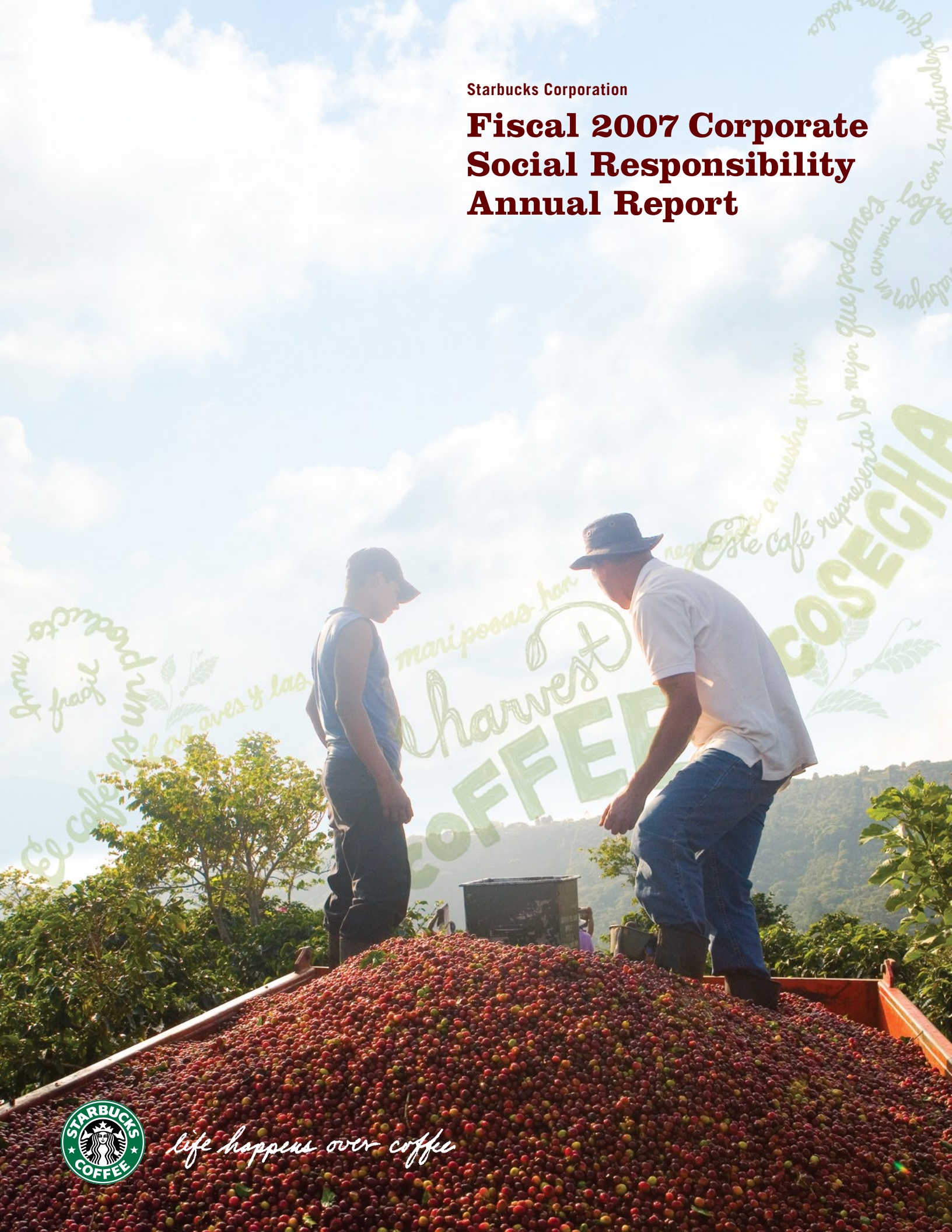


Starbucks Corporation

# Fiscal 2007 Corporate Social Responsibility Annual Report



*life happens over coffee*

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### RESOURCES

# **It began, as many good things do, with a few genuine, heartfelt conversations.**

Some sincere, open discussions among a core team of individuals who were determined to make sure Starbucks would become the premier purveyor of the world's finest coffee. Frank, forthright, perhaps a bit idealistic, we examined our values and our beliefs. And we asked ourselves just what kind of coffee company we would create.

We discussed how critical it would be that we consistently apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee. And how essential it would be that we treat coffee farmers respectfully, helping them achieve the kind of success that would ensure our own future.

Today, the effort and energy we invest in ethical coffee sourcing is a direct manifestation of those conversations that took place back when we were just starting out. A discussion about the kind of coffee company we were committed to being – then, now and forever.



# Dear Stakeholders,

My journey with Starbucks began when I walked into our first store in Seattle's Pike Place Market more than 25 years ago. Inside was extraordinary coffee from around the world, roasted with care and shared by people who were passionate about coffee. Another transformational moment came a few years later. On a business trip to Italy, I discovered the romance of espresso and the coffeehouse experience that would define today's Starbucks.

And in the past year, I had a life-changing visit to a coffee cooperative in Rwanda, where I was met by thousands of coffee farmers and their families. It was an emotional experience for me to see the positive impact Starbucks is making in this community. I reflected on the tremendous responsibility we have as a company to ensure that we are building an enduring company – not just for ourselves, but also for families in coffee-growing communities around the world who rely on us for their livelihoods.

Our company is in the midst of a transformation – one that will reinvigorate our business by renewing our focus on coffee and the customer experience. These three profound experiences are helping inform our future direction. We are dedicated to embracing our rich coffee heritage, reigniting the customer experience in our stores, and reaffirming our commitment to being a deeply responsible company.

I believe that Starbucks commitment to ethically sourcing and roasting our coffee differentiates us as a leader in our industry. In fiscal 2007, 65 percent of our coffee was purchased from C.A.F.E. (Coffee and Farmer Equity) Practices–approved suppliers who are integrating our rigorous standards for sustainability throughout the coffee supply chain. Our goal is to be purchasing 80 percent of our coffee through C.A.F.E. Practices by 2013, and extending the program's reach to areas in Africa and Asia.

Another priority is to develop and implement a global environmental strategy for our business. The changes we will make will focus on decreasing our carbon footprint as we grow. We are also working to strengthen the connections with the communities we serve by engaging with our neighbors and stakeholders.

The foundation of everything we do at Starbucks is our Mission Statement and Guiding Principles. Although we haven't always been perfect, we have always been dedicated to being the kind of company that is trustworthy and authentic. Being transparent and openly sharing our successes and challenges through our Corporate Social Responsibility Annual Report is an important part of our strategy. Another component is our support of the 10 universal principles of the United Nations Global Compact.

Even during this time of change for our company, one thing that will never change is our long-standing commitment to conducting business in a responsible and ethical manner. Going forward, we will only deepen our approach by continuing to integrate social and environmental responsibility into every aspect of our business. I invite you to come along with us on this journey.



Howard Schultz  
chairman, president and chief executive officer

## STARBUCKS MISSION STATEMENT AND GUIDING PRINCIPLES

To establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow.

The following six Guiding Principles will help us measure the appropriateness of our decisions:

- Provide a great work environment and treat each other with respect and dignity.
- Embrace diversity as an essential component in the way we do business.
- Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
- Develop enthusiastically satisfied customers all of the time.
- Contribute positively to our communities and our environment.
- Recognize that profitability is essential to our future success.

- 01 PRODUCTS
- 02 SOCIETY
- 03 ENVIRONMENT
- 04 WORKPLACE
- 05 DIVERSITY

# STARBUCKS AND CORPORATE SOCIAL RESPONSIBILITY

## About This Report

### SCOPE

This report includes information on Starbucks U.S. and Canada company-operated retail and global supply chain operations – the areas that represent the majority of Starbucks social, environmental and economic impacts. Starbucks system for collecting and reporting reliable social, environmental and economic performance data does not encompass all of our operations. We acknowledge the impacts of our licensed and international stores, but we currently do not have a systematic way to collect reliable data from these operations. Where available, anecdotal information is included for international, licensed store operations and joint ventures. Information on total coffee purchases is for Starbucks brands, including Starbucks coffee, Seattle's Best Coffee and Torrefazione Italia coffee.

### REPORTING YEAR

Starbucks fiscal year 2007 (October 2, 2006–September 30, 2007), unless otherwise noted.

### CURRENCY

All references to currency are in U.S. dollars, unless otherwise noted.

### STARBUCKS 2007 CSR REPORT AND PREVIOUS REPORTS



[www.starbucks.com/csr](http://www.starbucks.com/csr)

### INFORMATION INTEGRITY

Starbucks management is responsible for the preparation and integrity of the information in this report. Through a system of internal controls, including a comprehensive verification process involving internal subject matter experts, we believe this report fairly represents our CSR activities and results for the fiscal year ended September 30, 2007. External verification is provided by Moss Adams LLP.



[Read the Moss Adams Independent Assurance Report.](#)

## GLOBAL REPORTING INITIATIVE

Starbucks reporting continues to be influenced by the Global Reporting Initiative's (GRI) G3 Sustainability Reporting Guidelines in determining relevant content and performance metrics to include.

The GRI Table is available for review online in the Downloads section at [www.starbucks.com/csr](http://www.starbucks.com/csr).

A description of how we applied the GRI principles is included in Transparency and Reporting later in this section. We self-declare this report to GRI Application Level B+.

 [Learn more about GRI at www.globalreporting.org.](http://www.globalreporting.org)

## FOCUSING ON MATERIALITY

This is Starbucks seventh annual Corporate Social Responsibility (CSR) Report. This year, we took a different approach by publishing a full report online, along with a short printed report focused on our coffee purchasing practices. We also produced a summary highlights brochure of our CSR initiatives and performance for fiscal 2007. This brochure is distributed through Starbucks stores and available at the Starbucks Support Center in Seattle and Regional Support Centers (U.S. and international).

We began our reporting process for the fiscal 2006 CSR Report by conducting a materiality assessment to ensure that we are aligned with the materiality principle of the Global Reporting Initiative regarding content. Specifically, the topics and indicators covered in our CSR Report should reflect Starbucks significant economic, environmental and social impacts, or substantively influence the assessments and decisions of our stakeholders. We consulted a variety of inputs – both internal and external – as part of our materiality assessment.

- Company objectives, strategies, policies, programs and risk factors.
- Partner (employee) surveys and other input gathered through various feedback mechanisms.
- Customer contact feedback.
- Shareholder resolutions and anecdotal feedback.
- Input gathered through stakeholder dialogues.
- Informal input from coffee suppliers.
- Media coverage and blog discussions of issues.
- Stakeholder feedback specific to Starbucks 2005 CSR Report.
- Global Reporting Initiative (GRI) recommended topics and data for inclusion.

After reviewing these inputs, we compiled a list of issues, and prioritized each one based on the following criteria:

- The importance of the issue to – and potential impact on – Starbucks.
- The importance of the issue to – and potential impact on – external stakeholders.
- The amount of reasonable control Starbucks has over a particular issue.

Based on our assessment, we determined that the material issues of greatest importance to Starbucks and our stakeholders, over which the company has a reasonable level of control, fell into five topic areas highlighted on the next page. We revisited our assessment at the time we began work on our fiscal 2007 CSR Report and decided that the issues identified here continue to represent what is most material to Starbucks and our stakeholders.






The most material content in our report is shown in the upper right box in the matrix on the following page and indicated in green boxes throughout the report.

## MATERIALITY MATRIX



## KEY PERFORMANCE INDICATORS SUMMARY AND HIGHLIGHTS FOR FISCAL 2007







01 PRODUCTS    02 SOCIETY    03 ENVIRONMENT    04 WORKPLACE    05 DIVERSITY

	INDICATOR	2006	2007	2008 TARGET	WHAT WE SAID IN FISCAL 2006	WHAT WE DID IN FISCAL 2007	SELF-RATING	MORE INFO
<b>01 PRODUCTS</b>								
<b>Coffee and Farmer Equity (C.A.F.E.) Practices</b>	Pounds of green (unroasted) coffee purchased from C.A.F.E. Practices-approved suppliers	155 million pounds (goal: 150 million pounds)	228 million pounds (goal: 225 million pounds)	Target is based on a percentage of our total coffee purchases (below) rather than the number of pounds.	Introduce a revised version of the C.A.F.E. Practices guidelines to allow for streamlined, efficient and objective scoring.	Introduced a new scorecard – Version 2.0 – for C.A.F.E. Practices. Version 2.0 includes guidelines on more than 200 specific indicators, making the supplier implementation more straightforward.		Page 25
					Update our guidelines to account for regional differences, including clarification of minimum performance levels and compliance with local labor laws and wages for permanent, temporary and seasonal workers.	Began evaluating the data collected from the launch of C.A.F.E. Practices Version 2.0 and using it to understand regional differences, where improvements or more training and support are needed, and how best to continue expanding C.A.F.E. Practices in East Africa and Asia Pacific.		Page 27
	Percentage of total green (unroasted) coffee purchases	53%	65%	65%	Implement a new IT system for online verifier reporting and score calculation.	Implemented a new technology system for online verification, which has helped to streamline the reporting process.		Page 27
<b>Fair Trade Certified™ coffee</b>	Pounds of green (unroasted) coffee purchased from Fair Trade Certified™ cooperatives	18 million pounds	20 million pounds	Fair Trade Certified™ green (unroasted) coffee purchases to support forecasted sales. We expect that Fair Trade Certified™ coffees could represent 5% of our total coffee purchases in a given year.	Support and promote the sale of Starbucks Fair Trade Certified™ Café Estima Blend® coffee in Starbucks company-operated stores, foodservice channels and other points of distribution.	We saw an increase in awareness of the Fair Trade movement, which resulted in more demand for Starbucks Café Estima Blend® coffee. We have continued to find ways to promote Fair Trade Certified™ coffee to our customers, often working in tandem with Fair Trade national initiatives around the globe. In October 2007, Starbucks participated in “Fair Trade Month” by featuring Café Estima Blend® twice as the Coffee of the Week in our U.S. stores.		Page 30
	Percentage of total green (unroasted) coffee purchases	6%	6%		Continue to work with Fair Trade organizations to communicate key findings and challenges, provide transparency to the farmer level, augment the business capacity of participating Fair Trade cooperatives, and support a multifaceted approach to ethical, sustainable coffee purchasing.	Starbucks and TransFair USA are continuing to work on transparency issues.		Page 30

KEY:  ACHIEVED     MAKING PROGRESS     DID NOT ACHIEVE






### KEY PERFORMANCE INDICATORS



	INDICATOR	2006	2007	2008 TARGET	WHAT WE SAID IN FISCAL 2006	WHAT WE DID IN FISCAL 2007	SELF-RATING	MORE INFO
02 SOCIETY								
Charitable Contributions	Total cash and in-kind contributions	\$36.1 million	\$18.0 million	Do not currently set targets for future charitable contributions.	Starbucks and The Starbucks Foundation will announce a global philanthropic framework focused on supporting educational initiatives in Starbucks retail markets around the world.	Created a new approach and focus for our local giving programs that will be centered on our vision to strengthen local communities by aligning resources and leveraging technology to support young social entrepreneurs who are seeking to change their local communities through innovative ideas, volunteerism and civic action.		Page 50
	Percentage of pre-tax earnings	4.0%	1.7%					
Volunteerism (Make Your Mark)	Number of hours volunteered by partners and customers in the U.S. and Canada	383,000 (goal: 375,000)	320,000 (goal: 421,000)	352,000		Starbucks updated the Make Your Mark guidelines in fiscal 2007, providing clarity on the number of team projects each store could submit annually.		Page 52
03 ENVIRONMENT								
Electricity	Kilowatt-hours per square foot of retail space per month	6.57	6.78	By 2010, we will reduce energy use by 25% in all company-operated and international stores.	Work with the U.S. Green Building Council to develop LEED (Leadership in Energy and Environmental Design) standards for the retail sector that set out best practices for environmentally sound design of new stores.	Continued to play an active role in advancing the USGBC's LEED standard for retail through its Retail Pilot project. We are currently working on the final application for our volume build prototype, anticipated to be completed in 2008.		Page 71
Water	Gallons per square foot of retail space per month	26	25	Target has not been established.	Use a representative sample of stores as a "test bed" to monitor energy and water usage as part of a comprehensive audit to help us determine conservation opportunities.	Began a six-month comprehensive energy audit, which involved 24-hour monitoring of all aspects of energy usage among a representative sample of 19 Starbucks stores in the U.S. Results will be evaluated in spring 2008.		Page 75
Paper	Percentage of post-consumer fiber (not including hot cups)	66.4% (goal: 50%)	62% (goal: 66.9%)	66.9%	Test the Environmental Paper Assessment Tool (EPAT) with our top two suppliers of paper products to help determine how to best incorporate the tool into our paper procurement decision processes.	Postponed our plans to test the EPAT tool until fiscal 2008.		Page 77
	Percentage of unbleached fiber (not including hot cups)	86.3% (goal: 86.5%)	76% (goal: 87.1%)	87.1%		The decreases in post-consumer fiber and unbleached paper percentages were mainly driven by increases in tonnage but no significant increase to PCF or unbleached paper changes in product categories. We are close to maximizing PCF and unbleached in many categories without having operational impacts to products.		Page 77

