities and Exchange Commission.

Comparison of Fiscal 2003 (52 weeks) and Fiscal 2002 (52 weeks):
(dollars in thousands, except earnings per share)

Net income for fiscal 2003 increased 3% to $721,000, or $1.53 per diluted share, from $699,983, or $1.48 per diluted share during fiscal year 2002.

Net sales increased 10% to $41,692,699 in fiscal 2003 from $37,993,093 in fiscal 2002. Approximately 55% of the increase was due to an increase in comparable warehouse sales, that is sales in warehouses open for at least a year, and approximately 45% of the increase was due to opening a net of 23 new warehouses (29 opened, 6 closed) during fiscal 2003 and a net of 29 new warehouses (35 opened, 6 closed) during fiscal 2002, a portion of which is not included in comparable warehouse sales. With the exception of gasoline, which accounted for a comparable sales increase of approximately 70 basis points, changes in prices of merchandise did not materially contribute to sales increases. In addition, due to the weaker US dollar, translation of foreign sales into US dollars contributed to the increase in sales, accounting for a comparable sales increase of approximately one percent year-over-year. Comparable sales increased at a 5% annual rate in fiscal 2003 compared to a 6% annual rate during fiscal 2002.

Membership fees and other revenue increased 11% to $852,853, or 2.05% of net sales, in fiscal 2003 from $769,406, or 2.03% of net sales, in fiscal 2002. This increase was primarily due to additional membership sign-ups at the 23 new warehouses opened in fiscal 2003, and increased penetration of the Company's Executive Membership. Overall, member renewal rates remained consistent with the prior year, currently at 86%.

Gross margin (defined as net sales minus merchandise costs) increased 11% to $4,457,316, or 10.69% of net sales, in fiscal 2003 from $4,009,972, or 10.55% of net sales, in fiscal 2002. The increase in gross margin as a percentage of net sales reflects merchandise gross margin improvement within the Company's ancillary warehouse businesses and international operations accounting for increases of 15 and 8 basis points, respectively. Additionally, increased rewards related to the Executive Membership Two-Percent Reward Program reduced gross margin by 7 basis points. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. The effect of the LIFO adjustment for fiscal 2003 was to increase gross margin by $19,650, compared to a gross margin increase of $13,500 in fiscal 2002. If all inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been lower by $19,500 at August 31, 2003 and higher by $150 at September 1, 2002.

Selling, general and administrative expenses as a percent of net sales increased to 9.83% during fiscal 2003 from 9.41% during fiscal 2002. The increase in selling, general and administrative expenses as a percent of net sales was primarily due to increases in healthcare, workers' compensation (primarily in the state of California) and salary costs within the Company's domestic operations. International expenses also increased, accounting for approximately 7 basis points of the 42 basis points year-over-year increase.

Preopening expenses totaled $36,643, or 0.09% of net sales, during fiscal 2003 and $51,257, or 0.13% of net sales, during fiscal 2002. During fiscal 2003, the Company opened 29 new warehouses (including 5 relocations) compared to 35 new warehouses (including 6 relocations) during fiscal 2002. Pre-opening expenses also include costs related to remodels and expanded ancillary operations at existing warehouses, as well as expanded international operations.

The provision for impaired assets and closing costs was $19,500 in fiscal 2003 compared to $21,050 in fiscal 2002. The provision includes costs related to impairment of long-lived assets, future lease obligations of warehouses that have been relocated to new facilities and any losses or gains resulting from the sale of real property. The provision for fiscal 2003 included charges of $11,836 for warehouse closing expenses, $4,697 for impairment of long-lived assets and $2,967 for net losses on the sale of real property. The fiscal 2002 provision included charges of $13,683 for warehouse closing expenses and $7,765 for Canadian administrative reorganization, which were offset by $398 of net gains on the sale of real property. At August 31, 2003 the reserve for warehouse closing costs was $8,609, of which $7,833 related to lease obligations. This compares to a reserve for warehouse closing costs of $11,845 at September 1, 2002, of which $10,395 related to lease obligations.

Interest expense totaled $36,920 in fiscal 2003, and $29,096 in fiscal 2002. Interest expense in fiscal 2003 includes interest on the 3 ½% Zero Coupon Notes, 7 ⅛% and 5 ½% Senior Notes and on balances outstanding under the Company's bank credit facilities and promissory notes. The increase is primarily related to the reduction in interest capitalized related to warehouse construction, as the overall cost of projects under construction was lower than in fiscal 2002. The increase was also attributed to the Company's issuance of $300,000 5 ½% Senior Notes in March 2002, which were simultaneously swapped to a floating interest rate. This increase was partially offset by an interest rate reduction in the Company's $300,000 7 ⅛% Senior Notes, resulting from interest rate swap agreements entered into effective November 13, 2001, converting the interest rate from fixed to floating, and to the fact that the Company had little interest expense related to borrowings under its commercial paper program in fiscal 2003.

Interest income and other totaled $38,525 in fiscal 2003, compared to $35,745 in fiscal 2002. The increase primarily reflects greater interest earned on higher cash and cash equivalents balances on hand throughout fiscal 2003, as compared to fiscal 2002, which was partially offset by an increase in the expense to record the minority interest in earnings of foreign subsidiaries.

The effective income tax rate on earnings was 37.75% in fiscal 2003 and 38.50% in fiscal 2002. The decrease in the effective income tax rate, year-over-year, is primarily attributable to lower statutory income tax rates for foreign operations.

Comparison of Fiscal 2002 (52 weeks) and Fiscal 2001 (52 weeks):
(dollars in thousands, except earnings per share)

Net income for fiscal 2002 increased 16% to $699,983, or $1.48 per diluted share, from $602,089, or $1.29 per diluted share during fiscal year 2001.

Net sales increased 11% to $37,993,093 in fiscal 2002 from $34,137,021 in fiscal 2001. This increase was due to higher sales at existing locations opened prior to fiscal 2001; increased sales at the 32 new warehouses opened (39 opened, 7 closed) during fiscal 2001; and first year sales at the 29 new warehouses opened (35 opened, 6 closed) during fiscal 2002. Changes in prices did not materially impact sales levels.

Comparable sales, that is sales in warehouses open for at least a year, increased at a 6% annual rate in fiscal 2002 compared to a 4% annual rate during fiscal 2001.

Membership fees and other revenue increased 17% to $769,406, or 2.03% of net sales, in fiscal 2002 from $660,016, or 1.93% of net sales, in fiscal 2001. This increase was primarily due to the increase in membership fees across all member categories – beginning with renewals on October 1, 2000, averaging approximately five dollars per member; additional membership sign-ups at the 29 new warehouses opened in fiscal 2002; and increased penetration of the Company's Executive Membership. Overall, member renewal rates remained consistent with the prior year, currently at 86%.

Gross margin (defined as net sales minus merchandise costs) increased 13% to $4,009,972, or 10.55% of net sales, in fiscal 2002 from $3,538,881, or 10.37% of net sales, in fiscal 2001. The increase in gross margin as a percentage of net sales reflects merchandise gross margin improvement within the Company's core merchandising business, with fresh foods and foods and sundries categories being the primary contributors. Additionally, a reduction in the LIFO reserve, improved purchasing resulting from expanded depot operations and improved international operations had a positive effect on margins, while increased costs related to the Executive Membership Two-Percent Reward Program had a negative impact. The gross margin figures reflect accounting for most U.S. merchandise inventories on the last-in, first-out (LIFO) method. The effect of the LIFO adjustment for fiscal 2002 was to increase gross margin by $13,500, compared to a gross margin decrease of $5,500 in fiscal 2001. If all inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been higher by $150 at September 1, 2002 and $13,650 at September 2, 2001.

Selling, general and administrative expenses as a percent of net sales increased to 9.41% during fiscal 2002 from 9.17% during fiscal 2001. The increase in selling, general and administrative expenses as a percent of net sales was primarily due to higher expense ratios at new warehouses, where such expense ratios to sales are typically higher than at more mature warehouses; and also due to increases in salary, healthcare and workers' compensation costs.

Preopening expenses totaled $51,257, or 0.13% of net sales, during fiscal 2002 and $59,571, or 0.17% of net sales, during fiscal 2001. During fiscal 2002, the Company opened 35 new warehouses (including relocations) compared to 39 new warehouses (including relocations) during fiscal 2001. Pre-opening expenses also include costs related to remodels and expanded ancillary operations at existing warehouses, as well as expanded international operations.

The provision for impaired assets and closing costs was $21,050 in fiscal 2002 compared to $18,000 in fiscal 2001. The fiscal 2002 provision included charges of $7,765 for the Canadian administrative reorganization (See "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" —Liquidity and Capital Resources) and $13,683 for warehouse closing expenses which were offset by net gains on the sale of real property totaling $398. The fiscal 2001 provision included charges of $19,000 for the Canadian administrative reorganization, $15,231 for the impairment of long-lived assets and $2,412 for warehouse closing expense, which were offset by $18,643 of gains on the sale of real property. At September 1, 2002, the reserve for warehouse closing costs was $11,845, of which $10,395 related to future lease obligations. This compares to a reserve for warehouse closing costs of $15,434 at September 1, 2001, of which $6,538 related to future lease obligations. The increase in future lease obligations is attributable to leased warehouses constituting a larger percentage of the closed locations. (See Part II, "Item 8—Financial Statements"—Notes to Consolidated Financial Statements—Note 1).

Interest expense totaled $29,096 in fiscal 2002, and $32,024 in fiscal 2001. The decrease is primarily attributable to the retirement in April 2001 of a $140,000 unsecured note payable to banks and to the interest rate reduction on the Company's $300,000 7 1⁄8% Senior Notes, resulting from interest rate swap agreements entered into effective November 13, 2001, converting the interest rate from fixed to floating. This decrease in interest expense was partially offset by a reduction in interest capitalized related to warehouse construction, as the Company had fewer construction projects in progress during the fiscal 2002 period, and the weighted average capitalized interest rate was lower than in fiscal 2001. The decrease in interest expense was also offset by the issuance of the $300,000 5 1⁄2% Senior Notes issued in March, 2002, and simultaneously swapped to floating, and increased interest expense related to the Zero Coupon subordinated notes as accrued interest is accreted into principal.

Interest income and other totaled $35,745 in fiscal 2002, compared to $43,238 in fiscal 2001. The decrease primarily reflects lower interest income due to lower interest rates and lower daily cash and short-term investment balances on hand throughout fiscal 2002, as compared to fiscal 2001. This was partially offset by increased year-over-year earnings in Costco Mexico, the Company's 50%-owned joint venture.

The effective income tax rate on earnings was 38.5% in fiscal 2002 and 40% in fiscal 2001. The decrease in the effective income tax rate, year-over-year, is primarily attributable to lower statutory rates for foreign operations, the effect of which is expected, substantially, to continue to impact the effective tax rate on a prospective basis.