KEY:  ACHIEVED  MAKING PROGRESS  DID NOT ACHIEVE

## KEY PERFORMANCE INDICATORS

	INDICATOR	2006	2007	2008 TARGET	WHAT WE SAID IN FISCAL 2006	WHAT WE DID IN FISCAL 2007	SELF- RATING	MORE INFO
WORKPLACE								
Partner satisfaction	Percentage of satisfied or very satisfied partners	86%	We conducted two Pulse Surveys of approximately 15,000 randomly selected partners to check progress on the fiscal year Partner View Survey Action Plan.	Conduct a Partner View Survey of all partners in company- operated stores globally.	Take additional steps to respond to the fiscal 2006 Partner View survey results in the areas of pay and benefits, streamlining internal communications and creating future job opportunities.	Implemented wage adjustments for the majority of store partners in the U.S. and Canada.		Page 80
Partner engagement	Percentage of engaged partners	69%				Completed an international Total Pay assessment to review Starbucks compensation and benefits in our international markets.		
DIVERSITY								
Women	U.S. executives (vice presidents and above)	33%	34%	While Starbucks values diversity and inclusion, we do not currently set targets for representation by race and gender.	Continue the creation and implementation of business unit-specific Diversity Leadership Teams (DLTs) across the company.	Eight new Diversity Leadership Teams originated in fiscal 2007, bringing the enterprise total to 19.		Page 91
		U.S. workforce	66%		66%	Solidify a strategic initiative to link the Diversity and Staffing organizations.		
People of color	U.S. executives (vice presidents and above)	15%	14%					
		U.S. workforce	30%				31%	
Suppliers	Amount spent with certified minority and women-owned businesses in U.S.	\$213 million (goal: \$206 million)	\$350 million (goal: \$250 million)	\$375 million	Develop a five-year supplier diversity plan that enables Starbucks to further advance our diverse supplier base.	Five-year plan was not completed due to personnel changes.		Page 93
					Create a supplier diversity advisory council to support the advancement of supplier diversity at Starbucks.	After further evaluation, we determined that an advisory council was not the best approach to support supplier diversity at Starbucks.		

Starbucks is no longer including Health and Safety as a KPI, but we are continuing to report the data [in the Workplace section](#).

**KEY:**  **ACHIEVED**  **MAKING PROGRESS**  **DID NOT ACHIEVE**

## KEY PERFORMANCE INDICATORS

# Starbucks Company Profile

Starbucks Corporation is the leading retailer, roaster and brand of specialty coffee in the world, with more than 15,000 company-operated and licensed locations in North America, Latin America, Europe, the Middle East, Africa and Asia Pacific.

Through various licensing arrangements and foodservice accounts, Starbucks® coffee and other products are sold in designated locations within airports, grocery stores, other prominent retailers, hotels and universities. Starbucks international licensed retail stores are operated through licensing arrangements and joint ventures, primarily with established retailers or restaurant operators, although some are wholly owned by Starbucks or its affiliates.

Our brand portfolio offers a wide variety of consumer products including Tazo® teas, Starbucks Entertainment CDs, bottled Ethos™ water, Starbucks® ice cream and Starbucks™ liqueurs. The Seattle's Best Coffee and Torrefazione Italia coffee brands enable Starbucks to appeal to a broader consumer base by offering a variety of coffee flavor profiles. Starbucks also sells coffee-brewing equipment and other merchandise.

With headquarters in Seattle, Starbucks Corporation is incorporated in Washington State, in the United States. The company's common stock is traded on the NASDAQ® Global Select Market ("NASDAQ"), under the symbol "SBUX." As of January 11, 2008, there were approximately 592,940 registered and beneficial shareholders of record.

## COMPANY DATA

FISCAL YEAR	2005	2006	2007
<b>Total net revenues</b>	<b>\$6.4 billion</b>	<b>\$7.8 billion</b>	<b>\$9.4 billion</b>
U.S. company-operated retail stores	\$4.5 billion	\$5.5 billion	\$6.6 billion
U.S. specialty (licensing, foodservice and other)*	\$558 million	\$683 million	\$788 million
International company-operated stores	\$852 million	\$1.1 billion	\$1.4 billion
International specialty (licensing, foodservice and other)**	\$170 million	\$215 million	\$259 million
Total Global Consumer Products Group revenues*	\$249 million	\$305 million	\$366 million
<b>Net earnings</b>	<b>\$494 million</b>	<b>\$564 million</b>	<b>\$673 million</b>
<b>Earnings per common share – diluted</b>	<b>\$0.61</b>	<b>\$0.71</b>	<b>\$0.87</b>
<b>Shareholders' equity</b>	<b>\$2.1 billion</b>	<b>\$2.2 billion</b>	<b>\$2.3 billion</b>
<b>Total income taxes</b>	<b>\$302 million</b>	<b>\$325 million</b>	<b>\$384 million</b>
<b>Cash paid for income tax expense</b>	<b>\$228 million</b>	<b>\$274 million</b>	<b>\$342 million</b>
U.S. federal and state	\$219 million	\$258 million	\$309 million
International	\$9 million	\$16 million	\$33 million
<b>Effective tax rate</b>	<b>37.9%</b>	<b>35.8%</b>	<b>36.3%</b>
<b>Number of countries where Starbucks stores are located</b>	<b>37</b>	<b>37</b>	<b>43</b>
<b>Total retail stores</b>	<b>10,241</b>	<b>12,440</b>	<b>15,011</b>
U.S. company-operated stores	4,918**	5,728	6,793
International company-operated stores	1,202**	1,435**	1,712
U.S. licensed stores	2,435	3,168	3,891
International licensed stores	1,686**	2,109**	2,615
<b>Number of partners (employees) globally</b>	<b>115,000</b>	<b>145,800</b>	<b>172,000</b>

\* Beginning in the fiscal fourth quarter of 2006, the company increased its reporting segments from two to three to include a Global Consumer Products Group ("CPG") segment in addition to the U.S. and International segments. This additional operating segment reflects the culmination of internal management realignments in fiscal 2006, and the successful development and launch of certain branded products in the U.S. and internationally, commencing in fiscal 2005 and continuing throughout fiscal 2006. Additionally, with the 100 percent acquisition of the company's operations in Hawaii in fiscal 2006, and the shift in internal management of this market to the U.S., these operations have been moved from the International segment to the U.S.

\*\* International store information has been adjusted for the fiscal 2007 acquisition of Beijing, the fiscal 2006 acquisitions of Hawaii and Puerto Rico and fiscal 2005 acquisitions of Germany, Southern China and Chile licensed operations by reclassifying historical information from Licensed stores to company-operated stores. U.S. store information was also adjusted to align with the Hawaii operations segment change by reclassifying historical information from International company-operated stores to the U.S.

## STARBUCKS AND CORPORATE SOCIAL RESPONSIBILITY

# Integrating Corporate Social Responsibility (CSR)

At Starbucks, our commitment to good governance, ethical conduct and social responsibility is core to our way of doing business, and strongly aligned with our drive to create and increase shareholder value. We are also committed to maintaining our relationships with stakeholders, and gaining their input and feedback on issues of mutual importance.

## THE BUSINESS CASE

Starbucks defines CSR as conducting business in ways that produce social, environmental and economic benefits for the communities in which we operate and for the company's stakeholders, including shareholders. Throughout this report, we underscore the importance and benefits of CSR to our business. Below is a short summary of the tangible benefits, including:

- **Attracting and retaining our partners (employees):** We believe Starbucks commitment to CSR contributes to overall retention and higher-than-usual levels of partner satisfaction and engagement. The company's comprehensive benefits package also motivates partners to stay at Starbucks.
- **Customer loyalty:** Studies have revealed that customers prefer to do business with a company they believe to be socially responsible, when their other key buying criteria are met. In 2007, we surveyed our customers and found that 38 percent associate Starbucks with good corporate citizenship. The vast majority – 86 percent – of customers surveyed indicated being extremely or very likely to recommend Starbucks to a friend or family. Our customers' loyalty has been instrumental to the company's ability to grow.

- **Reducing operating costs:** Many environmental measures, such as energy-efficient equipment or lighting, involve initial investments but deliver long-term environmental and cost-saving benefits.

 [We outline a number of those measures in the \*Environment\* section of this report.](#)

- **Creating a sustainable supply chain:** We have made significant investments in our supply chains, with the long term in mind. Our focus has been to ensure that our suppliers of today will have the capacity to supply Starbucks business tomorrow. Their sustainability is critically linked to our growth and success. This is especially true of those who supply our core products or ingredients, such as coffee, tea and cocoa.

 [Learn more about our approach to ethical sourcing in our \*Products\* section.](#)

- **License to operate:** Having a strong reputation as a socially responsible company makes it more likely we will be welcomed into a local community. In a recent customer survey, nearly half of the respondents indicated extremely or very positive attitudes about having a Starbucks in their neighborhood, while only seven percent expressed negative attitudes.

 [Learn more about the survey in our \*Society\* section.](#)

## CORPORATE GOVERNANCE

Starbucks board of directors holds management accountable to operate and manage the company according to strong ethical and governance principles. The board currently has nine members, eight of whom meet the independence requirements of NASDAQ<sup>1</sup>. Starbucks president and ceo Howard Schultz chairs the board. All three committees of the board are comprised of independent directors and have specific charters: Audit and Compliance, Compensation and Management Development and Nominating and Corporate Governance.

There are well-defined criteria for the selection of new board members, foremost being a clear demonstration of their own personal integrity and ethics. Board diversity is sought in terms of members' personal and professional backgrounds, gender, race, ethnicity or other differentiating characteristics, enabling a wider range of opinions and perspectives to be considered. Of the nine members of Starbucks board, one is Latino, two are African American (one of which is female), and one other female also serves on the board.

In November 2007, our board amended the company's bylaws to include majority voting to allow shareholders to play a more meaningful role in the election of directors. Director nominees must receive more "for" than "against" votes to be elected in an uncontested election. Additionally, the term of a nominee who does not receive a majority of the votes cast will end on the earliest of either: (1) 90 days after the date election results are certified; (2) the date the director resigns; or (3) the date the board of directors fills the position. This change demonstrates Starbucks ongoing commitment to strong corporate governance practices.

Shareholders and partners (employees) can provide recommendations and feedback to the board through the Business Conduct Helpline and the Auditline. In addition, written correspondence can be sent to the board, an individual director or to any of Starbucks independent board committees.

Committee charters, our governance principles, our director nominations policy (including criteria for board membership) and profiles on each board member are available in the corporate governance section of Starbucks.com.

## BUSINESS ETHICS

Upholding our strong ethical corporate culture is paramount to Starbucks success. Starbucks Business Ethics and Compliance program supports partners in making ethical business decisions by communicating Starbucks Standards of Business Conduct, facilitating legal compliance and ethics training, and providing mechanisms for partners to seek guidance and voice concerns.

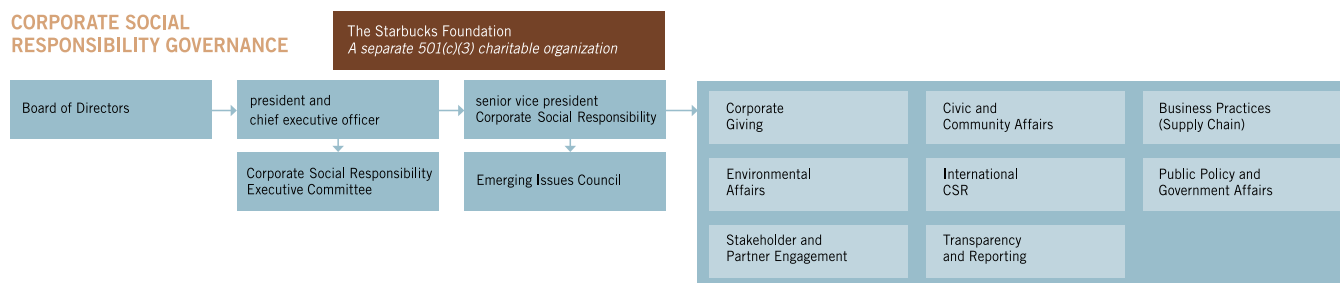
Starbucks also maintains an Auditline for third parties, such as vendors, investors and customers, to report possible accounting and/or auditing irregularities. The Auditline is available to Starbucks partners as well. In North America, the Business Ethics and Compliance program is well established, having been in place since 1999. In 2004, program components were launched internationally and continue to be rolled out in company-owned markets following a market opening or acquisition. In addition, Starbucks Code of Ethics for CEO and Finance leaders is available in the Corporate Governance section of Starbucks.com.

## MANAGING CSR

Starbucks continues to evolve and strengthen the way CSR is managed internally. We have created structures to ensure that emerging issues are identified, prioritized and addressed in a more systematic and integrated manner throughout the company; and that company policies and procedures are upheld and followed. Our Emerging Issues Council, CSR Executive Committee and Policy Governance Council serve these functions respectively. They are described in more detail below.

Throughout the company, there is a strong sense of shared accountability for CSR. In fiscal 2007, we took both a centralized and decentralized organizational approach to managing CSR. At Starbucks Support Center, our global headquarters located in Seattle, there was a dedicated CSR group, reporting to the senior vice president of CSR, for the day-to-day management of specific CSR-related initiatives. This group often serves as the catalyst for new CSR programs, which may end up being managed and implemented at the business unit, division or department level. Once implemented, the CSR team provided broad oversight and served as an ongoing resource. The fiscal 2007 CSR organizational chart is presented below. Currently there is not a committee of the board dedicated to CSR.

### CORPORATE SOCIAL RESPONSIBILITY GOVERNANCE



***In fiscal 2008, Starbucks is exploring a new organizational structure that will more deeply integrate CSR into our business operations. Our strategic priorities include ethical sourcing, improving environmental performance in the development and operation of our stores, working to be a respected partner in our communities, and communicating our CSR commitments. The materiality assessment conducted for our reporting is one important input in the development of our key strategic priorities. Another key input is business unit priorities.***

<sup>1</sup> NASDAQ generally defines independent director as a person other than an executive officer or employee of the company or any other individual having a relationship which, in the opinion of the issuer's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

## STARBUCKS AND CORPORATE SOCIAL RESPONSIBILITY



## EMERGING ISSUES COUNCIL (EIC)

Established in 2004, the EIC is a cross-functional, forward-looking team of Starbucks executives from across the company. Together, they work to stay abreast of the external global environment and identify emerging trends that may be of concern to Starbucks and our stakeholders down the road. Issues of potential concern are reviewed and prioritized. As issues are identified, the EIC may engage external stakeholders to gain their input. It may also involve appropriate business units to explore an issue further, define feasible options and recommend any action needed.

Issues of high priority are presented to the CSR Executive Committee for review and appropriate action.

## CSR EXECUTIVE COMMITTEE

The CSR Executive Committee is charged with setting CSR-related strategy and policies; monitoring progress against CSR objectives; reviewing and approving major CSR social investment activity; overseeing global, regional and local CSR organizational structure and accountabilities; and ensuring CSR integration throughout the company.

In 2007, the CSR Executive Committee, headed by Starbucks president and ceo and comprised of several senior level officers of the company, focused on two key initiatives: creating an initiative to achieve high-performance green stores, with specific attention on energy consumption; and developing a global strategy for giving that aligns Starbucks philanthropic investments around a single cause platform.

## POLICY GOVERNANCE COUNCIL

Over the years, Starbucks has adopted certain governance tools, such as policies, standards, guidelines and procedures, to help guide our business conduct in accordance with the law and Starbucks Mission Statement and Guiding Principles.

Starbucks formed a Policy Governance Council in fiscal 2006 to oversee and approve our governance tools at the global enterprise level, and to ensure they are well-defined, consistent with each other, current, stored for easy retrieval, and effectively communicated to partners. The Council is comprised of company leaders who represent multiple business units and functions, and is supported by Starbucks Policy Office and staff.

## STAKEHOLDER ENGAGEMENT

Our stakeholders include partners (employees), customers, suppliers, farmers, shareholders, governments, community members, environmental groups, activists and many others. By proactively engaging our stakeholders, including those who may be directly impacted by our business decisions, we are able to better understand their concerns and gain their input on topics of mutual importance.

We stayed in touch and continued to engage in dialogue with several key stakeholder groups and industry experts during fiscal 2007, building on a number of meetings and forums we hosted the previous year. These included discussions about our cocoa sourcing practices, water-related issues and our approach to health and wellness. We also continue to share the work we are doing to build a model for sustainable coffee sourcing, which we refer to as C.A.F.E. Practices. Participating in industry groups, such as the Specialty Coffee Association of America, and presenting at conferences are two examples of the avenues we take.

To help us improve our transparency, we engaged various stakeholders in June–August 2007 and invited them to provide feedback on Starbucks Fiscal 2006 CSR Report. Their input helped influence the changes we made to this CSR Report, including our decision to print only an abridged version and publish the full report online.

Throughout this report, there are specific references to our engagement with others, as well as the mechanisms we use to gain ongoing feedback from our key stakeholders.

### STAKEHOLDER VOICES

We asked key industry experts to offer feedback on Starbucks CSR efforts and reporting – what they think we're doing well and where they see room for improvement. Hear what they have to say.



[www.starbucks.com/csr](http://www.starbucks.com/csr)

## TRANSPARENCY AND REPORTING

Our stakeholders want to know what Starbucks is doing to be a socially and environmentally responsible company. Since 2001, Starbucks has published a CSR Report as part of our broader communications efforts to provide transparency on our CSR activities and performance. In preparing our fiscal 2007 CSR Report, we have been influenced by the Global Reporting Initiative (GRI) G3 Guidelines, a set of internationally recognized sustainability reporting standards. We self-declare this report to GRI Application Level B+.

 [The GRI indicators included in this report are available for review online in the Downloads section at www.starbucks.com/csr.](http://www.starbucks.com/csr)

In developing this report, we followed the guidance for reporting against the GRI G3 principles for defining content and quality. The principles, along with a brief description of how Starbucks addressed them, are listed below.

- **Materiality:** To determine what topics and indicators to include in our report that reflect the company's most significant impacts and issues of greatest importance to stakeholders, Starbucks conducted a materiality assessment in fiscal 2006, and reassessed the findings in fiscal 2007.


 [Learn more in Focusing on Materiality earlier in this section.](#)

- **Stakeholder Inclusiveness:** We define who our stakeholders are, describe the measures we took to engage and solicit their feedback, and throughout this report explain how we are addressing their concerns. As part of preparing this report, we asked 14 stakeholders to share their perspective on our CSR performance and our report, as well as areas where we can continue to improve. Their comments are included throughout the report in the Stakeholder Voices feature.

 [More specific information on our stakeholder engagement efforts is described earlier in this section.](#)

- **Sustainability Context:** Discussing our CSR-related measures and performance in the broader sustainability context is essential. At the beginning of most sections, we introduce the specific topics to be covered and explain how they support our approach to sustainability.

 [We also explain the business case for CSR and sustainability in The Business Case earlier in this section.](#)

- **Completeness:** To provide readers with appropriate context for what is and is not covered in this report, we define the scope, boundaries and topics contained in this report earlier in this section. Since first publishing in 2001, we have worked to make our report more complete each year and will continue to do so in the future.
  - **Balance:** Throughout this report, Starbucks has included multiyear performance data, and provided self assessments of our performance. We have also included case studies and external stakeholder comments as a way of providing more insight and objectivity about some of the challenges Starbucks faces.
  - **Comparability:** In developing the report each year, we use our previous reports as starting points. We provide follow-up information regarding any intended plans we previously stated, and include multiyear performance data when possible. Self-assessments about our performance are also included. This enables our stakeholders to compare our performance over time.
  - **Accuracy:** The content and data included in this report have been internally reviewed by numerous subject matter experts and senior leaders at Starbucks, and have been subject to a system of internal controls. External verification was conducted by Moss Adams LLP, an independent accounting and consulting firm.
-  [See the Independent Assurance Report for more information.](#)
- **Timeliness:** We publish our CSR Report on an annual basis following the close of our fiscal year which typically concludes in late September or early October.
  - **Clarity:** We have worked to improve the design and readability of our report each year by presenting information in a concise, understandable and user-friendly format. We have also reduced the amount of content covered in this year's printed report and presented more information online.
  - **Reliability:** External verification of the data and statements made in Starbucks CSR Annual Reports began in 2002, when the company retained Seattle-based Moss Adams LLP, the 12th largest accounting and consulting firm in the United States. The selection of Moss Adams met Starbucks criteria for a high-quality firm that had not worked with the company previously, and a firm that could develop a customized approach for verifying CSR-related data and content.

# External Recognition

## SOCIALLY RESPONSIBLE INVESTMENTS (SRI)

There are a variety of socially responsible mutual funds available to investors who choose to invest in companies that meet specific criteria in areas covering various social, environmental and economic dimensions. Starbucks was listed on several SRI indices (mentioned below) and included in some socially responsible mutual funds in fiscal 2007:

- Calvert Social Index®
- Citizens Index®
- Domini400 Social<sup>SM</sup> Index (DS400)
- Dow Jones Sustainability North America Index (DJSI North America)
- Dow Jones Sustainability United States Index (DJSI United States)
- Dow Jones Sustainability World Index (DJSI World)
- Ethibel Excellence Global Index
- FTSE4Good U.S. Index
- FTSE4Good U.S. 100 Tradable Index
- FTSE4Good Global Index
- KLD Broad Market Social<sup>SM</sup> Index (BMSI)
- KLD Catholic Values 400<sup>SM</sup> Index (CV400)
- KLD Large Cap Sudan Free Social<sup>SM</sup> Index (LCSFSI)
- KLD Global Sustainability<sup>SM</sup> Index (GSI)
- KLD Large Cap Social<sup>SM</sup> Index (LCSI)
- KLD North America Sustainability<sup>SM</sup> Index (NASI)
- KLD Select Social<sup>SM</sup> Index (SSI)

## CSR AWARDS

We are proud of the following CSR-related recognition that Starbucks received in fiscal 2007. While these honors are greatly valued and appreciated, we do not view them as end results, but rather as important acknowledgements of our ongoing commitment to CSR and our efforts to date.

### Multiple-year awards

- Starbucks has been recognized as one of **“Twenty Most Admired Companies in America”** by *Fortune* each year from 2003–2007.
- Starbucks has made *Fortune*'s list of **“The 100 Best Companies to Work For”** nine times. Starbucks ranked fifteenth on the list in 2007.
- Starbucks was ranked ninth on the list of **“100 Best Corporate Citizens”** by *Business Ethics* magazine in 2007. Starbucks has made this list every year since 2000.
- Starbucks has been included as one of **“100 Best Corporate Citizens”** by *Corporate Responsibility Officer* magazine since 2000.

### Single-year awards

- Howard Schultz, Starbucks chairman, president and ceo, was awarded *First* magazine's **2007 International Award for Responsible Capitalism**. This annual award recognizes business leaders who put social responsibility at the heart of their commercial strategy.
- Starbucks was recognized as one of 2007 *Black Enterprise* magazine's **“40 Best Companies for Diversity”** and **“15 Best in Corporate Board Diversity.”**
- Starbucks was recognized as one of the **“World's Most Ethical Companies”** by *Ethisphere* magazine.

## EXTERNAL ORGANIZATION MEMBERSHIPS AND AFFILIATIONS

We belong to several organizations that address corporate social responsibility and sustainability issues.

- **Business for Social Responsibility (BSR)**. Global nonprofit organization that helps member companies enhance business performance while respecting ethical values, people, communities and the environment.
- **Business in the Community**. Membership-based British organization helping leadership companies translate corporate values and commitments into mainstream management practice.
- **Center for Corporate Citizenship at Boston College**. Educational institution, think tank, consulting firm and information resource.
- **National Coffee Association of U.S.A.** Trade association for the U.S. coffee industry.
- **Specialty Coffee Association of America**. Trade association for the specialty coffee industry, including coffee retailers, roasters, producers, exporters and importers as well as manufacturers of coffee equipment and related products.
- **SustainAbility Engaging Stakeholders**. Nonprofit joint venture between SustainAbility and the United Nations Environment Programme (UNEP).
- **United Nations Global Compact**. Voluntary UN initiative relating to upholding principles of human rights, labor, the environment and anticorruption. Starbucks became a participant in 2004.

## STARBUCKS AND CORPORATE SOCIAL RESPONSIBILITY

# United Nations Global Compact

In June 2004, Starbucks joined the UN Global Compact, a voluntary international network of corporations, UN agencies, trade unions and nongovernmental organizations that support 10 universal principles. These principles are based on the UN Universal Declaration of Human Rights; the International Labour Organisation's Declaration of the Fundamental Principles and Rights at Work; and UNEP's Rio Declaration on Environment and Development. We consider these principles to be a natural extension of Starbucks Guiding Principles, which define the company's commitment to social and environmental responsibility.

The table to the right includes the Global Compact's 10 principles and references to sections in this report that elaborate on how our priorities are aligned with each principle. We plan to report our progress annually.

Through our participation in the Global Compact, we are continually exploring ways the company can strengthen existing policies or develop new internal practices. For instance, in fiscal 2007, Starbucks reviewed our internal policies and practices with an eye focused on human rights.

## HUMAN RIGHTS

Starbucks is committed to respecting the rights of our partners (employees). Our Guiding Principles – based on the values on which our company was founded – have always put people first. Our first guiding principle is to “provide a great work environment and treat each other with respect and dignity.” Whether it is the respect we demonstrate for our partners or through our commitment to the people and communities with whom we do business, Starbucks believes the vitality of our people and their communities is critical to our success.

Starbucks supports internationally accepted principles and standards regarding human rights and is a signatory to the United Nations Global Compact. We seek to operate our business in a manner consistent with these international standards and with business partners who share our commitments, as well as to meet or exceed national and local laws in the countries in which we operate.

During fiscal 2007, Starbucks Emerging Issues Council explored the need for a human rights policy. After careful review, the EIC affirmed that our commitment to respect human rights is clearly articulated in Starbucks existing policies, standards and codes, and that there was not a need for an additional human rights policy at this time. The policies, standards and codes we reviewed include:

- Standards of Business Conduct
- Supplier Code of Conduct
- C.A.F.E. Practices
- Cocoa Practices
- Starbucks Supplier Social Responsibility Standards for Manufactured Goods and Services

## U.N. GLOBAL COMPACT “COMMUNICATIONS ON PROGRESS” REPORT

PRINCIPLES	PAGE
<b>HUMAN RIGHTS</b>	
1. Business should support and respect the protection of internationally proclaimed human rights.	17, 25, 38, 41, 42, 82, 88
2. Business should ensure that they are not complicit in human rights abuses.	25, 38, 41, 42, 82
<b>LABOR STANDARDS</b>	
3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining.	88
4. Business should support the elimination of all forms of forced and compulsory labor.	25, 38, 41, 42
5. Business should support the effective abolition of child labor.	25, 38, 41, 42, 88
6. Business should support the elimination of discrimination of employment and occupation.	88, 89, 93
<b>ENVIRONMENT</b>	
7. Business should support a precautionary approach to environmental challenges.	25, 38, 41, 61, 67
8. Business should undertake initiatives to promote greater environmental responsibility.	25, 38, 41, 67
9. Business should encourage the development and diffusion of environmentally friendly technologies.	69, 71, 76
<b>CORRUPTION</b>	
10. Business should work against corruption in all its forms, including extortion and bribery.	13, 82

01	PRODUCTS
02	SOCIETY
03	ENVIRONMENT
04	WORKPLACE
05	DIVERSITY

# 01 PRODUCTS

## Our World of Products

For more than 35 years, Starbucks has purchased, roasted and sold high-quality coffee beans through retail outlets and commercial wholesale accounts. While coffee is Starbucks core product, the company markets, sells and/or licenses a broader range of products, including Tazo® tea, Starbucks Entertainment CDs, Ethos™ water, Starbucks™ liqueurs and Starbucks® ice cream, food and dairy items and brewing equipment and merchandise.

With every product Starbucks brands, markets and sells, or uses in our operations, we uphold our commitment to quality and strive to source our products in a socially and environmentally responsible manner. We refer to this as ethical sourcing.

In this section, we explain how we are evolving our approach to ethical sourcing by focusing on quality and the social and environmental conditions under which our products are produced. The following major topics are discussed:

- Starbucks Coffee – Advancing Our Model for Sustainability
- Ethical Sourcing – Purchasing Our Non-Coffee Products
  - Cocoa
  - Tea and Botanicals
  - Manufactured Goods
- Quality Assurance and Product Recalls



## QUICK FACTS – FISCAL 2007

### COFFEE

- Global production: 16 billion pounds<sup>1</sup> (7 billion kilograms).
- Starbucks purchased 352 million pounds (160 million kilograms), which represents 2 percent of total world production.
- Starbucks® coffee was grown in 25 countries; the majority being grown in Guatemala, Colombia and Indonesia.

### TEA/BOTANICALS\*

- Global tea production: 8 billion pounds<sup>2</sup> (4 billion kilograms).
- Starbucks purchased 7 million pounds (3 million kilograms) of teas and botanicals.
- Tazo® teas and botanicals are grown in 24 countries.

\* Botanicals are various leaves, flowers, roots, petals, seeds, bark, berries and spices. Tazo incorporates botanicals into its tea blends.

### COCOA

- Global production: 7 billion pounds of cocoa beans<sup>3</sup> (3 billion kilograms).
- Starbucks purchased 22 million pounds of cocoa powder (10 million kilograms).
- The cocoa used in Starbucks products is produced in 7 countries.

### WATER

In 2007, Ethos™ water was sourced from two natural spring sources – Baxter Springs in the Sierra Nevada Range in Northern California, and Tomhicken Springs in the Pocono Valley in Northeastern Pennsylvania.

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<sup>1</sup> International Coffee Organization, Crop Year 2006/2007 report

<sup>2</sup> F.O. Licht's World Tea Markets Monthly Vol. 9, No. 1, July 2007

<sup>3</sup> International Cocoa Organization figures for crop year 2006/07 published in the Quarterly Bulletin of Cocoa Statistics, Vol. XXXIII– No. 4

# Advancing Our Model For Sustainability

At Starbucks, sharing our passion for great coffee is the heart and soul of our company.

We know that our customers' loyalty and trust must be earned. Our uncompromising commitment to high-quality coffee is one reason our customers are loyal to Starbucks. They also trust us to have ethical business practices, be good environmental stewards, and, especially, to be respectful of the people who grow and supply Starbucks® coffee. It's our responsibility to continually earn and maintain their trust.

Our responsibility also involves working directly with coffee farmers, cooperatives, millers and exporters, and with other companies, nongovernmental organizations (NGOs) and public agencies to promote sustainable production.

Over the years, Starbucks has received input from a broad range of stakeholders, and evolved a holistic model for coffee sustainability, one that underscores the importance of:

- Building long-term relationships with coffee farmers and suppliers.
- Having a sustainable pricing model that is focused on paying the higher prices that premium quality coffee commands.
- Clearly defining and communicating the company's coffee production sustainability criteria of C.A.F.E. (Coffee and Farmer Equity) Practices, and maintaining the integrity of performance against this criteria through verification and transparency.
- Purchasing sustainable coffees that are third-party-certified.
- Investing resources to enhance the sustainability of coffee farms and their surrounding communities.
- Seeking continuous improvement to strengthen our supply chain into the future.