Liquidity and Capital Resources (dollars in thousands)

Expansion Plans

Costco's primary requirement for capital is the financing of the land, building and equipment costs for new warehouses plus the costs of initial warehouse operations and working capital requirements, as well as additional capital for international expansion through investments in foreign subsidiaries and joint ventures.

While there can be no assurance that current expectations will be realized, and plans are subject to change upon further review, it is management's current intention to spend an aggregate of approximately $900,000 to $1,000,000 during fiscal 2004 in the United States and Canada for real estate, construction, remodeling and equipment for warehouse clubs and related operations; and approximately $75,000 to $125,000 for international expansion, including the United Kingdom, Asia, Mexico and other potential ventures. These expenditures will be financed with a combination of cash provided from operations, the use of cash and cash equivalents and short-term investments, short-term borrowings under the Company's commercial paper program and other financing sources as required.

Expansion plans for the United States and Canada during fiscal 2004 are to open approximately 25 new warehouse clubs, including two relocations to larger and better-located warehouses. The Company expects to continue its review of expansion plans in its international operations in existing markets including the United Kingdom and in Asia along with other international markets. Costco and its Mexico-based joint venture partner, Controladora Comercial Mexicana, each own a 50% interest in Costco Mexico. As of August 31, 2003, Costco Mexico operated 21 warehouses in Mexico and planned to open two new warehouse clubs during fiscal 2004.

Reorganization of Canadian Administrative Operations

On January 17, 2001, the Company announced plans to reorganize and consolidate the administration of its operations in Canada. Total costs related to the reorganization were $26,765 pre-tax, of which $7,765 pre-tax ($4,775 after-tax, or $.01 per diluted share) was expensed in fiscal 2002 and $19,000 pre-tax ($11,400 after-tax, or $.02 per diluted share) was expensed in fiscal 2001 and reported as part of the provision for impaired assets and closing costs. These costs consisted primarily of employee severance, implementation and consolidation of support systems and employee relocation. The reorganization was completed in the first quarter of fiscal 2002.

Bank Credit Facilities and Commercial Paper Programs (all amounts stated in thousands of US dollars)

The Company has in place a $500,000 commercial paper program supported by a $300,000 bank credit facility with a group of ten banks, of which $150,000 expires on November 9, 2004 and $150,000 expires on November 15, 2005. At August 31, 2003, no amounts were outstanding under the commercial paper program and no amounts were outstanding under the credit facility.

A wholly owned Canadian subsidiary has a $144,000 commercial paper program supported by a $43,000 bank credit facility with a Canadian bank, which expires in March 2004. At August 31, 2003, no amounts were outstanding under the Canadian commercial paper program or the bank credit facility.

The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the $343,000 combined amounts of the supporting bank credit facilities.

The Company's wholly-owned Japanese subsidiary has a short-term ¥3 billion ($25,782) bank line of credit, which expires in November 2004. At August 31, 2003, no amounts were outstanding under the line of credit.

The Company's UK subsidiary has a £60 million ($94,842) bank revolving credit facility and a £20 million ($31,614) bank overdraft facility, both expiring in February 2007. At August 31, 2003, $47,421 was outstanding under the revolving credit facility with an applicable interest rate of 4.413% and no amounts were outstanding under the bank overdraft facility.

Letters of Credit

The Company has letter of credit facilities (for commercial and standby letters of credit), totaling approximately $369,000. The outstanding commitments under these facilities at August 31, 2003 totaled approximately $125,000, including approximately $44,000 in standby letters of credit.

Contractual Obligations

The Company's commitment to make future payments under long-term contractual obligations was as follows, as of August 31, 2003.

	Payments Due by Period				
Contractual obligations	**Total**	**Less than 1 year**	**1 to 3 years**	**4 to 5 years**	**After 5 years**
Long-term debt(1)	$1,702,618(2)	$ 44,368	$361,542	$379,528	$ 917,180(2)
Capital lease obligations	12,116	6,427	2,250	1,115	2,324
Operating leases	1,405,262(3)	85,862	173,996	162,101	983,303
Total	$3,119,996	$136,657	$537,788	$542,744	$1,902,807

(1) Amounts include contractual interest payments.

(2) The amount includes interest accreted to maturity for the Company's Zero Coupon 3 ½% Convertible Subordinated Notes due August 2017, totaling $851,860. The consolidated balance sheet as of August 31, 2003 reflects the current balance outstanding of $524,735.

(3) Operating lease obligations have been reduced by $142,975 to reflect sub-lease income.

Financing Activities

In April 2003, the Company's wholly-owned Japanese subsidiary issued promissory notes bearing interest at 0.92% in the aggregate amount of approximately $34,376, through a private placement. Interest is payable semi-annually and principal is due on April 26, 2010.

In November 2002, the Company's wholly-owned Japanese subsidiary issued promissory notes bearing interest at 0.88% in the aggregate amount of approximately $25,782, through a private placement. Interest is payable semi-annually and principal is due on November 7, 2009.

In March 2002, the Company issued $300,000 of 5 ½% Senior Notes due March 15, 2007. Interest is payable semi-annually. Simultaneous with the issuance of the Senior Notes, the Company entered into interest rate swap agreements converting the interest from fixed to floating.

In February 1996, the Company filed with the Securities and Exchange Commission a shelf registration statement for $500,000 of senior debt securities. On October 23, 2001, additional debt securities of $100,000 were registered, bringing the total amount of debt registered under the shelf registration to $600,000. The $300,000 of 5 ½% Senior Notes issued in March 2002 reduced the amount of registered securities available for future issuance to $300,000.

Derivatives

The Company has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases and typically have very short terms. The aggregate amount of foreign exchange contracts outstanding at August 31, 2003 was not material. The only significant derivative instruments the Company holds are interest rate swaps, which the Company uses to manage the interest rate risk associated with its borrowings and to manage the Company's mix of fixed and variable-rate debt. As of August 31, 2003, the Company had "fixed-to-floating" interest rate swaps with an aggregate notional amount of $600,000 and an aggregate fair value of $34,204, which is recorded in other assets. These swaps were entered into effective November 13, 2001, and March 25, 2002, and are designated and qualify as fair value hedges of the Company's $300,000 7⅛% Senior Notes and the Company's $300,000 5½% Senior Notes, respectively. As the terms of the swaps match those of the underlying hedged debt, the changes in the fair value of these swaps are offset by corresponding changes in the carrying amount of the hedged debt, and result in no net earnings impact.

Financial Position and Cash Flows

Working capital totaled $700,431 at August 31, 2003, compared to $180,806 at September 1, 2002. The increase of $519,625 was primarily due to an increase in cash and cash equivalents of $739,921, an increase in receivables of $81,229 and a reduction in short-term borrowing of $56,353, which was offset by increases in accrued salaries and benefits and in other current liabilities of $144,334 and $141,381, respectively, and a decrease in net inventory levels (inventories less accounts payable) of $34,844.

Net cash provided by operating activities totaled $1,507,208 in fiscal 2003, compared to $1,018,243 in fiscal 2002. The increase of $488,965 is primarily a result of a decrease in the change in net inventories (inventories less accounts payable) of $256,288; an increase in the change in the aggregation of receivables, other current assets, deferred income and accrued and other current liabilities of $102,284, an increase in the change in deferred income taxes of $56,514 and an increase in depreciation and amortization of $49,521 between fiscal 2003 and fiscal 2002.

Net cash used in investing activities totaled $790,588 in fiscal 2003, compared to $1,033,815 in fiscal 2002, a decrease of $243,227. This decrease is primarily a result of a reduction in the acquisition of property and equipment and the construction of facilities for new and remodeled warehouses of $227,940 and an increase in the proceeds received from the sale of property and equipment between fiscal 2003 and fiscal 2002 of $18,980.

Net cash used in financing activities totaled $1,428 in fiscal 2003 compared to cash provided by financing activities of $217,828 in fiscal 2002, a decrease of $219,256. The decrease in cash provided by financing activities primarily resulted from a decrease in net proceeds from the issuance of long-term debt of $240,576 and a reduction in proceeds from the exercise of stock options of $32,104 offset by a decrease in repayments of short-term borrowings of $41,031 between fiscal 2003 and fiscal 2002.

Stock Repurchase Program

On November 30, 2001, the Company's Board of Directors approved a stock repurchase program, authorizing the repurchase of up to $500,000 of Costco Common Stock through November 30, 2004. Under the program, the Company can repurchase shares at any time in the open market or in private transactions as market conditions warrant. The repurchased shares would constitute authorized, but non-issued shares and would be used for general corporate purposes, including stock option grants under stock option programs. To date, no shares have been repurchased under this program.

Additional Equity Investments in Subsidiary Subsequent to Year-End

Subsequent to the Company's fiscal year end, the Company, on October 3, 2003 acquired from Carrefour Nederland B.V. its 20% equity interest in Costco Wholesale UK Limited for cash of approximately $95,000, bringing Costco's ownership in Costco Wholesale UK Limited to 100%.

Critical Accounting Policies

The preparation of the Company's financial statements requires that management make estimates and judgments that affect the financial position and results of operations. Management continues to review its accounting policies and evaluate its estimates, including those related to merchandise inventory, impairment of long-lived assets and warehouse closing costs and insurance/self-insurance liabilities. The Company bases its estimates on historical experience and on other assumptions that management believes to be reasonable under the present circumstances.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail method of accounting and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. Merchandise inventories for all foreign operations are primarily valued by the retail method of accounting, and are stated using the first-in, first-out (FIFO) method. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. The Company records an adjustment each quarter for the expected annual effect of inflation, and these estimates are adjusted to actual results determined at year-end. The Company considers in its calculation of the LIFO cost the estimated net realizable value of inventory in those inventory pools where deflation exists and records a write down of inventory where estimated net realizable value is less than LIFO inventory.

The Company provides for estimated inventory losses between physical inventory counts on the basis of a percentage of sales. The provision is adjusted periodically to reflect the trend of the actual physical inventory count results, which generally occur in the second and fourth fiscal quarters.

Inventory cost, where appropriate, is reduced by estimates of vendor rebates earned when those rebates are deemed to be probable and reasonably estimable. Other consideration received from vendors is generally recorded as a reduction of merchandise costs upon completion of contractual milestones, terms of agreement, or other systematic and rational approach.

Impairment of long-lived assets and warehouse closing costs

The Company periodically evaluates its long-lived assets for indicators of impairment. Management's judgments are based on market and operational conditions at the present time. Future events could cause management to conclude that impairment factors exist, requiring an adjustment of these assets to their then-current fair market value.