## THE COFFEE INDUSTRY – AN OVERVIEW

It is believed that coffee was first consumed as a hot beverage in East Africa during the 11th century. Today, coffee is one of the world's most popular beverages, with more than \$70 billion in retail sales worldwide. The coffee industry provides a livelihood for an estimated 25 million coffee farmers in more than 60 coffee-producing countries.\*

There are two commercially viable species of coffee – *robusta* and *arabica*. High-quality *arabica* coffee is grown on farms that range from very small family-run parcels to large-scale estates, located primarily between the Tropics of Cancer and Capricorn and situated at higher elevations. These elevations provide the right climatic conditions needed to grow coffee that is considered specialty grade.

The coffee market has always been prone to ups and downs, mostly related to the balance between supply and demand. In 2001, world *arabica* coffee prices were at a record low of \$0.42 per pound (\$0.93 per kilogram\*) and fluctuated near this price for several years. These particular market conditions created a climate of economic instability that had a negative impact on many farmers and their communities. Today's market conditions are greatly improved, and in fiscal 2007, world *arabica* coffee prices averaged \$1.14 per pound (\$2.53 per kilogram).

Starbucks purchases only high-quality *arabica* coffee beans, paying prices that premium quality commands. These coffees are sold under the Starbucks, Seattle's Best Coffee and Torrefazione Italia brands.

\* International Coffee Organization

## ABOUT COFFEE

- Total worldwide coffee production (Oct. 2006–Sept. 2007): 16 billion pounds (7 billion kilograms)\*
- Total coffee purchased by Starbucks (Oct. 2006–Sept. 2007): 352 million pounds (160 million kilograms)
- Number of coffee farmers worldwide: 25 million\*
- Number of countries where coffee is grown: About 60\*
- Number of countries where Starbucks bought coffee in fiscal 2007: 25

\* International Coffee Organization

# Coffee – Sustainable Relationships

Through our relationships with coffee farmers, suppliers and exporters, we have been able to achieve greater stability, consistency of supply and the opportunity to increase the amount of coffee we buy. This has been critical to Starbucks growth and our plans for future expansion.

We are committed to building and strengthening relationships with farmers and suppliers that will provide them with stability and the opportunity to build and sustain their businesses.

In short, these relationships must be mutually beneficial. They must also be collaborative in nature in order to advance measures and practices that contribute to the sustainable production of high-quality coffee – and sustainable livelihoods for farmers and their families.

In 2007 these principles were tested, and, in the end, it led to some valuable lessons. The situation concerned a disagreement over the Ethiopian government's efforts to trademark certain Ethiopian coffee designations.

## Learning from Our Experience in Ethiopia

During 2006 and into 2007, Starbucks became involved in a complex discussion with the Ethiopian government regarding their efforts to gain trademark rights for the specialty coffee designations for Sidamo, Harrar and Yirgacheffe. The Ethiopian government hoped that by forming alliances with companies like Starbucks, they would be able to expand the branding and marketing of Ethiopia's world-renowned fine coffees in order to help achieve better prices for their farmers. While we initially felt that other established approaches might work better than trademarking, we have always felt that we shared a common goal with the government to improve the livelihoods of Ethiopian coffee farmers and their communities.

Unfortunately our differences in approach overshadowed our areas of agreement, and toward the end of 2006 and into 2007 the trademark issue became the subject of an Oxfam campaign. News headlines picked up on our differences and characterized the situation as a heated dispute between Starbucks and the Ethiopian government.

**"We will be working closely with Starbucks to bring badly needed investment and technology to our coffee industry, as well as brand recognition and promotion for our high-grade *arabica* beans. These measures will afford Ethiopia new leverage in the global coffee market."**

The Honorable Meles Zenawi  
Prime Minister of the Federal Democratic Republic of Ethiopia

**"Although much has been made of our initial differences with the Ethiopian government, we always shared an interest in supporting Ethiopian farmers. We now have an extraordinary opportunity to continue to partner with the Ethiopian coffee community to support their efforts to produce some of the world's finest coffees."**

Howard Schultz  
Starbucks chairman, president and ceo

Although we strongly believe that issues or disagreements are best approached through open and direct dialogue, it did not happen immediately in this case. Initially Starbucks and the Ethiopian government attempted to work with third parties. Once we actually sat down to talk with the Ethiopian government we were able to start a constructive dialogue. During this process, we asked for their input and honest feedback, and provided them with ours. We gained an expanded perspective beyond the business and legal approach we had previously taken. It was direct engagement that proved most helpful in resolving the issue.

In June 2007, Starbucks and the Ethiopian government signed a distribution, marketing and licensing agreement that provides a framework for us to promote jointly the Harrar, Sidamo and Yirgacheffe designations, and to strengthen the Ethiopian coffee sector. It also includes the license of Ethiopia's specialty coffee designations where they may be recognized as trademarks, and establishes a framework for their use when they are not. It's important to us that we continue to learn and grow from this experience. We have carefully examined our actions and decisions related to this issue. Input and feedback have also been gathered from a variety of the parties involved, including Oxfam and the Ethiopian government. We hope this leads to more constructive engagement in the future, especially when differences of opinion or approach arise.

Starbucks will continue to provide support for Ethiopia's farmers through a number of avenues. In addition to purchasing and promoting high-quality Ethiopian coffees, we will be opening an Ethiopian-based Farmer Support Center in 2008.

## STRENGTHENING OUR RELATIONSHIP WITH RWANDA AND EAST AFRICA

Our relentless search for premium-quality coffee takes us all over the world, including Rwanda. Coffee is currently Rwanda's most important export crop, accounting for 30–50 percent of the country's gross domestic product<sup>1</sup> and representing 75 percent of their export income.<sup>2</sup>

In 2006, we selected Rwanda Blue Bourbon as one of our Starbucks® Black Apron Exclusives® coffees, recognizing it as one of the rarest and most unique of Starbucks offerings. Our discovery of this coffee reinforced our desire to build and sustain strong relationships with local growers in Rwanda. Today it is a priority for us, especially as we look to increase our coffee purchases from Rwanda as well as other East African countries.

For this reason, we are planning to establish a field presence by opening two Farmer Support Centers (FSCs) in Africa in 2008, modeled after Starbucks FSC in Costa Rica. One will be located in Ethiopia and the other in Rwanda. These additional facilities will enable Starbucks to work directly and collaboratively with farmers throughout the region, helping them improve the quality and sustainability of their growing practices so that they can achieve better prices. We are also looking at products beyond coffee that we might purchase, such as textiles from Ethiopia.

Through our new FSCs, we will also seek to promote Coffee and Farmer Equity (C.A.F.E.) Practices, and increase the number of participating suppliers and improve their scores. Our on-the-ground support will include training and capacity building for local coffee producers, with a primary focus on coffee quality, agronomy and environmentally responsible growing and processing techniques. We believe that having a hands-on presence in the region will serve to strengthen the overall coffee sector in East Africa.

“We are very excited to have a regional Starbucks Farmer Support Center here in Rwanda. We look forward to working with Starbucks to offer additional support to the coffee-farming community here and in the neighboring countries,” said Paul Kagame, president of the Republic of Rwanda. “This center will offer many new opportunities to enhance our methods and produce even greater volumes of our high-quality specialty coffees.”

<sup>1</sup> OECD, Africa Economic Outlook 2007

<sup>2</sup> Rwanda Ministry of Agriculture and Animal Resources

# Sustainable Prices

## \$1.43 PER POUND

average price Starbucks paid for coffee in fiscal 2007

### PAYING FOR COFFEE QUALITY

For Starbucks, prices are directly linked to coffee quality. When working closely with people throughout our coffee supply chain – the farmers, millers and exporters – we have always emphasized the importance of quality as the best, most sustainable driver of higher prices. Coffee farming, like any business, must be profitable to be sustainable. When coffee farmers do not bring in sufficient income, they may switch to other crops or perhaps stop growing coffee altogether. The same applies to other critical players – such as millers and exporters – who add value along the supply chain.

#### What does Starbucks pay for coffee?

Starbucks is committed to paying the higher prices that premium-quality coffee commands. Over the past six years, the average prices we've paid for coffee have reflected this commitment and helped give farmers more predictability and protection against the lows of the coffee commodity market.

#### What Determines Price?

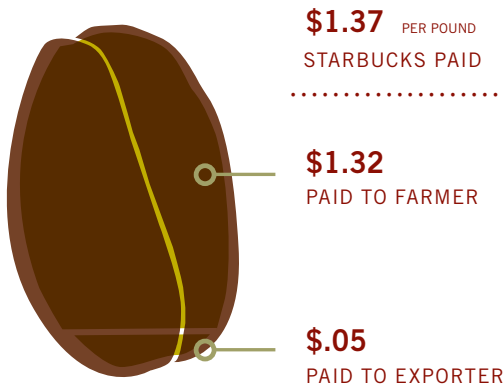
Quality is the most important factor, but not the only determinant of the prices we pay for coffee. The cost of production and the prevailing market conditions, which vary from country to country and even from region to region, are also reflected in the price.

#### What Did Starbucks Pay for Coffee?

In fiscal 2007, Starbucks purchased 352 million pounds (160 million kilograms) of coffee and paid an average price of \$1.43 per pound (\$3.16 per kilogram).

### ONE EXAMPLE OF HOW MUCH FARMERS GOT PAID

Here we provide an example of how the price we paid in one of our fiscal 2007 coffee contracts for Guatemalan coffee was distributed through the supply chain and to the producer. In this contract, we bought coffee for \$1.37 per pound from a local Guatemalan coffee exporter. The exporter paid \$1.32 per pound to the producer who grew and milled the coffee. The exporter retained five cents per pound for financing, documentation and profit. We received the following documentation from the exporter as specified in Starbucks transparency requirements: notarized receipts and statements from the producer reflecting the quantity of coffee and price received from the exporter. Starbucks supply chain is diverse and complex, so the price distribution varies around the globe. This is due to different purchase and delivery structures, production costs, quality premiums and the margin distribution within each country.



⚠ The breakdown shown here is one example of the price distribution from one of our top three coffee origins.



### What is the “C” Market Price?

*Arabica* coffee is traded as a commodity on the New York “C” market (the worldwide pricing mechanism and reference used by coffee traders). In the early 2000s, “C” market prices were depressed due to an oversupply of coffee that exceeded demand. In the past few years, demand and supply have been more in balance, which has been reflected in the rise of “C” prices.

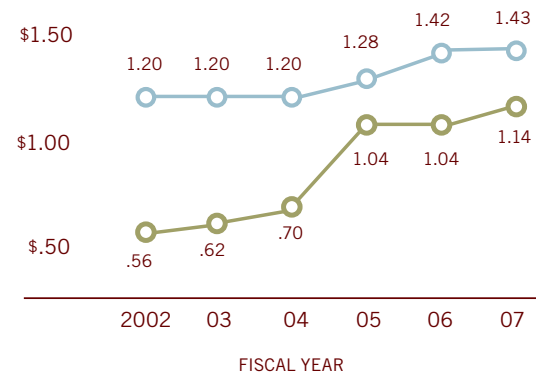
### Why Doesn’t Starbucks Buy Coffee at the “C” Market Price?

Prices for premium quality *arabica* beans, beans, sold as specialty coffee, are often negotiated independent of the “C” prices and set higher to compensate farmers for premium quality. Coffee can be purchased from exporters, brokers, cooperatives and, in some cases, directly from farmers.

While the “C” market price tends to fluctuate, a result of weather conditions, speculation and other factors, the price we pay remains relatively stable. In 2002 and 2003, Starbucks paid approximately two times the “C” market price. Now that “C” prices have risen, the average price paid by Starbucks is still above the market price.

### “C” MARKET PRICE VS. STARBUCKS

price per pound



● “C” market price annual average ● Starbucks average price

# Defining Criteria for Sustainability: C.A.F.E. Practices

Starbucks has been working to build a strong coffee sustainability model for the past 10 years. In 1998, we began to integrate conservation principles in our coffee-buying practices through our work with Conservation International (CI). Three years later, we collaborated with CI to create and pilot Starbucks Preferred Supplier Program (PSP), which was based on a set of socially and environmentally responsible coffee-buying guidelines. These early efforts laid the groundwork for what eventually became Coffee and Farmer Equity (C.A.F.E.) Practices.

Formally introduced in fiscal 2004, C.A.F.E. Practices was designed to help ensure that high-quality coffee is grown and processed in a socially and environmentally responsible manner, an approach that extends throughout our coffee supply chain. It was also designed to be inclusive of all types of suppliers regardless of their size – from small family farms and cooperatives to large estates – including farms that also mill and process their coffee.

C.A.F.E. Practices encompasses sustainability measures that are defined by a comprehensive set of criteria. These criteria, which are aligned with the original conservation principles we have been using for many years, serve as the basis for our comprehensive C.A.F.E. Practices guidelines. In addition to conservation, the guidelines are focused on four areas: product quality, economic accountability, social responsibility and environmental leadership.

**Product Quality (prerequisite):** All coffee purchased from C.A.F.E. Practices suppliers must meet Starbucks standards of high quality. These are clearly defined in our Green Coffee Quality Manual.

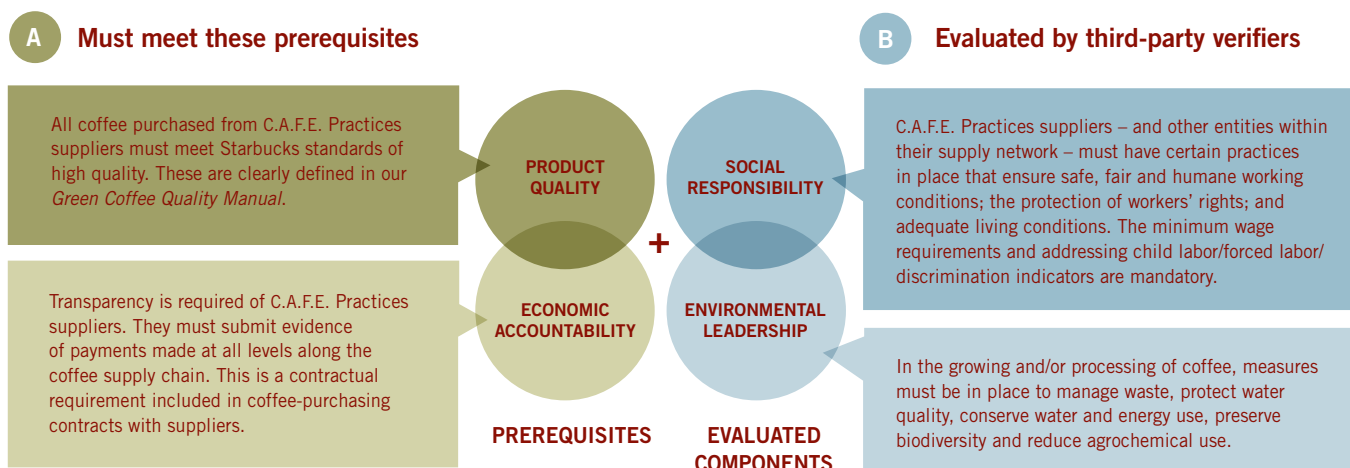
**Economic Accountability (prerequisite):** Transparency is required of C.A.F.E. Practices suppliers. They must submit evidence of payments made at all levels along the coffee supply chain. This is a contractual requirement included in coffee purchasing contracts with suppliers.

**Social Responsibility (components evaluated by third-party verifiers):** C.A.F.E. Practices suppliers – and other entities within their supply network – must have certain practices in place that ensure safe, fair and humane working conditions; the protection of workers' rights; and adequate living conditions. The minimum wage requirements and addressing child labor/forced labor/discrimination indicators are mandatory.

**Environmental Leadership (components evaluated by third-party verifiers):** In the growing and/or processing of coffee, measures must be in place to manage waste, protect water quality, conserve water and energy use, preserve biodiversity and reduce agrochemical use.

 The C.A.F.E. Practices scorecard of indicators is available at [www.scs-certified.com/csrfpurchasing/starbucks.html](http://www.scs-certified.com/csrfpurchasing/starbucks.html)

## Components of C.A.F.E. Practices



## TIMELINE: EVOLUTION OF STARBUCKS MODEL FOR SUSTAINABILITY

1998–2000 Conservation Principles for Coffee Production	
	<p>Started integrating conservation principles in our coffee buying practices through work with Conservation International (CI).</p> <p>A multistakeholder forum developed the Conservation Principles for Coffee Production (CI, Rainforest Alliance, and Smithsonian Migratory Bird Center) which was adapted by Starbucks for the coffee supply chain.</p>
2001 Starbucks Preferred Supplier Program (PSP)	
	<p>Created PSP in collaboration with CI to ensure the sustainable production of high-quality coffee. The program was based on a set of quality, social, environmental and economic guidelines with financial incentives for farmers directly tied to performance based on independently verified scores.</p>
2002–2003	<p>Conducted a two-year pilot of PSP with coffee farmers, processors and exporters.</p> <p>Gathered feedback from global stakeholders, NGOs and experts to improve the program, including the introduction of more relevant and specific guidelines and strengthening of the third-party verification process.</p>
2004 C.A.F.E. Practices	
	<p>The PSP program was enhanced with guidance from Scientific Certifications Systems (SCS), and renamed Coffee and Farmer Equity (C.A.F.E.) Practices.</p> <p>Economic transparency became a prerequisite and defining component of C.A.F.E. Practices.</p> <p>Opened Farmer Support Center in Costa Rica to work more closely with farmers, millers and suppliers worldwide who are implementing the C.A.F.E. Practices guidelines.</p>
2005	<p>Continued to improve guidelines based on feedback from farmers, cooperatives, suppliers and NGOs.</p> <p>Created a supplement to the guidelines for smallholder farmers and cooperatives.</p> <p>Increased the number of verifiers and farmers trained in C.A.F.E. Practices in Latin America.</p>
2006	<p>Introduced C.A.F.E. Practices to our local suppliers in East Africa and Asia Pacific.</p> <p>Worked with the African Wildlife Foundation to extend C.A.F.E. Practices to East African coffee farmers and cooperatives.</p>
2007	<p>Introduced a new scorecard for C.A.F.E. Practices (Version 2.0) based on stakeholder feedback.</p> <p>Developed and launched an online reporting system for verification organizations to complete and submit reports.</p> <p>Increased the number of verifying organizations that we work with in Latin America and East Africa.</p> <p>Continued to gain input on ways to improve C.A.F.E. Practices from our work with organizations, including Earthwatch and Scientific Certification Systems.</p> <p>Began preparations for the 2008 openings of Farmer Support Centers in Ethiopia and Rwanda to enable us to work more closely with coffee farmers throughout East Africa.</p>

## SUSTAINING THE INTEGRITY OF C.A.F.E. PRACTICES

We have put systems and processes in place to help ensure that the intent and integrity of C.A.F.E. Practices can be sustained. For instance, Starbucks has a third-party verification system to evaluate farmers and processors against the criteria before they can be approved for C.A.F.E. Practices.

We cannot assume that farmers and processors always receive their equitable share of the purchase price paid for coffee. Starbucks requires C.A.F.E. Practices suppliers to provide reliable documentation regarding prices paid throughout the supply chain to demonstrate economic transparency.

### Strengthening the Verification Process

When suppliers apply for C.A.F.E. Practices, they undergo an independent third-party evaluation to verify the degree to which their practices are aligned with our comprehensive set of criteria. When the evaluations are completed, the verifier submits a report to the applicant and to Starbucks for review. The report given by the verifier determines the supplier's approval status in C.A.F.E. Practices.

Evaluations involve field inspections, worker interviews and document reviews. Reverification is encouraged every one to three years depending on approval status in order to measure continuous improvement.

Since launching C.A.F.E. Practices in 2004, Starbucks has worked with Scientific Certification Systems (SCS) to help develop, expand and oversee the verification system, and conduct ongoing verifier trainings on how to evaluate and score suppliers against C.A.F.E. Practices criteria. Currently, SCS is working with Starbucks to expand the pool of accredited verifiers in East Africa and Asia Pacific.

In fiscal 2007, SCS provided training to six new verification organizations in Latin America: four in Guatemala, one in Mexico and one in Colombia. In addition, SCS held training sessions in Kenya for potential verifiers in East Africa, and provided online training for verification organizations in East Africa and Asia Pacific.

These training sessions informed inspectors on how to use Starbucks newly revised guidelines and scorecard for C.A.F.E. Practices, which we refer to as Version 2.0. The new version includes more than 200 specific indicators designed to make the scorecard tool less subjective and clearer to implement.

SCS plays a significant role within our broader verification system, which encompasses a global network of verification organizations. The system represents 28 different organizations that have a network of more than 160 inspectors conducting verifications for Starbucks in 19 countries.

### C.A.F.E. Practices Verification Chain

#### 1 INSPECTORS

Conduct verifications of farms and mills using the Version 2.0 C.A.F.E. Practices scorecard.

#### 2 VERIFICATION ORGANIZATIONS

Oversee inspectors' work and provide organizational capacity to administer C.A.F.E. Practices verifications.

#### 3 SCIENTIFIC CERTIFICATION SYSTEMS (SCS)

Provide oversight, training, accreditation and support through verifier audits, making sure that verification organizations have robust processes in place to ensure the quality of inspectors and their reports.

#### 4 STARBUCKS CSR DEPARTMENT

Verifies quality of SCS services and audits by conducting spot checks, reviewing audits conducted and soliciting feedback from suppliers.

#### 5 MOSS ADAMS: CERTIFIED PUBLIC ACCOUNTING FIRM

Independently verifies the data and claims included in Starbucks CSR Annual Report, including C.A.F.E. Practices purchases and progress statements. See the Moss Adams independent assurance report online at [starbucks.com/csr](http://starbucks.com/csr) for more information.

## List of Verifier Organizations

Going into fiscal 2008, the following third-party organizations were part of our global network of verifiers for C.A.F.E. Practices. They evaluate suppliers for C.A.F.E. Practices and help to ensure that coffee is being produced in an environmentally and socially responsible manner.

### **Africa Now**

### **Africert**

### **Aires de Cambio S.C.**

### **Aksenta**

### **Assefa Tigneh**

### **BIOCert**

### **Bio Latina**

### **Biotrópico**

### **CERCA, Certificaciones de Centro América**

### **CERES, GmbH**

### **CONTROL UNION CERTIFICATIONS, Indonesia**

### **CONTROL UNION CERTIFICATIONS, LATIN AMERICA**

### **Eco-LOGICA S.A.**

### **Fundación Interamericana de Investigación Tropical (FIIT)**

### **Fundación Natura**

### **Dr. Hassen Jemal**

### **IMO Control Latinoamérica**

### **Koffee Seedz Guatemala S.A.**

### **Latcert S.A.**

### **MACS Guatemala**

### **María Regina Barillas**

### **Mayacert, S.A.**

### **Rainforest Alliance**

### **SalvaNATURA**

### **SEM**

### **Søren Knudsen Group/Vaering Group**

### **Tanzania Organics Limited**

### **TechnoServe**

## Requiring Economic Transparency

To help ensure farmers receive an equitable share of the purchase price paid by Starbucks, a requirement for economic transparency is embedded in our coffee contracts, including contracts with suppliers not yet participating in C.A.F.E. Practices. This provision requires our suppliers to provide credible evidence of payments made and prices paid along various points of the coffee supply chain, which often extends to the farm level.

In fiscal 2007, 99 percent of all our coffee contracts included an economic transparency clause requiring documentation of payments made along the supply chain. In 95 percent of these contracts, economic transparency was required down to the farm level.

## Herbazú Coffee Farm, Costa Rica

High in the mountains of Lourdes de Cirrí de Naranjo, the Barrantes family's 106-acre farm exemplifies the success that can be achieved through an ongoing commitment to sustainable farming. Since 2004, the owners of Herbazú Farm have worked with experts from Starbucks Farmer Support Center to improve their annual yield, analyzing the soil to reduce the use of fertilizers, restricting insecticides solely to pest-infested clusters, and upgrading the equipment at their micro-mill to decrease the amount of water needed for processing.

In addition to the implementation of these and other environmentally sustainable farming methods prescribed by C.A.F.E. Practices, the Barrantes family has been able to increase their farm's profitability. The premium price paid by Starbucks for their high-quality coffee has helped them pay off the loan that allowed them to build their processing mill and make other farm improvements. But perhaps the most telling indicators of Herbazú Farm's environmental success are the abundant populations of birds and butterflies that have returned to live among its coffee plants.



### C.A.F.E. Practices: Fiscal 2007 Highlights

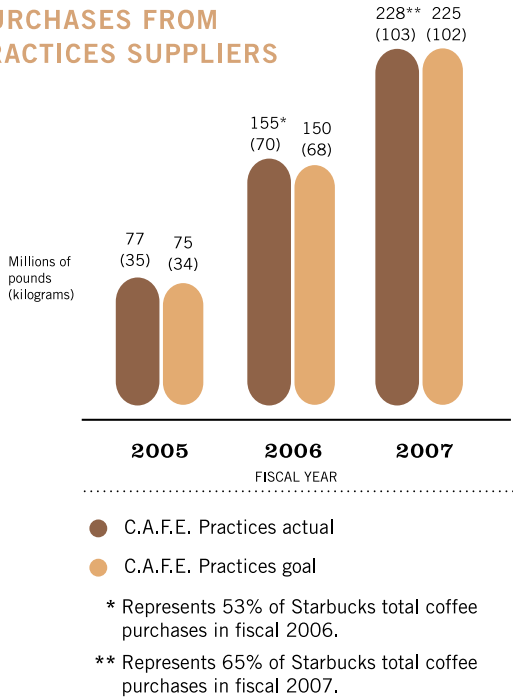
In many ways, C.A.F.E. Practices is both aspirational and tangible. Our vision is to raise industry standards for sustainability and to provide hope and opportunity for producers and their families. We are committed to continuously working toward realizing this vision.

Starbucks sets forward-looking targets for the amount of coffee we plan to purchase from approved C.A.F.E. Practices suppliers, and then we measure our progress against these targets. Sixty-five percent of our coffee purchases in fiscal 2007 were from C.A.F.E. Practices suppliers, and we are planning to meet our goal of 80 percent by fiscal 2013. In the meantime, we must continuously focus on increasing participation in C.A.F.E. Practices by expanding to new regions, motivating thousands of farmers and suppliers to apply, and guiding potential participants through the application process.

Good progress was made in fiscal 2007, and several steps were taken to help advance C.A.F.E. Practices in the future. Below are a few highlights from fiscal 2007.

- Exceeded our goal with purchases of 228 million pounds (103 million kilograms) of coffee from C.A.F.E. Practices–approved suppliers, a 68 percent increase over last year and representing 65 percent of our total coffee purchases.
- Introduced a new scorecard – Version 2.0 – for C.A.F.E. Practices. Version 2.0 includes more than 200 specific indicators, making the supplier implementation more straightforward.
- Held 30 training sessions on C.A.F.E. Practices with more than 600 producers and processors and conducted technical visits to approximately 250 farms and 100 mills. These trainings continue to provide us with viable information for agronomy research and data collection in Central America.
- Implemented a new technology system for online verification reporting that has helped to streamline the reporting process.
- Continued to work with and solicit input from various parties, including Conservation International, African Wildlife Foundation and Scientific Certification Systems, on ways Starbucks can continue to improve elements of C.A.F.E. Practices.
- Began a new three-year project with Earthwatch to validate C.A.F.E. Practices agricultural best practices for soil health and conservation. At the end of the three years we intend to deliver a tool that can be used by farmers around the world to better manage soil quality and biodiversity via precision agriculture techniques.

### COFFEE PURCHASES FROM C.A.F.E. PRACTICES SUPPLIERS



### C.A.F.E. PRACTICES PURCHASES

Starbucks established an aggressive goal to purchase 225 million pounds (102 million kilograms) of green (unroasted) coffee from C.A.F.E. Practices suppliers in fiscal 2007. We exceeded that goal with purchases of 228 million pounds (103 million kilograms), representing 65 percent of all coffee purchased by Starbucks in fiscal 2007. (See graph below for purchases.) The 228 million pounds of coffee purchased under the program were produced on farms that represent a total of approximately 330,000 hectares (815,000 acres) of sustainable land.

### Percent Purchased by Supplier Group

There are three status levels for C.A.F.E. Practices suppliers: Strategic, Preferred and Verified. Of the 228 million pounds of coffee purchased from C.A.F.E. Practices suppliers in fiscal 2007, the percentage purchased from each supplier group compared to fiscal 2006 is as follows:

	FISCAL 2006	FISCAL 2007
<b>1 STRATEGIC SUPPLIERS</b> (those with scores of 80% and higher in each of the social and environmental areas)	19%	34%
<b>2 PREFERRED SUPPLIERS</b> (those with scores between 60% and 79% in each of the social and environmental areas)	12%	32%
<b>3 VERIFIED SUPPLIERS</b> (those with scores of less than 60% in each of the social and environmental areas)	69%	34%

The strong increase in the percentage of Strategic and Preferred suppliers is a result of continuous improvement efforts of our suppliers, and direct participation from our partners around the world with regard to quality and improved agronomy practices through our commitment with the Farmer Support Center.

# Fair Trade Certified™ and Certified Organic Coffees

Today the majority of Starbucks® coffee comes from approved C.A.F.E. Practices suppliers, assuring us that our coffee is produced by suppliers striving to grow and process coffee in a responsible and sustainable manner. In addition, we continue to purchase third-party certified coffees grown and produced in ways that contribute to environmental preservation and/or economic sustainability. Fair Trade Certified™ and certified organic are two examples of certified coffees we purchase. Starbucks also purchases from farmers participating in the Conservation Coffee™ program. Beginning in 2007 we decided not to track Conservation Coffee™ purchases specifically. Instead we will only report certified organic and Fair Trade Certified™ coffee purchases because in many cases this is the same coffee.

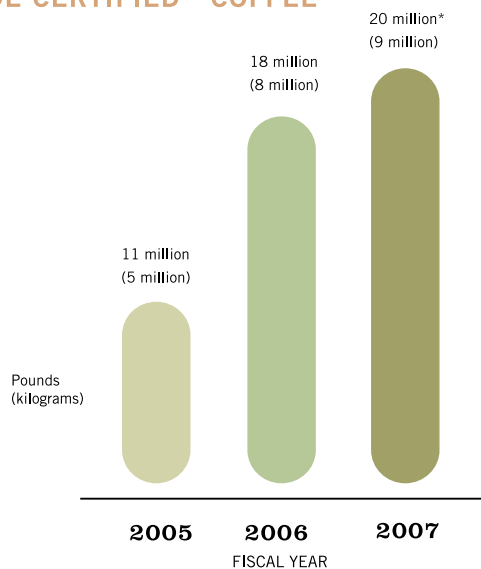
## FAIR TRADE CERTIFIED™ COFFEE

Starbucks began purchasing Fair Trade Certified™ coffee in 2000. The Fair Trade system allows only smallholder farmers who belong to democratically run coffee cooperatives to participate. Over the past seven years, the amount of Fair Trade Certified™ coffee purchased by Starbucks has steadily increased, keeping pace with consumer demand.

### Total Purchases of Fair Trade Certified™ Coffee – Fiscal 2007

Starbucks global purchases of Fair Trade Certified™ coffee totaled 20 million pounds (9 million kilograms), representing approximately 16 percent of global Fair Trade Certified™ coffee imports and 32 percent of U.S. Fair Trade Certified™ coffee imports in fiscal 2007.

## FAIR TRADE CERTIFIED™ COFFEE



\* Represents 6% of Starbucks total coffee purchases.

In fact, Starbucks has been and remains the largest purchaser, roaster and distributor of Fair Trade Certified™ coffee in North America, and among the largest worldwide.

## Distributing and Promoting Fair Trade Certified™ Coffee

Fair Trade Certified™ coffee is now offered in our stores in 28 countries around the world, an increase from 24 countries in 2006. It is sold most notably as Starbucks® Café Estima Blend®. Estima, a Spanish word that translates as “mutual respect,” captures the spirit of our relationships with Fair Trade Certified™ farmers, and the reason we chose it for our Fair Trade Certified™ offering.