The Company provides estimates for warehouse closing costs when it is appropriate to do so based on accounting principles generally accepted in the United States. Future circumstances may result in the Company's actual future closing costs or the amount recognized upon the sale of the property to differ substantially from the original estimates.

Insurance/Self Insurance Liabilities

The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for workers' compensation, general liability, property insurance, director and officers' liability, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience and outside expertise, demographic factors, severity factors and other actuarial assumptions. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143 (SFAS No. 143), "Accounting for Asset Retirement Obligations," which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 143 was effective for the Company's 2003 fiscal year. The adoption of SFAS No. 143 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for the Company's 2003 fiscal year. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and other related accounting guidance. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting of costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity should be recognized at fair value when the liability is incurred. SFAS No. 146 was effective for the Company's 2003 fiscal year. The adoption of SFAS No. 146 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows, other than to impact the timing of charges related to future warehouse relocations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which provides guidance for transition to the fair value based method of accounting for stock-based employee compensation and the required financial statement disclosure. Effective September 3, 2002 the Company adopted the fair value based method of accounting for stock-based compensation. See Note (1) and Note (5) of the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation established financial statement disclosure requirements for companies that enter into or modify certain types of guarantees subsequent to December 31, 2002. Beginning in calendar 2003, the standard requires that companies record the fair value of certain types of guarantees as a liability in the financial statements. The adoption of this interpretation did not have a material impact on the Company's results of operations, consolidated financial position or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of this interpretation did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In November 2002, the EITF reached a consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables," with respect to determining when and how to allocate revenue from sales with multiple deliverables. The EITF 00-21 consensus provides a framework for determining when and how to allocate revenue from sales with multiple deliverables based on a determination of whether the multiple deliverables qualify to be accounted for as separate units of accounting. The consensus is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of this consensus did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In November 2002, the EITF reached consensus on certain issues discussed in EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," with respect to determining how a reseller should characterize consideration received from a vendor and when to recognize and how to measure that consideration in its income statement. Requirements for recognizing volume-based rebates are effective for arrangements entered into or modified after November 21, 2002, and resellers with other supplier payments should generally apply the new rules prospectively for agreements entered into or modified after December 31, 2002. The adoption of this consensus did not have a material impact on the Company's consolidated results of operations, financial position or cash flows in fiscal 2003. However, the Company does expect the adoption of this consensus to impact interim quarterly financial information, commencing with the first quarter of fiscal 2004, as the application of the consensus will result in a change in the timing for the recognition of some vendor allowances for certain agreements entered into subsequent to December 31, 2002.

Quantitative and Qualitative Disclosure of Market Risk

The Company is exposed to financial market risk resulting from changes in interest and currency rates. As a policy, the Company does not engage in speculative or leveraged transactions, nor hold or issue financial instruments for trading purposes.

The nature and amount of the Company's long and short-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. As of August 31, 2003, the Company's fixed rate long-term debt includes its $851,860 principal amount at maturity Zero Coupon Subordinated Notes and additional notes and capital lease obligations totaling $137,761. The Company's debt also includes $300,000 7 1/8% Senior Notes and $300,000 5 1/2% Senior Notes. The Company has entered into "fixed-to-floating" interest rate swaps on the Senior Notes, effectively converting these fixed interest rate securities to variable rate securities. Fluctuations in interest rates may affect the fair value of the fixed rate debt and may affect the interest expense related to the variable rate debt.

The Company holds interest-bearing instruments that are classified as cash and cash equivalents. As these investments are of a short-term nature, if interest rates were to increase or decrease immediately, there is no material risk of a valuation adjustment related to these instruments. In addition, changes in interest rates would not likely have a material impact on interest income.

Most foreign currency transactions have been conducted in local currencies, limiting the Company's exposure to changes in currency rates. The Company periodically enters into forward foreign exchange contracts to hedge the impact of fluctuations in foreign currency rates on inventory purchases. The fair value of foreign exchange contracts outstanding at August 31, 2003 was not material to the Company's results of operations or its financial position.

Change in Accountants

On May 13, 2002, the Audit Committee of Costco Wholesale Corporation's Board of Directors engaged KPMG LLP as the Company's firm of independent auditors for 2002. The information required by this item is incorporated herein by reference to Costco's Form 8-K filed on May 17, 2002 and the related Form 8-K/A filed on May 30, 2002.

Controls and Procedures

We carried out an evaluation as of August 31, 2003, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14 and 15d-14. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures are effective to timely alert them to any material information relating to the Company (including its consolidated subsidiaries) that must be included in our periodic Securities and Exchange Commission filings. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to their evaluation.

The Company intends to review and evaluate the design and effectiveness of its disclosure controls and procedures on an ongoing basis and to improve its controls and procedures over time and to correct any deficiencies that may be discovered in the future in order to ensure that senior management has timely access to all material financial and non-financial information concerning the Company's business. While management believes that the present design of the Company's disclosure controls and procedures is effective to achieve these results, future events affecting the Company's business may cause management to modify its disclosure controls and procedures.

CERTIFICATIONS

I, James D. Sinegal, certify that:

1) I have reviewed this annual report on Form 10-K of Costco Wholesale Corporation;

2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal 2003 fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Jim Sinegal

James D. Sinegal
President, Chief Executive Officer

November 20, 2003

CERTIFICATIONS

I, Richard A. Galanti, certify that:

1) I have reviewed this annual report on Form 10-K of Costco Wholesale Corporation.

2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fiscal 2003 fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors:

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

November 20, 2003

Richard A. Galanti
Executive Vice President, Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders:

We have audited the accompanying consolidated balance sheets of Costco Wholesale Corporation and subsidiaries as of August 31, 2003 and September 1, 2002 and the related consolidated statements of income, stockholders' equity and cash flows for the 52 weeks then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated financial statements of Costco Wholesale Corporation and subsidiaries as of September 2, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated October 8, 2001.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Costco Wholesale Corporation and subsidiaries as of August 31, 2003 and September 1, 2002, and the results of their operations and their cash flows for the 52 weeks then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for stock-based compensation effective September 3, 2002.

KPMG LLP

Seattle, Washington
October 6, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Costco Wholesale Corporation:

We have audited the accompanying consolidated balance sheets of Costco Wholesale Corporation (a Washington corporation) and subsidiaries ("Costco") as of September 2, 2001 and September 3, 2000, and the related consolidated statements of income, stockholders' equity and cash flows for the 52 weeks ended September 2, 2001, the 53 weeks ended September 3, 2000 and the 52 weeks ended August 29, 1999. These financial statements are the responsibility of Costco's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Costco as of September 2, 2001 and September 3, 2000, and the results of its operations and its cash flows for the 52 weeks ended September 2, 2001, the 53 weeks ended September 3, 2000 and the 52 weeks ended August 29, 1999, in conformity with accounting principles generally accepted in the United States.

As explained in Note 1 to the consolidated financial statements, during the year ended August 29, 1999, the Company changed its method of accounting for membership fee income from a cash basis to a deferred basis whereby membership fee income is recognized ratably over the one-year life of the membership.

Arthur Andersen LLP

Seattle, Washington
October 8, 2001

This audit report of Arthur Andersen LLP, our former independent public accountants, is a copy of the original report dated October 8, 2001 rendered by Arthur Andersen LLP on our consolidated financial statements included in our Form 10-K filed on November 15, 2001, and has not been reissued by Arthur Andersen LLP since that date. We are including this copy of the Arthur Andersen LLP audit report pursuant to Rule 2-02 (e) of Regulation S-X under the Securities Act of 1933.

COSTCO WHOLESALE CORPORATION

CONSOLIDATED BALANCE SHEETS

(dollars in thousands except par value)

	August 31, 2003	September 1, 2002
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,545,439	$ 805,518
Receivables, net	556,090	474,861
Merchandise inventories	3,339,428	3,127,221
Other current assets	270,581	222,939
Total current assets	5,711,538	4,630,539
PROPERTY AND EQUIPMENT		
Land	2,173,685	2,017,184
Buildings, leaseholds and land improvements	4,831,236	4,367,395
Equipment and fixtures	1,846,324	1,733,979
Construction in progress	154,181	198,744
	9,005,426	8,317,302
Less accumulated depreciation and amortization	(2,045,418)	(1,793,683)
Net property and equipment	6,960,008	6,523,619
OTHER ASSETS	520,142	466,105
	$13,191,688	$11,620,263
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 47,421	$ 103,774
Accounts payable	3,131,320	2,884,269
Accrued salaries and benefits	734,261	589,927
Accrued sales and other taxes	207,392	163,273
Deferred membership income	401,357	360,515
Other current liabilities	489,356	347,975
Total current liabilities	5,011,107	4,449,733
LONG-TERM DEBT	1,289,649	1,210,638
DEFERRED INCOME TAXES AND OTHER LIABILITIES	209,835	145,925
Total liabilities	6,510,591	5,806,296
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	126,117	119,730
STOCKHOLDERS' EQUITY		
Preferred stock $.005 par value; 100,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock $.005 par value; 900,000,000 shares authorized; 457,479,000 and 455,325,000 shares issued and outstanding	2,287	2,277
Additional paid-in capital	1,280,942	1,220,954
Other accumulated comprehensive loss	(77,980)	(157,725)
Retained earnings	5,349,731	4,628,731
Total stockholders' equity	6,554,980	5,694,237
	$13,191,688	$11,620,263

The accompanying notes are an integral part of these consolidated financial statements.

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)

	52 Weeks Ended August 31, 2003	52 Weeks Ended September 1, 2002	52 Weeks Ended September 2, 2001
REVENUE			
Net sales	$41,692,699	$37,993,093	$34,137,021
Membership fees and other	852,853	769,406	660,016
Total revenue	42,545,552	38,762,499	34,797,037
OPERATING EXPENSES			
Merchandise costs	37,235,383	33,983,121	30,598,140
Selling, general and administrative	4,097,398	3,575,536	3,129,059
Preopening expenses	36,643	51,257	59,571
Provision for impaired assets and closing costs	19,500	21,050	18,000
Operating income	1,156,628	1,131,535	992,267
OTHER INCOME (EXPENSE)			
Interest expense	(36,920)	(29,096)	(32,024)
Interest income and other	38,525	35,745	43,238
INCOME BEFORE INCOME TAXES	1,158,233	1,138,184	1,003,481
Provision for income taxes	437,233	438,201	401,392
NET INCOME	$ 721,000	$ 699,983	$ 602,089
NET INCOME PER COMMON SHARE:			
Basic	$ 1.58	$ 1.54	$ 1.34
Diluted	$ 1.53	$ 1.48	$ 1.29
Shares used in calculation (000's)			
Basic	456,335	453,650	449,631
Diluted	479,326	479,262	475,827

The accompanying notes are an integral part of these consolidated financial statements.