Awareness of the Fair Trade movement continued to build in 2007, resulting in more demand for Café Estima Blend® among our restaurant and hotel accounts. Café Estima Blend® is also offered on many college and university campuses in the U.S., another market segment that keeps growing. In addition to Starbucks, Seattle's Best Coffee includes five Fair Trade Certified™ coffees in their lineup that are offered in their cafes, on college campuses and through foodservice channels.

We have continued to find ways to promote Fair Trade Certified™ coffee to our customers, often working in tandem with Fair Trade licensing initiatives around the globe. For instance, Fairtrade Fortnight, which ran from April 28 to May 13, 2007, provided an opportunity for some of our international markets to promote and offer brewed Fair Trade Certified™ coffees. And in October 2007, Starbucks participated in “Fair Trade Month” by featuring Café Estima Blend® twice as the Coffee of the Week in our U.S. stores. Starbucks UK has made brewed Café Estima Blend® available daily since mid-2006 in response to our customers’ request for more Fair Trade Certified™ coffee.

As we’ve increased our purchases of Fair Trade Certified™ coffee, we have recognized the need to ensure that Fair Trade Certified™ coffee will be consistently available in our stores when our customers request it. We have also worked collaboratively with TransFair USA to identify a more streamlined approach to the global distribution of this product – one that enables continuity among country-specific Fair Trade licensing organizations. The need for this has been heightened as we have expanded the distribution of Kirkland Signature™ Fair Trade Certified™ coffees through Costco stores. Costco now distributes this coffee in the U.S., Canada, UK, Japan, Taiwan and Korea. In addition to the wholesale channel, Café Estima Blend® will be available in grocery stores in the UK, later in 2008.

Fair Trade is one of the ways we demonstrate our commitment to smallholder farmers, and work to sustain coffee farms. Starbucks and the Fair Trade movement share common goals – to ensure that farmers receive an equitable price for their coffee and have access to international markets. This is why we have been working collaboratively with our Fair Trade suppliers, sharing best practices, promoting economic transparency down to the farm level, and encouraging participating Fair Trade cooperatives to improve quality and sustainable production practices.

## WHAT IS FAIR TRADE CERTIFIED™?

The Fair Trade Certified™ labels are owned by Fairtrade Labelling Organizations International and the Fair Trade licensing initiatives around the world. Starbucks pays licensing fees to the licensing initiatives, and in turn is able to affix the Fair Trade Certified™ trademark on our packaging. According to the licensing initiatives, a majority of the fees are allocated to the cost of certification.

Fair Trade products appeal to socially minded consumers who place a high value on the Fair Trade certification seal. Fairtrade Labelling Organizations International certifies to consumers, through the seal, that a minimum price of \$1.24–\$1.26 per pound (\$1.39–\$1.41 per pound for organics) was paid to the farmer cooperative that produced the coffee in the first half of 2007. Effective June 1, 2007, the minimum price was increased to \$1.29–\$1.31 per pound (\$1.49–\$1.51 for organics).

Fair Trade certification includes criteria to be met by coffee cooperatives, such as fair labor conditions, freedom of association and certain environmental standards. To be certified as Fair Trade, the coffee is only to be produced by farmers who belong to farmer-owned, democratically run coffee cooperatives and associations listed on the Fair Trade registry. An estimated four percent of global coffee production is Fair Trade Certified.™

**“Starbucks commitment to Fair Trade shows that you can give consumers a great product, while still paying farmers a fair price and taking care of the environment. Starbucks is helping customers make a tremendous difference in the lives of thousands of family farmers.”**

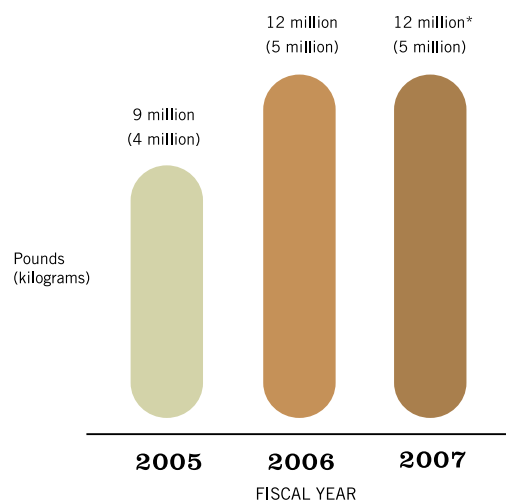
Paul Rice  
president and ceo, TransFair USA

## CERTIFIED ORGANIC COFFEE

Certified organic coffee is grown without the use of synthetic pesticides, herbicides or chemical fertilizers, maintaining healthy soil and groundwater. Many of the coffees Starbucks buys are grown using organic methods, yet don't carry the certification mark; these methods are included in the criteria for C.A.F.E. Practices. Only a small percentage of coffee in the world is actually “certified organic.” Official certification requires farmers to verify that they are using accepted organic farming practices. In some cases, they must conduct three years of soil testing, and annual testing thereafter. This process can often be very costly.

Serena Organic Blend® is one of our certified organic coffees. For some customers, organic certification provides peace of mind, which explains why it's named Serena, the Spanish word for “calm,” “tranquil.” Our other organic offerings include Organic Shade Grown Mexico and five in the Seattle's Best Coffee lineup.

### CERTIFIED ORGANIC COFFEE




\* Represents 4% of Starbucks total coffee purchases.

# Investing in Coffee Communities

We believe that our investment of resources to help sustain coffee farms and strengthen surrounding communities is mutually beneficial. There are a number of approaches we have taken, including our support of the following programs:

- Conservation International
- African Wildlife Foundation's Kenya Heartland Coffee Project
- Starbucks® Black Apron Exclusives® coffees
- Investments in Coffee Community Projects through Coffee Contracts
- Access to Credit

 [Learn more about our social programs in coffee communities in our Society section.](#)

## CONSERVATION INTERNATIONAL

We formed a relationship with Conservation International (CI) in 1998 to encourage environmentally sound coffee-growing practices, and to improve farmers' livelihoods. From 1998 to 2006, Starbucks and CI collaborated in four major areas:

- Developing Conservation Coffee™ field projects in several coffee-growing communities, such as in Chiapas, Mexico.
- Implementing Sustainable Coffee Purchasing Guidelines in the supply chain.
- Increasing awareness of the connection between coffee production and biodiversity conservation for consumers.
- Providing affordable credit for farmers through CI's Verde Ventures Loan Fund.

Since launching our original joint project with CI in Chiapas several years ago, it has recently evolved to a fee-for-service delivery model with diversified funding sources so the local cooperatives can be sustained without direct support from Starbucks.

Our continued support of CI's Conservation Coffee™ program will be through our purchases of coffee from project sites in Mexico and Peru. These coffees are sold as Starbucks® Organic Shade Grown Mexico, Starbucks® Decaf Shade Grown Mexico, Starbucks® Mexico, Starbucks® Peru, and they are also used in some of Starbucks blends.

During fiscal 2007, we provided a \$25,000 grant to CI's Verde Ventures Loan Fund for administration and training purposes. Through sales of rainforest-themed plush toys in our North America company-operated stores, Starbucks also donated more than \$73,000 to CI for projects designed to assist smallholder farmers.

In fiscal 2008, Starbucks announced a five-year commitment with CI to tackle climate change by working together to support farmers and communities who are preserving forests in coffee regions. This is a critical effort given that deforestation currently accounts for about 20 percent of all carbon emissions – nearly double the amount produced by all cars, trucks, and trains around the world. The project will begin with two launch sites in Sumatra, Indonesia, and Chiapas, Mexico.

Our renewed partnership will focus on supporting farmers, workers and their communities to help ensure our coffee is responsibly grown and ethically traded, while contributing to positive global climate solutions. Through this effort, we hope to reinforce and expand the potential of C.A.F.E. Practices to benefit farmers, biodiversity and climate change in coffee-producing countries. We also hope to engage Starbucks partners (employees) and customers in support of these initiatives.

"It is clear that ethical sourcing has become engrained in Starbucks DNA. Conservation International is proud of the program we have built together. We have seen firsthand Starbucks commitment to serve responsibly grown and ethically traded coffee to its customers. It is our goal to build on our shared geographies and stakeholders and take conservation beyond the farm. Going forward, we will address it on an entirely new scale as part of the solution to the most pressing issue facing our planet, global climate change."

Peter Seligmann  
ceo, Conservation International

## KENYA HEARTLAND COFFEE PROJECT (AFRICAN WILDLIFE FOUNDATION)

The Kenya Heartland Coffee Project was launched by Starbucks and the African Wildlife Foundation (AWF) in January 2005. It has since become a focal point of our coffee community investments in Kenya. The three-year project is aimed at helping farmers improve the quality and quantity of Kenyan coffee, introducing sustainable growing and processing best practices, as well as supporting wildlife and biodiversity conservation.

The project is also intended to help extend C.A.F.E. Practices to East African coffee farmers and cooperatives; an effort we hope will result in increased profitability for local producers. To advance this vision, AWF is helping us provide quality training, and encourage the adoption of sustainable coffee practices while conserving the wildlife and wildlands of Africa.

The project was made possible by a three-year, \$600,000 commitment from Starbucks, including \$275,000 in fiscal 2007 to AWF as part of the agreement for continued collaborative work. Starbucks provided an additional \$100,000 beyond the initial \$600,000 commitment to AWF to expand the existing project in Kenya.

Other joint accomplishments of the Kenya Heartland Coffee Project in fiscal 2007 included:

- Helping 2,130 farmer co-op members from the Kiamariga and Kihuyo areas of Kenya improve their coffee quality as a result of being introduced to sustainable growing and processing best practices.
- Introducing C.A.F.E. Practices to East African producers and providing locally relevant and translated documents. These included making Starbucks quality requirements for coffee available to local producers, and translating C.A.F.E. Practices tools (including scorecard, guidelines and self-evaluation tools) into Swahili.
- Contributing to positive changes in Kenya's complex coffee auction system by supporting AWF's efforts to continue to advocate for coffee marketing outside of the Nairobi coffee exchange.
- Increasing the price offered to farmers by 36 percent through direct treaty contracts, a more straightforward and user-friendly alternative to the traditional coffee pricing method in East Africa.
- Reducing human-wildlife conflict by providing natural wildlife habitat through reforestation and water conservation efforts, including the planting of 20,000 indigenous tree species.
- Reinforcing and primate-proofing 11 miles (18 kilometers) of fence at Aberdare National Park in Kenya to reduce human-wildlife conflict.

Going forward, Starbucks and AWF will continue to work on advancing sustainable growing practices, and preserving the natural environment that is vital to the longevity of these regions and local residents. We plan to sign a new Memorandum of Understanding for Phase II of the project and provide additional financial support to AWF. Specific plans for the Kenya Heartland Coffee Project in 2008 include:

- Continuing to build on key agronomy, training and educational activities.
- Continuing to promote C.A.F.E. Practices and encouraging the adoption of sustainable coffee practices.
- Safeguarding the ecological and economic landscape in the Kenya Heartlands region.
- Establishing a coffee quality laboratory (tasting room) in Nyeri and increasing coffee agronomy expertise among local farmers.
- Establishing tree nurseries and collaborating with the Coffee Research Foundation of Kenya.
- Helping to protect the Mt. Kenya ecosystem that sustains wildlife and coffee-based livelihoods in the area.

## BLACK APRON EXCLUSIVES®

Starbucks® Black Apron Exclusives® program was designed to recognize some of the most extraordinary and unique coffees in the world. Typically limited in quantity, these coffees are often discovered in small, remote areas of Africa, Latin America and Asia Pacific. Once a specific coffee becomes a Black Apron Exclusives® offering, Starbucks awards \$15,000 to the farming community to use for a targeted project that will serve to improve the sustainability of its farms, the village or the local environment. Since launching the Black Apron Exclusives® program, Starbucks has featured 15 distinct coffees, including four that were introduced in fiscal 2007.

## INVESTMENTS IN COFFEE COMMUNITY PROJECTS THROUGH COFFEE CONTRACTS

The combined total of Starbucks investments in coffee-growing communities through some coffee contracts was \$1.5 million in fiscal 2007. The funds were used to pay for 50 projects located in 11 countries, benefiting more than 50,000 local farmers, their families and community residents.

**"Starbucks has a profound effect on the lives of coffee farmers. By rewarding quality with a higher price, schools and health clinics are built where there were none. Electricity and running water are brought to homes. Helplessness is replaced with hope. These changes go unreported and unnoticed by the outside world, because they are done by the farmers themselves, but they are real."**

David Browning  
vice president,  
Coffee Initiative, TechnoServe



## ACCESS TO CREDIT

During the growing and harvest cycles, coffee farmers often rely on modest reserves to pay their expenses. Sometimes farmers experience a cash shortage, which may prompt them to sell their crops early to local buyers, despite the lower prices they are paid. Or they may need to borrow money at exorbitant interest rates until they can generate income from their crop. This inevitably cuts into their profits and sets up a similar scenario the next year.

Starbucks works with several alternative financing organizations that make loans to coffee grower associations so they can wait and sell their crops for more favorable prices. The loans also enable farmers to invest in capital improvements.

In fiscal 2007, we increased our loan to Root Capital, formerly EcoLogic Finance, by \$1 million, bringing our total commitment to Root Capital to \$7 million. Root Capital uses Starbucks capital to make loans both to coffee and cocoa farmers.

We also continued our \$1 million loan commitment to Calvert Foundation and \$2.5 million loan commitment to Verde Ventures, a loan program managed by CI.

Our total commitment to these financing organizations is \$10.5 million (See chart below).

## FARMER LOAN PROGRAMS

NAME OF ORGANIZATION	AMOUNT OF STARBUCKS LOANS TO FUND	TOTAL NUMBER & VALUE OF LOANS MADE WITH STARBUCKS FUNDS IN FISCAL 2007	AVERAGE LOAN SIZE (PER BORROWER) MADE FROM STARBUCKS CAPITAL IN FISCAL 2007	PURPOSE(S) OF LOANS MADE FROM STARBUCKS CAPITAL	# OF FARMERS PARTICIPATING	COUNTRIES WHERE BORROWERS OF LOANS MADE BY STARBUCKS LIVE
Calvert Foundation	\$1 million loaned in fiscal 2004	7 loans valued at \$3.25 million*	\$304,913	Prefinancing of Fair Trade and organic coffee contracts	24,600	Mexico, Nicaragua, Peru
Verde Ventures, managed by CI	\$2.5 million loaned in fiscal 2004	8 loans valued at \$2.12 million	\$135,000	Prefinancing of C.A.F.E. Practices or Conservation Coffee™ farms; working capital for the above coffee farmers	7,279 smallholder farmers participating in CI's Conservation Coffee™ program sites, and applicants to C.A.F.E. Practices	Mexico, El Salvador, Guatemala, Indonesia, Peru
Root Capital (formerly EcoLogic Finance)	\$2.5 million loaned in fiscal 2004 \$2.5 million loaned in fiscal 2005 \$1 million loaned in fiscal 2006 \$1 million loaned in fiscal 2007	88 loans valued at \$19.85 million*	\$225,595	Prefinancing of Fair Trade, organic and specialty coffee and cocoa contracts; capital investments for infrastructure	109,055 smallholder farmers	Bolivia, Honduras, Colombia, Indonesia, Costa Rica, Mexico, Nicaragua, East Timor, Peru, Ecuador, Rwanda, El Salvador, Tanzania, Ethiopia, Uganda, Guatemala

\* Total exceeds amount of Starbucks loan because funds are rotated frequently for new loans to farmers.

The Association of Kilimanjaro Specialty Coffee Growers (KILICAFE) is C.A.F.E. Practices–approved and a Fair Trade Certified™ association of 8,000 independent smallholder coffee growers in Tanzania. With the capacity building help of TechnoServe, economic development loans from Root Capital, and financial and technical support from Starbucks, KILICAFE has been able to add environmentally sustainable technology that has increased coffee quality and improved the livelihoods of its farmer members.

## 01 PRODUCTS

# Seeking Continuous Improvement

The coffee industry, like the global economy, is dynamic in nature. A variety of factors could potentially influence the supply of premium-quality coffee in the short term and/or over the long run. We are continuously seeking opportunities to strengthen our overall approach and build on C.A.F.E. Practices so it remains a sustainable model for the production of premium-quality coffee. We are doing this by collaborating and sharing with others on coffee sustainability, understanding our constraints and opportunities, and moving ahead accordingly.

## COLLABORATING WITH OTHERS ON COFFEE SUSTAINABILITY

Beyond strengthening our coffee supply chain and making social investments, we believe more can be done to promote the long-term sustainability of coffee production. This includes sharing the guidelines and scorecard for C.A.F.E. Practices with other companies that seek to develop sustainable coffee-purchasing practices. We are also collaborating with others in the coffee industry, as well as with various international parties, NGOs and public agencies, to help address the challenges coffee farmers and their communities face.

In fiscal 2007, we participated in a number of forums, sharing C.A.F.E. Practices and our approach to working with coffee communities. These included specific presentations and sessions at the following events:

- Sustainable Food Lab Conference
- Cal Safety Compliance Corporation (CSCC) Working Group Conference
- Specialty Coffee Association of America (SCAA) Annual Conference
- National Restaurant Association Conference
- University of San Diego Supply Chain Management Institute's Annual Forum
- Stanford University Supply Chain Management Institute
- National Coffee Association member webinar
- Sintercafe Annual Conference

In addition, Starbucks worked with the National Coffee Association to help its members learn from our experiences relating to coffee sustainability, trademarks and sustainability certifications.

Our openness and willingness to share also led to case studies which have been made available to companies, academics and other parties for their use. Read the *United Nations Global Compact case study* that profiles C.A.F.E. Practices and the *Harvard Kennedy School and FSG Social Impact Advisors case study* that profiles the collaboration between Starbucks and Conservation International.

## LINKING OUR CUSTOMERS, PARTNERS AND COFFEE FARMERS IN THE FIELD

In 2002, Starbucks and the Earthwatch Institute began offering Starbucks partners (employees) and customers the opportunity to take part in Earthwatch Expeditions, and work alongside environmental research scientists in the field.

Recognizing that there is great value in connecting our partners and customers to the farmers who produce Starbucks® coffee, we decided to refine our Earthwatch program and focus the expeditions around coffee sustainability. In fiscal 2007, Starbucks began a three-year pilot program that enables a group of customers and partners to go on an Earthwatch Expedition and spend time at coffee farms of the CoopeTarrazú cooperative in Costa Rica. The project works with 27 C.A.F.E. Practices-approved farms.

Three separate expeditions took place in fiscal 2007, providing 19 customers and 11 Starbucks partners with this unique opportunity. They spent time at the co-op farms, assisting scientists with soil testing, identifying best practices for pest management and mapping farm sites.

The results of this work will be used to help farmers improve their sustainable farming techniques and the quality of their coffee. The findings will also serve as a baseline as we continue to hone and improve the guidelines for C.A.F.E. Practices. Earthwatch plans to publish the findings of the three-year pilot and make them available to scientists who are working on sustainability and farming issues.

## MOVING AHEAD ON OUR SUSTAINABILITY INITIATIVES

While Starbucks is striving to instill a sustainability mindset throughout our company operations and supply chain, we recognize there are certain realities that cannot be overlooked. Problems such as pervasive poverty, hunger, disease, natural disasters and global environmental issues, among others, are beyond our direct control. Nevertheless, we believe we can contribute to solutions by focusing on measures that promote social equity, environmental preservation and economic sustainability. We will continue to evolve our approach to integrating social and environmental responsibility into our coffee sourcing. By extending the reach and potential of C.A.F.E. Practices, we can do the most good in this regard.

### Future Goals

Some of the initiatives we will focus on in 2008:

- Purchasing 65 percent of our coffee from approved C.A.F.E. Practices suppliers, aiming to purchase 80 percent C.A.F.E. Practices-verified coffee by 2013. Our annual goals will be evaluated each year and adjusted, depending on business conditions or business needs.
- Evaluating the data collected from the launch of C.A.F.E. Practices Version 2.0 and using it to understand regional differences, identify where improvements or more training and support are needed, and determine how best to continue expanding C.A.F.E. Practices in East Africa and Asia Pacific.
- Providing verifier and supplier guidance on interpretation of C.A.F.E. Practices indicators for regional conditions.
- Establishing more locally based support through regional Farmer Support Centers in Ethiopia and Rwanda.
- Hiring additional agronomists to focus on helping coffee farmers worldwide implement C.A.F.E. Practices.
- Extending our support for the Kenya Heartland Coffee Project by signing an agreement for Phase II of the project with the African Wildlife Foundation.
- Providing additional financial support to the Conservation International (CI) Verde Ventures Loan Fund and assessing opportunities to collaborate on new initiatives and programs with CI to engage our suppliers, customers and partners in biodiversity conservation around the world.

# Responsible Cocoa Sourcing Program – Cocoa Practices

Cocoa is an important ingredient in many of our products, although Starbucks annual purchases of processed cocoa are relatively small in comparison to other companies whose core products are cocoa-based.

This fact doesn't diminish our commitment to buy cocoa that has been produced and traded in an ethical, transparent and sustainable manner. Recently Starbucks has taken significant steps to work with the industry, cocoa growers, processors, exporters and manufacturers to ensure that our supply chain is aligned with our core values.

## ABOUT COCOA

Approximately five million farmers around the world depend on cocoa for their livelihoods, of which 90 percent are smallholder farmers, growing cocoa on two to five hectares (five to 12 acres) of land.\* A combination of low and volatile commodity prices, lack of credit, and pest and disease challenges have made cocoa farming unpredictable for many of the families who depend on this crop for their livelihoods. At the same time, cocoa farmers cultivate in some of the most biodiverse regions on the planet where their stewardship of these areas is vital.

Worldwide cocoa production for the 2006/2007 crop year was 7 billion pounds (3 billion kilograms), of which the majority was produced in West Africa. In fiscal 2007, Starbucks purchased 22 million pounds (10 million kilograms) of processed cocoa from our suppliers sourced from seven countries but primarily from the Côte d'Ivoire in Africa.

\*International Cocoa Organization and World Cocoa Foundation

## DEVELOPING COCOA PRACTICES SOURCING GUIDELINES

Since 2004, Starbucks has been developing and refining a set of guidelines for our suppliers in their cultivation and processing of cocoa. In fiscal 2006, we piloted Starbucks Socially Responsible Cocoa (SSRC) Sourcing Program in Côte d'Ivoire, working in conjunction with two established suppliers, one of which represented nine farmer cooperatives and hundreds of farmers. In fiscal 2007, we commissioned an audit of the SSRC Sourcing Program and developed a set of sustainable cocoa production guidelines for suppliers and farmers as an extension of our earlier efforts.

In creating Cocoa Practices, which formally launched in 2007, Starbucks built on the foundation of C.A.F.E. Practices (our guidelines for coffee) and collaborated with Theo Chocolate, an organic Fair Trade chocolate manufacturer located in Seattle, to develop the guidelines based on best practices in the industry. We also consulted with our business partners and suppliers, environmental and labor organizations, the cocoa industry and farming experts, and obtained input from third-party certification organizations.

Cocoa Practices provides a way to evaluate and recognize producers of high-quality, sustainably grown cocoa. Similar to C.A.F.E. Practices for coffee, Cocoa Practices provides guidelines for the cultivation and processing of cocoa in a manner that is environmentally sustainable, socially responsible, and promotes equitable relationships with farmers, workers and communities. The guidelines and corresponding scorecard contain more than 200 specific indicators divided into six focus areas: Product Quality, Economic Accountability (transparency), Internal Control Systems, Organizational Stability, Social Responsibility, and Environmental Stewardship.

The scorecard and indicators are specifically designed to address the issues facing smallholder farmers. Suppliers, farmers, processors and exporters who participate in Cocoa Practices must comply with the required indicators, as well as demonstrate best practices, all of which are subject to independent verification.

 [Learn more about the guidelines for Cocoa Practices at www.starbucks.com/cocoa](http://www.starbucks.com/cocoa)

## ASSESSING RESULTS OF AUDITS

In fiscal 2007 Starbucks hired TechnoServe, an international nongovernmental organization (NGO), to conduct an independent audit of the SSRC Sourcing Program in West Africa. TechnoServe was chosen from a large pool of applicants because of its experience working with farmers in Africa, and its understanding of the cocoa sector.

Results from audits conducted in fiscal 2007 found that our two cocoa exporters in Côte d'Ivoire advanced efforts to procure traceable, sustainably produced cocoa amidst the highly complex and challenging environment of the Ivorian cocoa industry. Three of the challenges our suppliers will be addressing with cooperatives include improving the dissemination of training materials to farmers, ensuring the proper distribution of market premiums earned by participating farmers, and improved financial management at the cooperative level.

We realized, based on this feedback, that additional support to farmers and suppliers is needed. As part of the pilot, our suppliers took action to tackle their outstanding issues and reported back to us in November 2007. They will undergo a third-party verification in 2008 to evaluate performance against Cocoa Practices.

## SOURCING SUSTAINABLE COCOA

We sourced 22 million pounds (10 million kilograms) of cocoa beans through our SSRC Program in 2007, meeting our projected goal. The cocoa will be used into fiscal 2008. We learned more about the opportunities and challenges of sustainable cocoa harvesting, such as promoting internal control systems for farmer cooperatives, which we believe will help the implementation of Cocoa Practices in our supply chain. Starbucks continues to deliver updates to our stakeholders on the progress of our Cocoa Practices pilot via our website.

## COLLABORATING WITH THE CHOCOLATE INDUSTRY TO PROMOTE SUSTAINABILITY

Starbucks strives to have a positive impact on the premium chocolate industry by sharing what we are learning about sustainable cocoa farming and production. Our collaboration with Theo Chocolate to support the development of Cocoa Practices, and our discussions with other companies and membership with the World Cocoa Foundation, provides opportunities to share, influence and lead by example. In 2007, we teamed up with The Hershey Company, drawing upon the premium expertise of its Artisan Confections Division, to develop and market a new Starbucks-branded premium chocolate platform in the United States. A shared value and central component of our relationship is Hershey's commitment to a sustainable approach to sourcing the cocoa beans for these products by implementing Cocoa Practices in the supply chain.

## SOCIAL DEVELOPMENT PROJECTS

Our approach to cocoa sourcing is designed to be holistic and support our business objectives of ensuring a long-term supply of sustainable cocoa and contributing positively to the environment and communities where we conduct our business. This includes investing in local community projects in the cocoa-growing regions of West Africa.

In 2007, Starbucks committed \$32,000 to support the ECHOES (Empowering Cocoa Households with Opportunities and Education Solutions) Alliance, a joint project with USAID, the World Cocoa Foundation and Winrock International. ECHOES aims to improve the quality and relevance of education in cocoa-farming communities and improve the youth livelihoods and education opportunities in the agricultural sector in West Africa. Starbucks support will be used specifically to fund scholarships and microenterprise development for 80 families, simultaneously supporting a student's education, increasing retention probability, while enhancing the mother's income-generation potential.

## ACCESS TO CREDIT FOR COCOA FARMERS

As is typical with farming, cocoa crops often provide farmers and their cooperatives with a sporadic source of income. It's common for farmers to experience a cash shortage, which can lead them to sell their crops early, be charged high interest rates and receive lower prices for their crops.

Starbucks has been working with Root Capital (formerly EcoLogic Finance) since 2004 to provide access to affordable credit for coffee farmers, with the goal of helping support these small businesses, fostering economic self-reliance and promoting environmental conservation. In 2005, we expanded our commitment to allow \$500,000 specifically for affordable loans to cocoa farmer enterprises, drawing from the \$5 million loan capital Starbucks had already provided. As of fiscal 2007, Starbucks has loaned a total of \$7 million in funds to Root Capital for use primarily in coffee and cocoa communities, which in turn provided \$800,000 in loans to four cocoa farming cooperatives during the year.

Our loan agreement with Conservation International's Verde Ventures was amended in 2006, allowing up to 25 percent of the \$2.5 million in capital we provide to be loaned to cocoa farmers.

## ADDRESSING THE CHALLENGES

We recognize that there are formidable challenges to implementing a sustainable sourcing model in West Africa's cocoa industry. The West African cocoa sector is inherently complex and volatile, exemplified in part by a high turnover of traders, recent political conflicts and other factors that make it very difficult to develop best practices and advance sustainability.

There is a great need to strengthen farmers' business knowledge and build a more solid infrastructure of the farmer cooperatives and cocoa consolidation firms that collect, process and export cocoa. We are trying to address this need, but understand that it is far from an easy task. Our key hurdle to implementing the Cocoa Practices guidelines is establishing viable long-term relationships that extend throughout the entire supply chain.

Despite the challenges, cocoa holds promise of being an environmentally sustainable and socially responsible crop. It can be grown in areas between the rainforest's canopy and forest floor without disturbing the "roof" of the rainforest formed by the treetops, thus preserving this vital resource. And given that cocoa is primarily grown by smallholder farmers, cocoa farming can offer economic stability for rural communities as well as provide a livelihood for farming families.

### Future Goals

As we move forward in fiscal 2008, we plan to continue implementing our Cocoa Practices and collaborating with others in the chocolate industry to support sustainability. Specific goals we will strive for in fiscal 2008 include:

- Purchasing 28 percent of our total cocoa from suppliers evaluated by third-party verifiers using Cocoa Practices.
- Reviewing the results of first-year Cocoa Practices audits, including feedback from our pilot suppliers and third-party verifiers, regarding the Cocoa Practices guidelines.
- Creating an approved list of third-party verifiers and disseminating it to all of our cocoa suppliers.
- Developing a verifier reporting system for Cocoa Practices evaluations.



# Tazo® Tea – Advancing Our Commitment to Sustainability

Tazo Tea, the tea brand within Starbucks portfolio, is sold in Starbucks stores, grocery and other retail outlets. Tazo is dedicated to bringing distinctive blends to our customers, using high-quality teas and botanicals.

Similar to Starbucks approach to sustainable coffee sourcing, we are committed to a long-term strategy of ethical tea sourcing and supporting farmers and their communities throughout our tea supply chain. We have been working with the Ethical Tea Partnership (ETP) since 2005 to collaborate more closely with others in the tea industry, and to make sure that our tea has been produced in a socially responsible way. Our work with ETP is complemented by our support of the Community Health and Advancement Initiative (CHAI) project, a joint partnership that includes Mercy Corps.

## ABOUT TEA

Global tea production in 2007 was 8 billion pounds<sup>1</sup> (4 billion kilograms). In fiscal 2007, Tazo purchased 7 million pounds (3 million kilograms) of tea and botanicals from 24 countries.

<sup>1</sup> F.O. Licht's World Tea Markets Monthly, Vol. 9, No. 1, July 2007

## THE ETHICAL TEA PARTNERSHIP (ETP)

The ETP is a unique, long-term ethical sourcing initiative that works in partnership with more than 20 member tea companies to independently monitor living and working conditions in tea gardens. The UK-based organization also strives to improve working conditions in the tea industry. We are an active member of ETP and our participation helps us to ensure the teas we purchase are produced in a socially responsible manner.

 [Learn more about ETP at www.ethicalteapartnership.org](http://www.ethicalteapartnership.org)

## COMMUNITY HEALTH AND ADVANCEMENT INITIATIVE (CHAI)

CHAI is at the center of Tazo's social development strategy, and is our way of investing in regions that produce Tazo® tea ingredients. It was first launched in the hills of Darjeeling, India, as a partnership between Tazo, Mercy Corps, the Assam Branch of the India Tea Association, and the Darjeeling Earth Group. Now celebrating its fifth anniversary, CHAI has expanded significantly.

Since 2002, some 35 CHAI projects have been launched in small rural tea and spice-growing communities in India and Guatemala, targeting a range of needs from health services to economic development programs. In 2004, the program expanded to cardamom spice villages in Guatemala and, beginning in 2006, Tazo and Mercy Corps worked together to broaden the project to four tea estates in Assam, India. By the end of fiscal 2007, CHAI projects had benefited nearly 10,000 people.

One example of our work with CHAI can be found in the Himalayan foothills of Darjeeling, India. Here our continued purchases of teas from smallholder tea growers help contribute to the region's economic development. We are also collaborating with local tea growers, in partnership with the Darjeeling Earth Group, to improve their tea production and green leaf handling techniques. This is being done through the CHAI Project's Organic Tea Project for Small Farmers which, in fiscal 2007, conducted workshops on plantation techniques, use of organic spray for pest control, and the production of handmade green and oolong teas.