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the 52 weeks ended August 31, 2003, the 52 weeks ended September 1, 2002 and the 52 weeks ended September 2, 2001
(in thousands)

	Common Stock		Additional Paid-In Capital	Other Accumulated Comprehensive Income/(Loss)	Retained Earnings	Total
	Shares	Amount				
BALANCE AT SEPTEMBER 3, 2000	447,297	$2,236	$1,028,414	$(117,029)	$3,326,659	$4,240,280
Comprehensive Income						
Net Income	—	—	—	—	602,089	602,089
Other accumulated comprehensive loss						
Foreign currency translation adjustment	—	—	—	(56,581)	—	(56,581)
Total comprehensive income	—	—	—	(56,581)	602,089	545,508
Stock options exercised including income tax benefits and other	4,457	23	97,129	—	—	97,152
BALANCE AT SEPTEMBER 2, 2001	451,754	2,259	1,125,543	(173,610)	3,928,748	4,882,940
Comprehensive Income						
Net Income	—	—	—	—	699,983	699,983
Other accumulated comprehensive income						
Foreign currency translation adjustment	—	—	—	15,885	—	15,885
Total comprehensive income	—	—	—	15,885	699,983	715,868
Stock options exercised including income tax benefits and other	3,571	18	95,402	—	—	95,420
Conversion of convertible debentures	—	—	9	—	—	9
BALANCE AT SEPTEMBER 1, 2002	455,325	2,277	1,220,954	(157,725)	4,628,731	5,694,237
Comprehensive Income						
Net Income	—	—	—	—	721,000	721,000
Other accumulated comprehensive income						
Foreign currency translation adjustment	—	—	—	79,745	—	79,745
Total comprehensive income	—	—	—	79,745	721,000	800,745
Stock options exercised including income tax benefits and other	2,154	10	47,919	—	—	47,929
Stock-based compensation	—	—	12,069	—	—	12,069
BALANCE AT AUGUST 31, 2003	457,479	$2,287	$1,280,942	$ (77,980)	$5,349,731	$6,554,980

The accompanying notes are an integral part of these consolidated financial statements.

COSTCO WHOLESALE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	52 Weeks Ended August 31, 2003	52 Weeks Ended September 1, 2002	52 Weeks Ended September 2, 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 721,000	$ 699,983	$ 602,089
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	391,302	341,781	301,297
Accretion of discount on zero coupon notes	17,852	17,233	16,654
Stock-based compensation	12,069	—	—
Undistributed equity earnings in affiliates	(21,612)	(21,485)	(17,719)
Net loss/(gain) on sale of property and equipment and other	4,907	4,001	(15,934)
Provision for impaired assets	4,697	—	15,231
Change in deferred income taxes	68,693	12,179	40,797
Tax benefit from exercise of stock options	12,348	27,171	32,552
Change in receivables, other current assets, deferred income, accrued and other current liabilities	232,167	129,883	(6,159)
Increase in merchandise inventories	(162,759)	(380,158)	(271,355)
Increase in accounts payable	226,544	187,655	335,110
Total adjustments	786,208	318,260	430,474
Net cash provided by operating activities	1,507,208	1,018,243	1,032,563
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	(810,665)	(1,038,605)	(1,447,549)
Proceeds from the sale of property and equipment	51,829	32,849	110,002
Investment in unconsolidated joint venture	—	(1,000)	(28,500)
Decrease in short-term investments	—	4,928	41,599
Increase in other assets and other, net	(31,752)	(31,987)	(15,395)
Net cash used in investing activities	(790,588)	(1,033,815)	(1,339,843)
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayments)/proceeds from short-term borrowings, net	(58,144)	(99,175)	185,942
Net proceeds from issuance of long-term debt	59,424	300,000	81,951
Repayments of long-term debt	(11,823)	(18,540)	(159,328)
Changes in bank checks outstanding	(31,639)	(35,136)	216,661
Proceeds from minority interests	6,087	3,908	7,119
Exercise of stock options	34,667	66,771	62,000
Net cash (used in)/provided by financing activities	(1,428)	217,828	394,345
EFFECT OF EXCHANGE RATE CHANGES ON CASH	24,729	677	(8,985)
Increase in cash and cash equivalents	739,921	202,933	78,080
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	805,518	602,585	524,505
CASH AND CASH EQUIVALENTS END OF YEAR	$1,545,439	$ 805,518	$ 602,585
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest (excludes amounts capitalized)	$ 20,861	$ 9,511	$ 14,761
Income taxes	$ 320,546	$ 351,003	$ 363,649

The accompanying notes are an integral part of these consolidated financial statements.

COSTCO WHOLESALE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data)

Note 1—Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Costco Wholesale Corporation, a Washington corporation, and its subsidiaries ("Costco" or the "Company"). All material inter-company transactions between the Company and its subsidiaries have been eliminated in consolidation. Costco primarily operates membership warehouses under the Costco Wholesale name.

Costco operates membership warehouses that offer low prices on a limited selection of nationally branded and selected private label products in a wide range of merchandise categories in no-frills, self-service warehouse facilities. At August 31, 2003, Costco operated 418 warehouse clubs: 309 in the United States; 61 in Canada; 15 in the United Kingdom; five in Korea; three in Taiwan; four in Japan; and 21 warehouses in Mexico with a joint venture partner.

The Company's investment in the Costco Mexico joint venture and in other unconsolidated joint ventures that are less than majority owned are accounted for under the equity method. The investment in Costco Mexico is included in other assets and was $167,293 at August 31, 2003 and $157,312 at September 1, 2002. The equity in earnings of Costco Mexico is included in interest income and other and for fiscal 2003, 2002 and 2001, was $21,400, $21,028 and $17,378, respectively. The amount of retained earnings that represents undistributed earnings of Costco Mexico was $86,074 and $64,674 at August 31, 2003 and September 1, 2002, respectively.

Fiscal Years

The Company reports on a 52/53-week fiscal year basis, which ends on the Sunday nearest August 31st. Fiscal years 2003, 2002 and 2001, were 52-week years.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less at the date of purchase and proceeds due from credit and debit card transactions with settlement terms of less than five days to be cash equivalents. Of the total cash and cash equivalents of $1,545,439 at August 31, 2003 and $805,518 at September 1, 2002, credit and debit card receivables were $412,861 and $351,788, respectively.

Receivables, net

Receivables consist primarily of vendor rebates and promotional allowances, receivables from government tax authorities and other miscellaneous amounts due to the Company, and are net of allowance for doubtful accounts of $1,529 at August 31, 2003 and $2,224 at September 1, 2002. Management determines the allowance for doubtful accounts based on known troubled accounts and historical experience applied to an aging of accounts.

Vendor Rebates and Allowances

Periodic payments from vendors in the form of buy downs, volume or other purchase discounts that are evidenced by signed agreements are reflected in the carrying value of the inventory when earned and as a component of cost of sales as the merchandise is sold. Other consideration received from vendors is generally recorded as a reduction of merchandise costs upon completion of contractual milestones, terms of the related agreement, or by other systematic and rational approach.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(dollars in thousands, except per share data) (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail inventory method, and are stated using the last-in, first-out (LIFO) method for substantially all U.S. merchandise inventories. Merchandise inventories for all foreign operations are primarily valued by the retail method of accounting, and are stated using the first-in, first-out (FIFO) method. The Company believes the LIFO method more fairly presents the results of operations by more closely matching current costs with current revenues. The Company records an adjustment each quarter for the expected annual effect of inflation and these estimates are adjusted to actual results determined at year-end. The Company considers in its calculation of the LIFO cost the estimated net realizable value of inventory in those inventory pools where deflation exists and records a write down of inventory where estimated net realizable value is less than LIFO inventory. The LIFO inventory adjustment for the fourth quarter of fiscal 2003 increased gross margin by approximately $14,650 as compared to $21,000 in the fourth quarter of fiscal 2002. If all merchandise inventories had been valued using the first-in, first-out (FIFO) method, inventories would have been lower by $19,500 at August 31, 2003 and higher by $150 at September 1, 2002.

	August 31, 2003	September 1, 2002
Merchandise inventories consist of:		
United States (primarily LIFO)	$2,668,342	$2,552,820
Foreign (FIFO)	671,086	574,401
Total	$3,339,428	$3,127,221

The Company provides for estimated inventory losses between physical inventory counts on the basis of a standard percentage of sales. This provision is adjusted periodically to reflect the actual shrinkage results of the physical inventory counts, which generally occur in the second and fourth quarters of the Company's fiscal year.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization expenses are computed using the straight-line method for financial reporting purposes. Buildings are generally depreciated over twenty-five to thirty-five years; equipment and fixtures are depreciated over three to ten years; and leasehold improvements are amortized over the initial term of the lease.

Interest costs incurred on property and equipment during the construction period are capitalized. The amount of interest costs capitalized was $3,272 in fiscal 2003, $13,480 in fiscal 2002, and $19,157 in fiscal 2001.

Impairment of Long-Lived Assets

The Company periodically evaluates the realizability of long-lived assets for impairment when events or changes in circumstances occur, which may indicate the carrying amount of the asset may not be recoverable. The Company evaluates the carrying value of the asset by comparing the estimated future undiscounted cash flows generated from the use of the asset and its eventual disposition with the asset's reported net book value. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, the Company recorded a pre-tax, non-cash charge of $4,697 in fiscal 2003 and $0 and $15,231 in fiscal 2002 and 2001, respectively, reflecting its estimate of impairment relating to scheduled warehouse closings. The charge reflects the difference between the carrying value and fair value, which was based on estimated market valuations for those assets whose carrying value is not currently anticipated to be recoverable through future cash flows.

Note 1—Summary of Significant Accounting Policies (Continued)

Goodwill

Goodwill, net of accumulated amortization, resulting from certain business combinations is included in other assets, and totaled $46,549 at August 31, 2003 and $43,920 at September 1, 2002. On September 3, 2001, the Company adopted SFAS No. 142, "Accounting for Goodwill and Other Intangibles," which specifies that goodwill and some intangible assets will no longer be amortized, but instead will be subject to periodic impairment testing. Accordingly, the Company reviews previously reported goodwill for impairment on an annual basis, or more frequently if circumstances dictate. In fiscal 2001 goodwill was amortized on a straight-line basis over lives ranging from two to forty years and was periodically evaluated for impairment as circumstances dictated. The effects on net income and net income per share data would not be significant if the Company had followed the provisions of SFAS No. 142 in the year ended September 2, 2001.

Accounts Payable

The Company's banking system provides for the daily replenishment of major bank accounts as checks are presented. Accordingly, included in accounts payable at August 31, 2003 and September 1, 2002 are $216,980 and $235,458 respectively, representing the excess of outstanding checks over cash on deposit at the banks on which the checks were drawn.

Insurance/Self Insurance Liabilities

The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for workers' compensation, general liability, property insurance, director and officers' liability, vehicle liability and employee health care benefits. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering historical claims experience and outside expertise, demographic factors, severity factors and other actuarial assumptions. The estimated accruals for these liabilities could be significantly affected if future occurrences and claims differ from these assumptions and historical trends.

Derivatives

The Company has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate and foreign exchange risks. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on inventory purchases. The only significant derivative instruments the Company holds are interest rate swaps, which the Company uses to manage the interest rate risk associated with its borrowings and to manage the Company's mix of fixed and variable-rate debt. As of August 31, 2003, the Company had "fixed-to-floating" interest rate swaps with an aggregate notional amount of $600,000 and an aggregate fair value of $34,204, which is recorded in other assets. These swaps were entered into effective November 13, 2001, and March 25, 2002, and are designated and qualify as fair value hedges of the Company's $300,000 7 1/8% Senior Notes and the Company's $300,000 5 1/2% Senior Notes, respectively. As the terms of the swaps match those of the underlying hedged debt, the changes in the fair value of these swaps are offset by corresponding changes in the fair value recorded on the hedged debt, and result in no net earnings impact.

Foreign Currency Translations

The functional currencies of the Company's international subsidiaries are the local currency of the country in which the subsidiary is located. Assets and liabilities recorded in foreign currencies, as well as the Company's investment in the Costco Mexico joint venture, are translated at the exchange rate on the balance sheet date. Translation adjustments resulting from this process are charged or credited to other comprehensive income (loss). Revenue and expenses of the Company's consolidated foreign operations are translated at average rates of exchange prevailing during the year. Gains and losses on foreign currency transactions are included in expenses and were not significant in either fiscal 2003 or 2002.

(dollars in thousands, except per share data) (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The Company recognizes sales, net of estimated returns, at the time the member takes possession of merchandise or receives services. When the Company collects payment from customers prior to the transfer of ownership of merchandise or the performance of services, the amount received is recorded as deferred revenue. The Company provides for estimated sales returns based on historical returns levels. The reserve for sales returns (sales returns net of cost of goods sold) was $4,869 and $3,507 at August 31, 2003 and September 1, 2002, respectively.

Membership fee revenue represents annual membership fees paid by substantially all of the Company's members. The Company accounts for membership fee revenue on a "deferred basis," whereby membership fee revenue is recognized ratably over the one-year life of the membership. The Company's Executive members qualify for a 2% reward (which can be redeemed at Costco warehouses), up to a maximum of $500 per year, on all qualified purchases made at Costco. The Company accounts for this 2% reward as a reduction in sales, with the related liability being classified within other current liabilities. The sales reduction and corresponding liability are computed after giving effect to the estimated impact of non-redemptions based on historical data. The reduction in sales for the fiscal years ended August 31, 2003, September 1, 2002 and September 2, 2001, and the related liability as of those dates were as follows:

	Fiscal Year Ended		
	August 31, 2003	September 1, 2002	September 2, 2001
Two-percent reward sales reduction	$169,612	$143,637	$84,243
Two-percent unredeemed reward liability	$114,681	$ 94,448	$57,840

Merchandise Costs

Merchandise costs consist of the purchase price of inventory sold, inbound shipping charges and all costs related to our depot operations, including freight from depots to selling warehouses. Merchandise costs also include salaries, benefits, depreciation on production equipment, and other related expenses incurred in certain fresh foods and ancillary departments.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consist primarily of salaries, benefits and workers' compensation costs for warehouse employees, other than fresh foods and certain ancillary businesses, as well as all regional and home office employees, including buying personnel. Selling, general and administrative expenses also include utilities, bank charges and substantially all building and equipment depreciation, as well as other operating costs incurred to support warehouse operations.

Marketing and Promotional Expenses

Costco's policy is generally to limit marketing and promotional expenses to new warehouse openings, occasional direct mail marketing to prospective new members and annual direct mail marketing programs to existing members promoting selected merchandise. Marketing and promotional costs are expensed as incurred.

Preopening Expenses

Preopening expenses related to new warehouses, major remodels/expansions, regional offices and other startup operations are expensed as incurred.

Note 1—Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

The Company adopted the fair value based method of recording stock options consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," for all employee stock options granted subsequent to fiscal year end 2002. Specifically, the Company adopted SFAS No. 123 using the "prospective method" with guidance provided from SFAS No. 148 "Accounting for Stock-Based Compensation—Transition and Disclosure." All employee stock option grants made in fiscal 2003 and in future years will be expensed over the stock option vesting period based on the fair value at the date the options are granted. Prior to fiscal 2003 the Company applied Accounting Principles Board Opinion (APB) No. 25 and related interpretations in accounting for stock options. Because the Company granted stock options to employees at exercise prices equal to fair market value on the date of grant, accordingly, no compensation cost was recognized for option grants.

Had compensation costs for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards made prior to fiscal 2003, under those plans and consistent with SFAS No. 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

	Fiscal Year Ended		
	August 31, 2003	September 1, 2002	September 2, 2001
Net income, as reported	$721,000	$699,983	$602,089
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	7,513	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects	(70,257)	(75,743)	(65,077)
Pro-forma net income	$658,256	$624,240	$537,012
Earnings per share:			
Basic—as reported	$ 1.58	$ 1.54	$ 1.34
Basic—pro-forma	$ 1.44	$ 1.38	$ 1.19
Diluted—as reported	$ 1.53	$ 1.48	$ 1.29
Diluted—pro-forma	$ 1.40	$ 1.32	$ 1.15

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents, short-term investments and receivables approximate fair value due to their short-term nature or variable interest rates. The fair value of fixed rate debt at August 31, 2003 and September 1, 2002 was $1,415,252 and $1,382,569, respectively.

Reorganization of Canadian Administrative Operations

On January 17, 2001, the Company announced plans to reorganize and consolidate the administration of its operations in Canada. Total costs related to the reorganization were $26,765 pre-tax, of which $7,765 pre-tax ($4,775 after-tax, or $.01 per diluted share) was expensed in fiscal 2002 and $19,000 pre-tax ($11,400 after-tax, or $.02 per diluted share) was expensed in fiscal 2001 and reported as part of the provision for impaired assets and closing costs. These costs consisted primarily of employee severance, implementation and consolidation of support systems and employee relocation. The reorganization was completed in the first quarter of fiscal 2002.

(dollars in thousands, except per share data) (Continued)

Note 1—Summary of Significant Accounting Policies (Continued)

Closing Costs

Warehouse closing costs incurred relate principally to the Company's efforts to relocate certain warehouses that were not otherwise impaired to larger and better-located facilities. The provision for fiscal 2003 included charges of $11,836 for warehouse closing expenses and $2,967 for losses on the sale of real property. The fiscal 2002 provision included charges of $13,683 for warehouse closing expenses and $7,765 for Canadian administrative reorganization, which were offset by $398 of net gains on the sale of real property. As of August 31, 2003, the Company's reserve for warehouse closing costs was $8,609, of which $7,833 related to lease obligations. This compares to a reserve for warehouse closing costs of $11,845 at September 1, 2002, of which $10,395 related to lease obligations.

Interest Income and Other

Interest income and other includes:

	Fiscal Year Ended		
	August 31, 2003	September 1, 2002	September 2, 2001
Interest income	$21,200	$16,005	$25,908
Minority interest/earnings of affiliates and other	17,325	19,740	17,330
Total	$38,525	$35,745	$43,238

Income Taxes

The Company accounts for income taxes under the provisions of SFAS No. 109, "Accounting for Income Taxes." That standard requires companies to account for deferred income taxes using the asset and liability method.

Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax credits and loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carry-forwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized.

Note 1—Summary of Significant Accounting Policies (Continued)

Net Income Per Common and Common Equivalent Share

The following data show the amounts used in computing earnings per share and the effect on income and the weighted average number of shares of dilutive potential common stock.

	52 Weeks Ended August 31, 2003	52 Weeks Ended September 1, 2002	52 Weeks Ended September 2, 2001
Net income available to common stockholders used in basic EPS	$721,000	$699,983	$602,089
Interest on convertible bonds, net of tax	11,109	10,602	9,992
Net income available to common stockholders after assumed conversions of dilutive securities	$732,109	$710,585	$612,081
Weighted average number of common shares used in basic EPS (000's)	456,335	453,650	449,631
Stock options (000's)	3,646	6,267	6,851
Conversion of convertible bonds (000's)	19,345	19,345	19,345
Weighted number of common shares and dilutive potential common stock used in diluted EPS (000's)	479,326	479,262	475,827

The diluted share base calculation for fiscal years ended August 31, 2003, September 1, 2002 and September 2, 2001, excludes 33,362,000, 6,908,000 and 7,108,000 stock options outstanding, respectively. These options are excluded due to their anti-dilutive effect.

On November 30, 2001, the Company's Board of Directors approved a stock repurchase program authorizing the repurchase of up to $500,000 of Costco Common Stock through November 30, 2004. Under the program, the Company can repurchase shares at any time in the open market or in private transactions as market conditions warrant. The repurchased shares would constitute authorized, but non-issued shares and would be used for general corporate purposes, including stock option grants under stock option programs. To date, no shares have been repurchased under this program.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which provides the accounting requirements for retirement obligations associated with tangible long-lived assets. SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. SFAS No. 143 was effective for the Company's 2003 fiscal year. The adoption of SFAS No. 143 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective for the Company's 2003 fiscal year. This Statement supersedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and other related accounting guidance. The adoption of SFAS No. 144 did not have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity should be recognized at fair value when the liability is incurred. SFAS No. 146 was effective for the Company's

Note 1—Summary of Significant Accounting Policies (Continued)

2003 fiscal year. The adoption of SFAS No. 146 did not have a material impact on the Company's consolidated results of operations, financial position or cash flows, other than to impact the timing of charges related to future warehouse relocations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," which provides guidance for transition to the fair value based method of accounting for stock-based employee compensation and the required financial statement disclosure. Effective September 3, 2002 the Company adopted the fair value based method of accounting for stock-based compensation. See Note (1) and Note (5) of the Company's consolidated financial statements.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This standard established financial statement disclosure requirements for companies that enter into or modify certain types of guarantees subsequent to December 31, 2002. Beginning in calendar 2003, the standard requires that companies record the fair value of certain types of guarantees as a liability in the financial statements. The adoption of this interpretation did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities." In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. Interpretation No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. The consolidation requirements of Interpretation No. 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period beginning after June 15, 2003. Certain of the disclosure requirements apply in all financial statements issued after January 31, 2003, regardless of when the variable interest entity was established. The adoption of the Interpretation did not have a material impact on the Company's consolidated results of operation, financial position or cash flows.

In November 2002, the EITF reached a consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables," with respect to determining when and how to allocate revenue from sales with multiple deliverables. The EITF 00-21 consensus provides a framework for determining when and how to allocate revenue from sales with multiple deliverables based on a determination of whether the multiple deliverables qualify to be accounted for as separate units of accounting. The consensus is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of this consensus did not have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In November 2002, the EITF reached consensus on certain issues discussed in EITF 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," with respect to determining how a reseller should characterize consideration received from a vendor and when to recognize and how to measure that consideration in its income statement. Requirements for recognizing volume-based rebates are effective for arrangements entered into or modified after November 21, 2002 and resellers with other supplier payments should generally apply the new rules prospectively for agreements entered into or modified after December 31, 2002. The adoption of this consensus did not have a material impact on the Company's consolidated results of operations, financial position or cash flows in fiscal 2003 and is not expected to have a significant impact in the future on an annual basis. However, the Company does expect the adoption of this consensus to impact interim quarterly financial information, commencing with the first quarter of fiscal 2004, as the applica-

Note 1—Summary of Significant Accounting Policies (Continued)

tion of the consensus will result in a change in the timing for the recognition of some vendor allowances for certain agreements entered into subsequent to December 31, 2002.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2—Comprehensive Income

Comprehensive income is net income, plus certain other items that are recorded directly to stockholders' equity. Comprehensive income was $800,745 for fiscal 2003 and $715,868 for fiscal 2002. Foreign currency translation adjustments are the predominant components applied to net income to calculate the Company's comprehensive income.

Note 3—Debt

Bank Lines of Credit and Commercial Paper Programs

The Company has in place a $500,000 commercial paper program supported by a $300,000 bank credit facility with a group of 10 banks, of which $150,000 expires on November 9, 2004 and $150,000 expires on November 15, 2005. At August 31, 2003, no amounts were outstanding under the commercial paper program and no amounts were outstanding under the credit facility.

In addition, a wholly owned Canadian subsidiary has a $144,000 commercial paper program supported by a $43,000 bank credit facility with a Canadian bank, which expires in March 2004. At August 31, 2003, no amounts were outstanding under the Canadian commercial paper program or the bank credit facility.

The Company has agreed to limit the combined amount outstanding under the U.S. and Canadian commercial paper programs to the $343,000 combined amounts of the respective supporting bank credit facilities.

The Company's wholly-owned Japanese subsidiary has a short-term ¥3 billion ($25,782) bank line of credit, which expires in November 2004. At August 31, 2003, no amounts were outstanding under the line of credit.

The Company's UK subsidiary has a £60 million ($94,842) bank revolving credit facility and a £20 million ($31,614) bank overdraft facility, both expiring in February 2007. At August 31, 2003, $47,421 was outstanding under the revolving credit facility with an applicable interest rate of 4.413% and no amounts were outstanding under the bank overdraft facility.

Letters of Credit

The Company has letter of credit facilities (for commercial and standby letters of credit), totaling approximately $369,000. The outstanding commitments under these facilities at August 31, 2003 totaled approximately $125,000, including approximately $44,000 in standby letters of credit.

(dollars in thousands, except per share data) (Continued)

Note 3—Debt (Continued)

Short-Term Borrowings

The weighted average borrowings, highest borrowings and interest rate under all short-term borrowing arrangements were as follows for fiscal 2003 and 2002:

Category of Aggregate Short-term Borrowings	Maximum Amount Outstanding During the Fiscal Year	Average Amount Outstanding During the Fiscal Year	Weighted Average Interest Rate During the Fiscal Year
Fiscal year ended August 31, 2003			
Bank borrowings:			
Canadian	$ 5,655	$ 367	4.65%
Other International	127,098	81,431	3.68
U.S. Commercial Paper	17,657	2,065	4.92
Fiscal year ended September 1, 2002			
Bank borrowings:			
Canadian	$ 17,195	$ 351	4.14%
Other International	111,293	44,495	4.36
U.S. Commercial Paper	332,000	70,401	2.29

Long-Term Debt

Long-term debt at August 31, 2003 and September 1, 2002:

	2003	2002
7 1⁄8% Senior Notes due June 2005	$ 308,684	$ 307,787
5 1⁄2% Senior Notes due March 2007	325,520	328,139
2.070% Promissory notes due October 2007	30,079	29,400
1.187% Promissory notes due July 2008	25,782	25,200
0.88% Promissory notes due November 2009	25,782	—
0.92% Promissory notes due April 2010	34,376	—
3 1⁄2% Zero Coupon convertible subordinated notes due August 2017	524,735	506,883
Notes payable secured by trust deeds on real estate	8,023	8,213
Capital lease obligations and other	13,719	12,600
	1,296,700	1,218,222
Less current portion (included in other current liabilities)	7,051	7,584
Total long-term debt	$1,289,649	$1,210,638

In June 1995, the Company issued $300,000 of 7 1⁄8% Senior Notes due June 15, 2005. Interest on the notes is payable semiannually on June 15 and December 15. The indentures contain certain limitations on the Company's and certain subsidiaries' ability to create liens securing indebtedness and to enter into certain sale-leaseback transactions. In November 2001, the Company entered into "fixed-to-floating" interest rate swap agreements that replaced the fixed interest rate with a floating rate indexed to LIBOR.

In March 2002, the Company issued $300,000 of 5 1⁄2% Senior Notes due March 15, 2007. Interest is payable semi-annually on March 15 and September 15. Simultaneous with the issuance of the 5 1⁄2% Senior Notes, the Company entered into interest rate swap agreements converting the interest to a floating rate indexed to LIBOR. As of August 31, 2003, the Company was in compliance with all restrictive covenants.

Note 3—Debt (Continued)

In October 2000, the Company's wholly-owned Japanese subsidiary issued 2.070% promissory notes in the aggregate amount of approximately $30,079, through a private placement. Interest is payable annually and principal is due on October 23, 2007.

In July 2001, the Company's wholly-owned Japanese subsidiary issued 1.187% promissory notes in the aggregate amount of approximately $25,782, through a private placement. Interest is payable semi-annually and principal is due on July 9, 2008.

In November 2002, the Company's wholly-owned Japanese subsidiary issued promissory notes bearing interest at 0.88% in the aggregate amount of approximately $25,782, through a private placement. Interest is payable semi-annually and principal is due on November 7, 2009.

In April 2003, the Company's wholly-owned Japanese subsidiary issued promissory notes bearing interest at 0.92% in the aggregate amount of approximately $34,376, through a private placement. Interest is payable semi-annually and principal is due on April 26, 2010.

During April 2001, the Company retired its unsecured note payable to banks of $140,000 using cash provided from operations, cash and cash equivalents, and short-term borrowings under its commercial paper program.

On August 19, 1997, the Company completed the sale of $900,000 principal amount at maturity Zero Coupon Subordinated Notes (the "Notes") due August 19, 2017. The Notes were priced with a yield to maturity of 3½%, resulting in gross proceeds to the Company of $449,640. The Notes are convertible into a maximum of 19,344,969 shares of Costco Common Stock shares at an initial conversion price of $22.00. Holders of the Notes may require the Company to purchase the Notes (at the discounted issue price plus accrued interest to date of purchase) on August 19, 2007, or 2012. The Company, at its option, may redeem the Notes (at the discounted issue price plus accrued interest to date of redemption) any time on or after August 19, 2002. As of August 31, 2003, $48,140 in principal amount of the Zero Coupon Notes had been converted by note holders to shares of Costco Common Stock.

In February 1996, the Company filed with the Securities and Exchange Commission a shelf registration statement for $500,000 of senior debt securities. On October 23, 2001, an additional $100,000 in debt securities were registered, bringing the total amount of debt registered under the shelf registration to $600,000. The $300,000 of 5.5% Senior Notes issued in March 2002, reduced the amount of registered securities available for future issuance to $300,000.

At August 31, 2003, the fair value of the 7⅛% Senior Notes, and the 5½% Senior Notes, based on market quotes, was approximately $321,780 and $320,760, respectively. The Senior Notes are not redeemable prior to maturity. The fair value of the 3½% Zero Coupon Subordinated Notes at August 31, 2003, based on market quotes, was approximately $634,951. The fair value of other long-term debt approximates carrying value.

Maturities of long-term debt during the next five fiscal years and thereafter are as follows:

2004	$ 7,051
2005	311,536
2006	1,870
2007	327,563
2008	58,095
Thereafter	590,585
Total	$1,296,700

(dollars in thousands, except per share data) (Continued)

Note 4—Leases

The Company leases land and/or warehouse buildings at 85 of the 397 warehouses open at August 31, 2003, and certain other office and distribution facilities under operating leases with remaining terms ranging from 1 to 40 years. These leases generally contain one or more of the following options which the Company can exercise at the end of the initial lease term: (a) renewal of the lease for a defined number of years at the then fair market rental rate; (b) purchase of the property at the then fair market value; or (c) right of first refusal in the event of a third party purchase offer. Certain leases provide for periodic rental increases based on the price indices and some of the leases provide for rents based on the greater of minimum guaranteed amounts or sales volume. Contingent rents have not been material. The Company accounts for its leases with step-rent provisions on a straight-line basis over the original term of the lease.

Additionally, the Company leases certain equipment and fixtures under short-term operating leases that permit the Company to either renew for a series of one-year terms or to purchase the equipment at the then fair market value.

Aggregate rental expense for fiscal 2003, 2002, and 2001, was $84,146, $69,894, and $70,394, respectively. Future minimum payments, net of sub-lease income of $142,975, during the next five fiscal years and thereafter under non-cancelable leases with terms in excess of one year, at August 31, 2003, were as follows:

2004	$ 85,862
2005	86,654
2006	87,342
2007	82,540
2008	79,561
Thereafter	983,303
Total minimum payments	$1,405,262

Note 5—Stock Options

The Company's 1993 Combined Stock Grant and Stock Option Plan (the "1993 plan") provided for the issuance of up to 60 million shares of its common stock upon the exercise of stock options and up to 3,333,332 shares through stock grants. During fiscal 2002 the 2002 Stock Incentive Plan (the "2002 plan") was adopted following shareholder approval. The 2002 plan authorized 30 million shares of common stock for issuance, subject to adjustment. For future grants, the 2002 plan replaces the 1993 plan and the 1993 plan has been amended to provide that no more options or stock grants may be issued under such plan. Any shares under the 1993 plan that remain available for future option grants (and any additional shares that subsequently become available through cancellation of unexercised options outstanding) will be added to the number of shares available for grant under the 2002 plan. The 2002 plan authorizes the Company to grant stock options to eligible employees, directors and consultants. Options granted under these plans have a ten-year term and a vesting period of five years. At August 31, 2003, options for approximately 25.1 million shares were vested and 18.6 million shares were available for future grants under the plan.

The Company adopted the fair value based method of recording stock options consistent with SFAS No. 123 "Accounting for Stock-Based Compensation," for all employee stock options granted subsequent to fiscal year end 2002 using the "prospective method." All employee stock option grants made in fiscal 2003 and in future years will be expensed over the stock option vesting period based on the fair value at the date the options are granted. Prior to fiscal 2003 the Company applied APB No. 25 and related interpretations in accounting for stock options. Because the Company granted stock options to employees at exercise prices equal to fair market value on the date of grant, accordingly, no compensation cost was recognized for option grants.

Note 5—Stock Options (Continued)

In fiscal 2003, the Company recognized stock compensation costs of $12,069 versus no stock compensation costs in fiscal 2002. The effects of applying SFAS No. 123 are substantially less in fiscal 2003 than the effects on net income and earnings per share expected in future periods because this is the initial year of adoption. Future years will reflect compensation expense from options granted in that year, as well as continuing recognition of expense associated with options issued in prior years as they vest. Shares granted in fiscal 2003 totaled 8,479,550 shares, with the majority of these shares being granted in the middle of the third quarter.

Total stock compensation costs on a pre-tax basis that would have been recorded had SFAS No. 123 been adopted as of its initial effective date would have totaled $112,863 in fiscal 2003 and $123,159 and $108,462 in fiscal 2002 and 2001, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2003, 2002 and 2001:

	2003	2002	2001
Risk free interest rate	3.30%	4.45%	4.96%
Expected life	6 years	5 years	5 years
Expected volatility	46%	46%	43%
Expected dividend yield	0%	0%	0%

Stock option transactions relating to the aggregate of the 1993 and 2002 plans are summarized below (shares in thousands):

	2003		2002		2001	
	Shares	Price(1)	Shares	Price(1)	Shares	Price(1)
Under option at beginning of year	42,961	$31.49	39,578	$29.15	36,021	$26.09
Granted(2)	8,480	30.47	7,641	38.10	8,822	34.18
Exercised	(2,154)	16.13	(3,571)	18.77	(4,457)	14.04
Cancelled	(497)	37.14	(687)	37.12	(808)	31.35
Under option at end of year	48,790	$31.93	42,961	$31.49	39,578	$29.15

(1) Weighted-average exercise price/grant price.

(2) The weighted-average fair value based on the Black-Scholes model of options granted during fiscal 2003, 2002 and 2001, were $14.84, $17.83 and $15.47, respectively.

The following table summarizes information regarding stock options outstanding at August 31, 2003 (number of options in thousands):

	Options Outstanding			Options Exercisable	
Range of Prices	Number	Remaining Contractual Life(1)	Price(1)	Number	Price(1)
$6.66–$30.47	19,035	6.22	$22.61	11,054	$17.01
$31.55–$36.91	16,604	6.80	35.19	8,660	35.82
$38.79–$52.50	13,151	7.51	41.30	5,433	42.59
	48,790	6.77	$31.93	25,147	$29.02

(1) Weighted-average.

At September 1, 2002 and September 2, 2001, there were 19,843 and 15,500 options exercisable at weighted average exercise prices of $25.40 and $21.57, respectively.

(dollars in thousands, except per share data) (Continued)

Note 6—Retirement Plans

The Company has a 401(k) Retirement Plan that is available to all U.S. employees who have completed 90 days of employment. For all US employees, with the exception of California union employees, the plan allows pre-tax deferral against which the Company matches 50% of the first one thousand dollars of employee contributions. In addition, the Company will provide each eligible participant a contribution based on salary and years of service.

California union employees participate in a defined benefit plan sponsored by their union. The Company makes contributions based upon its union agreement. For all the California union employees, the Company sponsored 401(k) plan currently allows pre-tax deferral against which the Company matches 50% of the first four hundred dollars of employee contributions. The Company has a defined contribution plan for Canadian and United Kingdom employees and contributes a percentage of each employee's salary.

Amounts expensed under these plans were $149,392, $127,189, and $108,256 for fiscal 2003, 2002 and 2001, respectively. The Company has defined contribution 401(k) and retirement plans only, and thus has no liability for post-retirement benefit obligations under the SFAS No. 106 "Employer's Accounting for Postretirement Benefits Other than Pensions."

Note 7—Income Taxes

The provisions for income taxes for fiscal 2003, 2002 and 2001 are as follows:

	2003	2002	2001
Federal:			
Current	$295,323	$331,455	$285,460
Deferred	35,150	5,263	1,102
Total federal	330,473	336,718	286,562
State:			
Current	58,739	48,256	55,484
Deferred	(470)	4,269	(415)
Total state	58,269	52,525	55,069
Foreign:			
Current	9,634	46,197	19,161
Deferred	38,857	2,761	40,600
Total foreign	48,491	48,958	59,761
Total provision for income taxes	$437,233	$438,201	$401,392

In the fourth quarter of fiscal 2003 and 2002 the Company adjusted the annual effective tax rate used in calculating the tax provision from 38.5% to 37.75%, and from 40% to 38.5%, respectively, resulting in the reduction in the income tax provision in the fourth quarter of $5,873 and $11,315, respectively.

Note 7—Income Taxes (Continued)

Reconciliation between the statutory tax rate and the effective rate for fiscal 2003, 2002 and 2001 is as follows:

	2003		2002		2001	
Federal taxes at statutory rate	$405,382	35.00%	$398,364	35.00%	$351,218	35.00%
State taxes, net	37,875	3.27	34,145	3.00	35,824	3.57
Foreign taxes, net	(396)	(0.03)	2,732	0.24	10,938	1.09
Other	(5,628)	(0.49)	2,960	0.26	3,412	0.34
Provision at effective tax rate	$437,233	37.75%	$438,201	38.50%	$401,392	40.00%

The components of the deferred tax assets and liabilities are as follows:

	August 31, 2003	September 1, 2002
Accrued liabilities and reserves	$168,683	$151,520
Deferred membership fees	141,005	137,231
Other	28,465	30,271
Total deferred tax assets	338,153	319,022
Property and equipment	210,822	175,344
Merchandise inventories	64,701	51,951
Other receivables	91,126	46,686
Total deferred tax liabilities	366,649	273,981
Net deferred tax (liabilities) assets	$ (28,496)	$ 45,041

The deferred tax accounts at August 31, 2003 and September 1, 2002 include current deferred income tax assets of $213,939 and $173,602, respectively; non-current deferred income tax assets of $14,316 and $0, respectively; current deferred income tax liabilities of $74,002 and $0, respectively; and non-current deferred income tax liabilities of $182,749 and $128,561, respectively.

The Company has not provided for U.S. deferred taxes on cumulative undistributed earnings of non-U.S. affiliates aggregating approximately $622,017 at August 31, 2003, as such earnings have been reinvested for the foreseeable future. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability or benefit associated with such earnings if such earnings were not reinvested for the foreseeable future.

Note 8—Commitments and Contingencies

Legal Proceedings

The Company is involved from time to time in claims, proceedings and litigation arising from its business and property ownership. The Company is a defendant in two actions purportedly brought as class actions on behalf of certain present and former Costco managers in California, in which plaintiffs allege that they have not been properly compensated for overtime work. Presently, claims are made under various provisions of the California Labor Code and the California Business and Professions Code. Plaintiffs seek restitution/disgorgement, compensatory damages, various statutory penalties, liquidated damages, punitive, treble and exemplary damages, and attorneys' fees. In neither case has the Court been asked yet to determine whether the action should proceed as a class action or, if so, the definition of the class. The Company expects to vigorously defend these actions. The Company does not believe that any claim, proceeding or litigation, either alone or in the aggregate, will have a material adverse effect on the company's financial position or results of its operations.

(dollars in thousands, except per share data) (Continued)

Note 9—Segment Reporting

The Company and its subsidiaries are principally engaged in the operation of membership warehouses in the United States, Canada, Japan and through majority-owned subsidiaries in the United Kingdom, Taiwan and Korea and through a 50%-owned joint venture in Mexico. The Company's reportable segments are based on management responsibility and exclude the Mexico joint-venture, as it is accounted for under the equity method and therefore its operations are not consolidated in the Company's financial statements.

	United States Operations	Canadian Operations	Other International Operations	Total
Year Ended August 31, 2003				
Total revenue	$35,119,039	$5,237,023	$2,189,490	$42,545,552
Operating income	927,590	199,043	29,995	1,156,628
Depreciation and amortization	323,850	33,732	33,720	391,302
Capital expenditures	698,713	68,432	43,520	810,665
Long lived assets	5,705,675	612,647	641,686	6,960,008
Total assets	10,522,260	1,579,972	1,089,456	13,191,688
Net assets	5,141,056	783,521	630,403	6,554,980
Year Ended September 1, 2002				
Total revenue	$32,310,812	$4,750,173	$1,701,514	$38,762,499
Operating income	924,330	192,161	15,044	1,131,535
Depreciation and amortization	281,812	33,477	26,492	341,781
Capital expenditures	868,069	35,098	135,438	1,038,605
Long lived assets	5,387,772	514,854	620,993	6,523,619
Total assets	9,418,500	1,198,992	1,002,771	11,620,263
Net assets	4,485,487	617,731	591,019	5,694,237
Year Ended September 2, 2001				
Total revenue	$28,636,483	$4,695,778	$1,464,776	$34,797,037
Operating income (loss)	813,665	179,095	(493)	992,267
Depreciation and amortization	241,777	35,377	24,143	301,297
Capital expenditures	1,298,889	43,092	105,568	1,447,549
Long lived assets	4,835,598	516,489	474,498	5,826,585
Total assets	8,216,242	1,093,789	779,755	10,089,786
Net assets	3,811,158	548,196	523,586	4,882,940

The accounting policies of the segments are the same as those described in Note 1. All inter-segment net sales and expenses are immaterial and have been eliminated in computing net sales and operating profit.

MARKET FOR COSTCO COMMON STOCK

Costco Common Stock is quoted on The Nasdaq Stock Market's National Market under the symbol "COST."

The following table sets forth the closing high and low sales prices of Costco Common Stock for the period January 1, 2001 through November 30, 2003. The quotations are as reported in published financial sources.

	Costco Common Stock	
	High	Low
Calendar Quarters—2001		
First Quarter	$46.250	$36.500
Second Quarter	43.620	34.063
Third Quarter	44.500	31.220
Fourth Quarter	45.190	33.540
Calendar Quarters—2002		
First Quarter	46.320	38.920
Second Quarter	43.000	37.590
Third Quarter	39.300	31.850
Fourth Quarter	36.210	27.240
Calendar Quarters—2003		
First Quarter	31.230	28.080
Second Quarter	37.430	30.410
Third Quarter	37.150	28.890
Fourth Quarter (through November 30, 2003)	35.820	31.940

On November 30, 2003 the Company had 7,807 stockholders of record.

DIVIDEND POLICY

Costco has never paid regular dividends and presently has no plans to declare a cash dividend. Under its two revolving credit agreements, Costco is generally permitted to pay dividends in any fiscal year up to an amount equal to 50% of its consolidated net income for that fiscal year.

DIRECTORS AND OFFICERS

DIRECTORS

Jeffrey H. Brotman
Chairman of the Board

Dr. Benjamin S. Carson, Sr., M.D.
Director

Richard D. DiCerchio
Senior Executive Vice President, COO—Merchandising, Distribution and Construction and Director

Daniel J. Evans
Director

Richard A. Galanti
Executive Vice President, Chief Financial Officer and Director

William H. Gates, II
Director

Hamilton E. James
Director

Richard M. Libenson
Director

John W. Meisenbach
Director

Charles T. Munger
Director

Jill S. Ruckelshaus
Director

James D. Sinegal
President, Chief Executive Officer and Director

EXECUTIVE AND SENIOR OFFICERS

Joel Benoliel
Senior Vice President, Administration & Chief Legal Officer

Jeffrey H. Brotman
Chairman of the Board

Don Burdick
Senior Vice President, Information Systems

Charles V. Burnett
Senior Vice President, Pharmacy

Roger A. Campbell
Senior Vice President, General Manager—Southeast Region

Richard C. Chavez
Senior Vice President—Asia

Hubert de Suduiraut
Senior Vice President—Special Projects

Richard D. DiCerchio
Senior Executive Vice President, COO—Merchandising, Distribution & Construction

John B. Gaherty
Senior Vice President, General Manager—Midwest Region

Richard A. Galanti
Executive Vice President, Chief Financial Officer

Jaime Gonzalez
Senior Vice President, General Manager—Mexico

Bruce Greenwood
Senior Vice President, General Manager—Los Angeles Region

Robert D. Hicok
Senior Vice President, General Manager—San Diego Region

Dennis A. Hoover
Senior Vice President, General Manager—Bay Area Region

W. Craig Jelinek
Executive Vice President, COO—Northern Division

Dennis E. Knapp
Senior Vice President, GMM—Non-Foods

Franz E. Lazarus
Executive Vice President, COO—International Operations, Manufacturing & Ancillary Businesses

Jeffrey R. Long
Senior Vice President, General Manager—Northeast Region

John Matthews
Senior Vice President, Human Resources & Risk Management

John McKay
Senior Vice President, General Manager—Northwest Region

Russ Miller
Senior Vice President, General Manager—Western Canada Region

Paul G. Moulton
Executive Vice President, Real Estate Development

James P. Murphy
Senior Vice President—Europe

David S. Petterson
Senior Vice President, Corporate Controller

Joseph P. Portera
Executive Vice President, COO—Eastern & Canadian Divisions
Pierre Riel
Senior Vice President, General Manager—Eastern Canada Region
Ginnie Roeglin
Senior Vice President, Membership, Marketing, Member Services & Publishing
Timothy L. Rose
Senior Vice President, Merchandising—Foods, Sundries & Fresh Foods
Doug Schutt
Senior Vice President, E-commerce, Business Delivery & Special Order, Costco Home
James D. Sinegal
President, Chief Executive Officer
Thomas K. Walker
Senior Vice President, Construction, Purchasing & Depots
Louise Wendling
Senior Vice President, General Manager—Canadian Division
Dennis Zook
Executive Vice President, COO—Southwest Division & Mexico

VICE PRESIDENTS

Jeffrey Abadir
Operations—Bay Area Region
Sandi Babins
GMM—Foods & Sundries—Western Canada Region
Francis Ball
GMM—Foods & Sundries, Fresh Foods, Non-Foods—UK
Joe F. Basse
GMM—Corporate Non-Foods
John Booth
Operations—Bay Area Region
Andree Brien
Senior GMM—Non-Foods—Canadian Division
Alan Bubitz
GMM—Food Services & Food Court
Debbie Cain
GMM—Foods—Northwest Region
Patrick Callans
Member Services
Susan Castillo
E-commerce
Richard Chang
Country Manager—Taiwan
Victor Curtis
Pharmacy
Richard Delie
GMM—Corporate Non-Foods
Gerard Dempsey
GMM—Non-Foods—Southeast Region
George Ed Dwyer
Operations—Depots
John T. Eagan
GMM—Foods—Los Angeles Region
Frank Farcone
Operations—Northwest Region
Timothy K. Farmer
GMM—Corporate Non-Foods
Jack S. Frank
Director, Real Estate Development—West
Gary Giacomi
GMM—Non-Foods—Northwest Region
Cynthia Glaser
GMM—Corporate Non-Foods
Nancy Griese
GMM—Corporate Foods
Joseph Grachek III
Merchandise Accounting Controller
Isaac Hamaoui
GMM—Softlines—Canadian Division
Bill Hanson
GMM—Foods—Midwest Region
Robert Hardie
Internal Audit
Doris Harley
GMM—Foods—Southeast Region
David Harruff
Operations—Northwest Region
Daniel M. Hines
Financial Accounting Controller
Mitzi Hu
GMM—Imports
Ross Hunt
Human Resources, Finance & IS—Canadian Division

VICE PRESIDENTS (Continued)

Arthur D. Jackson, Jr.
Administration & Community Giving
Harold E. Kaplan
Corporate Treasurer
James Klauer
GMM—Corporate Non-Foods
Paul Latham
Costco Trading & Gas Stations
Robert Leuck
Operations—Northeast Region
Gerry Liben
GMM—Hardlines—Canadian Division
Phil Lind
Business Centers
Judith Logan
GMM—Foods—Northeast Region
Jeffrey Lyons
SGMM—Corporate Fresh Foods
Steve Mantanona
GMM—Merchandising— Mexico
Tracy Mauldin-Avery
GMM—Foods—Bay Area Region
Mark Maushund
Operations—Los Angeles Region
Susan McConnaha
Director of Bakery Operations
John Minola
Construction
Ali Moayeri
Construction
Michael W. Mosteller
Operations—Security/Labor Relations
Robert E. Nelson
Financial Planning & Investor Relations
Pietro Nenci
GMM—Foods—Eastern Canada Region
David Nickel
GMM—Non-Foods Replenishment—Western Canada Region
Gary Ojendyk
GMM—Corporate Non-Foods
Richard J. Olin
Legal, General Counsel
Mario Omoss
Operations—Texas Region
John R. Osterhaus
Photo, Optical & Hearing Aids
Steve Pappas
Country Manager—Korea
Shawn Parks
Operations—Los Angeles Region
Roger E. Peterson
Operations—San Diego Region
Steve Powers
Operations—Southeast Region
Robert L. Pugmire
GMM—Corporate Non-Foods
Paul Pulver
Operations—Northeast Region
Aldyn Royes
Operations—Southeast Region
Yoram Rubanenko
Operations—Northeast Region
James W. Rutherford
Information Systems
Drew Sakuma
Operations—UK
Janet Shanks
GMM—Fresh Foods—Canadian Division
Michael Sinegal
Country Manager—Japan
David Skinner
Operations—Eastern Canada Region
Don H. Stacy
GMM—Foods—Texas Region
Kimberley L. Suchomel
GMM—International
Gary Swindells
Operations—Eastern Canada Region
John Thelan
Depots
Keith H. Thompson
Purchasing and Facility Audits
Scott Tyler
Operations—Western Canada Region
Ron Vachris
Operations—San Diego Region
Richard Webb
Operations—Midwest Region
Jack Weisbly
GMM—Corporate Non-Foods
Stanley D. Winberg
GMM—Foods—San Diego Region
Charlie A. Winters
Director of Meat Operations

ADDITIONAL INFORMATION

A copy of Costco's annual report to the Securities and Exchange Commission on Form 10-K and quarterly reports on Form 10-Q will be provided to any shareholder upon written request directed to Investor Relations, Costco Wholesale Corporation, 999 Lake Drive, Issaquah, Washington 98027. Internet users can access recent sales and earnings releases, the annual report and SEC filings, as well as our Costco Online web site, at http://www.costco.com. E-mail users may direct their investor relations questions to investor@costco.com.

Corporate Office
999 Lake Drive
Issaquah, WA 98027
(425) 313-8100

Division Offices

Northern Division

Northwest Region
1045 Lake Drive
Issaquah, WA 98027

Bay Area Region
2820 Independence Drive
Livermore, CA 94550

Midwest Region
1901 West 22nd Street, 2nd Floor
Oak Brook, IL 60523

Eastern Division

Northeast Region
45940 Horseshoe Drive, Suite 150
Sterling, VA 20166

Southeast Region
3980 Venture Drive NW, #W100
Duluth, GA 30096

Southwest Division

Los Angeles Region
11000 Garden Grove, #201
Garden Grove, CA 92843

San Diego Region
4455 Morena Blvd.
San Diego, CA 92117

Arizona Region
17550 N. 79th Ave., Suite 2
Glendale, AZ 85308

Texas Region
1701 Dallas Parkway, Suite 201
Plano, TX 75093

Canadian Division

Eastern Region
415 Hunt Club Road West
Ottawa, ON K2E 1C5

Western Region
3550 Brighton St.
Burnaby, BC V5A 4W3

International Division

United Kingdom Region
213 Hartspring Lane
Watford, Hertfordshire
England, UK WD2 8JS

Japan Region
5F Mitsui-Sumitomo Bank Bldg
1-3-1, Nakane, Meguro-ku
Tokyo, 152-0031 Japan

Korea Region
65-3-ka Yangpyung-dong
Youngdeungpo-ku
Seoul, Korea

Taiwan Region
255, Min Shan Street, Neihu
Taipei, 114 Taiwan

Mexico Region
Boulevard Magnocentro #4
Col. San Fernando
La Herradura 52760
Huixquilucan, Mexico

Annual Meeting
Thursday, January 29, 2004 at 10:00 AM
Meydenbauer Center
11100 NE 6th Street
Bellevue, Washington 98004

Independent Public Accountants
KPMG LLP
801 Second Avenue, Suite 900
Seattle, WA 98104

Transfer Agent
Mellon Investor Services, L.L.C.
Shareholder Relations
P. O. Box 3315
South Hackensack, New Jersey 07606
Telephone: (800) 522-6645
TDD for Hearing Impaired: (800) 231-5469
Outside U.S.: (201) 329-8660

Stock Exchange Listing
NASDAQ Stock Market
Stock Symbol: COST

COSTCO WHOLESALE

PRINTED ON RECYCLED PAPER