Funding for CHAI comes from Starbucks and our tea suppliers. Since 2003, more than \$1.9 million has been contributed to the CHAI Project, including donations in fiscal 2007 of \$520,000.

Some of our accomplishments in 2007 include:

- Providing financial and technical support to promote tea management and assist communities in Assam with setting up and facilitating microenterprises for unemployed and seasonal laborers.
- Rolling out Assam CHAI's Education Retention Program (CERP), a comprehensive package aimed at increasing retention rates in high school, improving performance on exams and enhancing students' ability to read, write and speak.
- The CHAI Project in Assam made significant progress toward reaching our objectives on four tea estates in Assam. CHAI Guatemala successfully expanded to make a difference in two additional cardamom producing villages in the central Alta Verapaz region.
- Launching projects in two new Guatemalan communities, in addition to the nine communities targeted earlier for CHAI projects, and reaching an additional 435 people this year.
- Implementing economic diversification and environmental protection projects in Guatemala.
- Making a joint presentation with Mercy Corps to members of the ETP about our CHAI social development project.

### Future Goals

As we move forward in fiscal 2008, we plan to continue our membership with the ETP and our support of CHAI. Three specific goals we will work toward include:

- Encouraging ETP to incorporate social projects and an environmental focus in its monitoring guidelines within the next two years.
- Increasing our funding for CHAI projects to be in direct proportion to our purchases of raw tea and botanical ingredients.
- Expand CHAI into other countries where we purchase tea and spices.

# Sustainable Procurement

## MANUFACTURED GOODS

When it comes to procuring merchandise for sale in our stores and for use in our operations, Starbucks is committed to sourcing these goods in a socially and environmentally responsible way. This is good not only for society and the environment, but also for our business. We strengthen our business when we work with suppliers who share Starbucks values.

To provide a framework for our procurement practices, we have developed a Supplier Social Responsibility (SSR) Program, and Standards for Manufactured Goods and Services. They represent our overall approach to integrating responsible buying practices throughout Starbucks global supply chain for manufactured goods and services.

In fiscal 2006, we piloted our SSR Standards for manufactured goods and began implementation in fiscal 2007. Underpinning the SSR Standards is a philosophy based on long-term partnerships with a focus on continuous improvement. We are committed to working collaboratively with factories to help them meet our expectations for performance.

## STARBUCKS STANDARDS TRAINING

To introduce our suppliers and factories to our SSR Program, we conduct two-day training sessions for suppliers, factory owners and members of their management teams. Working with a nonprofit organization, Verité, we communicate Starbucks social responsibility standards and methods for factory self-assessment and performance remediation. To help factories prepare for on-site assessments of their facilities, we conducted four factory trainings in which 89 factories participated in fiscal 2007.

## FACTORY ASSESSMENTS

In fiscal 2007, we analyzed Starbucks supply base and segmented it by perceived risk based on volume, country of origin, branded items and production type. This segmentation helped us to identify and prioritize the factories to be introduced to this program.

We work with two factory monitoring firms, Intertek and Levelworks, to conduct independent assessments on behalf of Starbucks. To be awarded business and participate in Starbucks performance improvement program, factories must meet a set of minimum standards. These “zero tolerance” standards include transparency, commitment to continuous improvement, ensuring payment of wages, allowing access for assessments, no child labor, no forced labor, and no harassment and abuse. As of the end of fiscal 2007, our monitoring firms had conducted 78 assessments.

Monitors found 41 instances of failure to comply with Starbucks zero tolerance standards. The most common zero tolerance violation was a lack of transparency, primarily related to wages and working hours. (See chart.)

If a factory is transparent about their challenges, and commits to continuous improvement, Starbucks approach is to work together with them to address the issues. In some cases, we hire a third-party consultant to analyze root causes with factory managers, and work with the factory to develop, implement and verify a performance improvement plan.

While the majority of factories were able to meet Starbucks zero tolerance standards, we either did not award or discontinued doing business with 14 factories due to supplier social responsibility issues in fiscal 2007.

## RESULTS OF AUDITS BY COUNTRY – FISCAL 2007

Country	Factory Assessments Conducted	Number of Factories Failing Zero Tolerance Standards
Bangladesh	1	1
China	72	40
El Salvador	1	0
Mexico	1	0
Taiwan	1	0
Vietnam	2	0

## COLLABORATING WITH OTHERS

In fiscal 2007, Starbucks joined the Fair Factories Clearinghouse, a nonprofit collaborative industry effort created to harness the existing pool of factory compliance information collected by companies, facilitate responsible sourcing and increase efficiency in auditing.

Starbucks also joined Business for Social Responsibility's Beyond Monitoring working group in 2007, which brings companies and stakeholders together to help address the root causes of social and environmental issues in global supply chains. Through this group we are working to develop a framework for identifying a successful supply chain strategy that includes buyer internal alignment, supplier ownership, empowerment of workers, and public policy frameworks.

### Future Goals

As we move ahead, we will continue to build on our progress in fiscal 2007. Some specific goals have been set for fiscal 2008, including:

- Conducting four factory training sessions for an estimated 60 factories.
- Developing an online system to provide factories in our supply chain with materials to support the training process.
- Improving data reports through the implementation of Fair Factories Clearinghouse data management tool.

# Quality Assurance and Product Recalls

Starbucks places the highest priority on the safety and well-being of our customers and partners. Our quality assurance (QA) process is extremely rigorous and extends from coffee, dairy and other agricultural products to manufactured goods, such as brewers, mugs and gift items.

Our commitment to product safety means that we not only comply with government regulations, but strive to openly communicate with our customers when we have an issue, explaining the situation and describing the corrective action we are taking. Several years ago we formed an internal Product Incident Team, comprised of representatives from QA, Legal, Operations and Communications in order to provide additional monitoring of product quality.

The team is tasked with weekly review of product performance information, customer and partner feedback, and other product usage information in order to proactively assess any potential issues. Should an issue relating to product quality, failure or safety arise, an extensive response system, including communications and operational components, is rapidly implemented. Despite having extensive QA controls, certain unforeseen situations can arise, making a product recall necessary in order to bring a product into government compliance and/or to ensure the health and safety of partners and customers.

In Starbucks history, we've had very few incidents that warranted a product recall, and in each situation we took a proactive and universal approach to rectifying the situation and maintaining customer trust and loyalty.

In fiscal 2007, we conducted two rapid voluntary recalls. One involved an eight-cup coffee brewer and the other was an ornamental snowglobe. In both cases, the issue was related to faulty manufacturing by the supplier. Our internal monitoring of product performance alerted us to the issue and our Product Incident Team allowed us to quickly and effectively respond to the problem.

- 01 PRODUCTS
- 02 SOCIETY
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- 04 WORKPLACE
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## 02 SOCIETY

### STARBUCKS COMMUNITY & GROWTH IMPACTS

In an era of increasing globalization, when communities around the world are striving to preserve their cultural uniqueness, some may question whether a global coffee company can stay in touch with the needs of individual communities or its individual customers.

As Starbucks has grown from a single store to having a global presence, we have worked hard to honor the intent of Starbucks Guiding Principle – to contribute positively to our communities – and to operate each store as if it were our only location. Our approach is based on building lasting, personal relationships with our customers and neighbors and staying in touch with the concerns, issues and desires of our local communities and customers. Whether they are concerned about cultural sensitivity, neighborhood character, nutrition, health care or how Starbucks contributes to their community, we are listening and doing our best to be responsive.

Throughout this section, we discuss Starbucks role in our society, and the relationships we have with our communities and customers. We examine some of the specific issues related to Starbucks growth, explain our perspective, and share what we are doing to be a responsible neighbor. Some of the topics discussed are:

- Starbucks presence in local communities, and continuing global marketplace evolution
- Being respectful of community concerns and local relevancy
- Contributing to local economic development, and building civic partnerships
- Being responsive to our customers
- Being locally relevant

## OPERATING IN THE GLOBAL COMMUNITY

As Starbucks presence has been extended to markets beyond the U.S., we are respectful of every new place – appreciating that each one is uniquely characterized by its history, culture, sense of community and natural environment. We have also been introduced to and welcomed by millions of enthusiastic customers. Our overall experience of doing business throughout the world has been overwhelmingly positive.

To gain objective feedback about how our international customers perceive Starbucks, specifically as a company that respects their local culture, we have begun conducting consumer insight surveys. The results of surveys conducted during fiscal 2007 in 12 international markets, including Korea, New Zealand, Philippines, Thailand, Beijing, Chengdu, Shanghai, (Suzhou & Hangzhou), South China (Guangzhou/Shenzhen), Taiwan, Chile, Puerto Rico and Mexico (Mexico City, Monterrey, Puebla, Tijuana, Guadalajara), found that 40 percent of our customers perceive Starbucks as respecting their local culture.

There are times when doing business on the global landscape presents challenges, including dealing with the wide spectrum of perceptions people have of America. In some parts of the world, there has been a rise in anti-American sentiment, much of it attributed to the conflicts in the Middle East. As a global company with an American heritage, we strive to be respectful of other perspectives, and responsive when we encounter misconceptions that may affect our relationships with our customers, neighbors and/or business partners.

## CLOSING OUR STORE IN CHINA'S FORBIDDEN CITY

Doing business globally presents us with opportunities to learn and grow, especially as we introduce the *Starbucks Experience* to new customers in different countries. Many factors are weighed when considering a specific location for Starbucks, with the goal of serving our customers in a welcoming environment. However, for any number of reasons, some locations may end up not being a lasting fit.

In fiscal 2007, we closed a Starbucks store located in China's Forbidden City in Beijing. The store opened in 2000 at the invitation of Forbidden City management, who at the time needed to raise funds to maintain the 600-year-old complex of villas and gardens.

For more than six years, Starbucks provided a welcoming place for Chinese and foreign tourists at this location. In the spring of 2007, the Forbidden City announced that it would replace concessions and stores operated by outside companies with ones managed by the Forbidden City itself. After reviewing our options with the Forbidden City, Starbucks respectfully decided to end our lease agreement.

## BEING RESPECTFUL OF COMMUNITY CONCERNS

The growing presence of global brand retailers has heightened awareness about the level of homogeneity in the marketplace. Although Starbucks typically receives a warm and enthusiastic welcome when opening a new location, we are sensitive to community concerns which generally focus on neighborhood character, and the relationship between national and independent retailers. When concerns are raised, there is no one-size-fits-all response – in these cases, we roll up our sleeves and strive to work collaboratively with local residents.

## BEING LOCALLY RELEVANT

Providing a consistent experience for our customers is one of Starbucks greatest strengths. At the same time, we are respectful of our local communities throughout the world, and, when possible, modify our store environment and customer experience in various ways. For instance, we have adapted our menu at times to include special food items in Asia, Europe and elsewhere; adjusted the days and hours of our store operations, depending on local customers; incorporated architectural elements in our store design to reflect the uniqueness of a neighborhood; and created different types of store environments that are culturally attuned and meet our customers' needs.

## CASE STUDY: STARBUCKS STORE ON PEARL STREET – BOULDER, COLORADO

Pearl Street is a pedestrian mall in Boulder, Colorado, and home to many unique and locally owned shops. Starbucks opened a store on Pearl Street in the late 1990s, at which time we were met with a mixed reception from the community. There was concern that entry would lead to the loss of the unique pedestrian experience, and a small but vocal group lobbied to ban national chains from locating on Pearl Street.

Today, Pearl Street Mall is a national model for downtown pedestrian malls. When Starbucks opened, it was the eighth store on Pearl Street Mall. Of those eight, two later closed, but locals agree Starbucks opening was not a factor. There is a healthy mix of stores – 85 percent of the businesses are locally owned and Boulder undertook a \$4 million renovation to celebrate Pearl Street Mall's 25th birthday in 2002. Business owners credit Starbucks with drawing customers, stimulating competition and contributing stability to the retail and commercial corridor.

## SURVEYING OUR CUSTOMERS

Simply put, we want to be a good neighbor – the type of neighbor that local residents value and appreciate in their neighborhoods. In order to stay attuned and relevant to our customers and communities, we conduct ongoing surveys among U.S. coffee consumers and our customers who had visited Starbucks within 30 days. In fiscal 2007, we expanded the distribution of the customer survey that was initially launched in fiscal 2006, in order to gain more representative feedback and insights.

One key finding in fiscal 2007 was that among our customers who were surveyed, 86 percent responded that they were extremely or very likely to recommend Starbucks to a friend or family.

Our recent surveys also found that most respondents were unaware of the company's socially responsible initiatives, including Starbucks support for community activities. Although awareness of our efforts was higher among customers than the general

population, 38 percent of all respondents – both customers and noncustomers – associated Starbucks with good corporate citizenship. Starbucks is devoted to acting responsibly in all areas of our business practices, and we appreciate that our customers share our concerns.

To gauge customer acceptance of Starbucks in local neighborhoods, we recently asked survey respondents, specifically those who presently live near a Starbucks store, what their overall feeling was about having a Starbucks near their home. We found that 48 percent had very positive feelings about having a Starbucks store in their neighborhood, while seven percent indicated negative feelings.

When we asked those who do not currently live near a Starbucks how they would feel about having a Starbucks store open near their home, 36 percent indicated positive feelings and nine percent had negative feelings. (See chart.)

### *Respondents who presently have a Starbucks located near home*

	FISCAL YEAR	
	2006	2007
Extremely/very positive	50	48
Somewhat positive/neutral	45	45
Somewhat negative/very negative /extremely negative	5	7

### *Respondents who do not presently have a Starbucks located near home*

	FISCAL YEAR	
	2006	2007
Extremely/very positive	40	36
Somewhat positive/neutral	50	55
Somewhat negative/very negative /extremely negative	10	9



## CONTRIBUTING TO LOCAL ECONOMIC DEVELOPMENT

Starbucks is committed to being a good neighbor, and strives to have a positive impact on every community it enters. Starbucks impact goes beyond offering premium coffee beverages, various products and a positive consumer experience. Each store creates an economic ripple effect that can be traced throughout its local community. Considering that we have some 6,800 company-operated locations across the U.S., we are generating a total economic impact that is significant and very positive.

To fully understand the local economic footprint of our U.S. stores, Starbucks commissioned an economic impact study in fiscal 2007.<sup>1</sup> The study found that Starbucks stores contribute to local economic growth, create new jobs and add to local tax revenues. Some specific findings from the study are presented below:

- For every dollar spent at a Starbucks store, on average, \$2.23 is put back into the local economy through employee wages and benefits, taxes, and payments to local vendors that provide some of our goods and services.
- In addition to the people working in a Starbucks store, an average of 20 new full-time jobs are created in the community as a result.
- Every year, each Starbucks store generates, on average, \$70,000 in state and local annual tax revenue.

Starbucks stores make substantial efforts to buy products and services, such as baked goods, from local vendors. Local sourcing amplifies the positive economic impact of each store, resulting in the indirect benefits of creating new jobs, generating additional income for the community and providing increased tax revenue.

In addition to the economic benefits described above, the presence of a Starbucks store can be a catalyst for the growth of nearby businesses by increasing foot traffic and the number of potential customers that may visit other surrounding retail stores.

<sup>1</sup> Methodology: the direct, indirect and induced impact on the economy of local communities was accomplished by analyzing detailed financial data about the operation of Starbucks retail stores of different configurations in several selected metropolitan regions in the U.S. These data were used to estimate the economic impact through the use of an established and well-documented economic impact model appropriate for the geography of the store locations.

## CASE STUDY: MAKING A POSITIVE IMPACT IN ATHENS, GEORGIA

Our presence in Athens, Georgia, provides an example of how Starbucks has helped stimulate that local economy and helped to energize the community. When we opened a store in downtown Athens in 1999, Starbucks became one of the first national retailers to locate – and stay – in the area. This was good news to city leaders who were interested in attracting retailers that could help to spur growth and development.

Starbucks tapped local Athens talent for employment opportunities, and catered to some unique community needs. This included supporting a local women's shelter and extending our hours of operation during exam weeks so students attending the University of Georgia could have another place to go.

## HAVING AN IMPACT IN UNDERSERVED COMMUNITIES

In 1998 Urban Coffee Opportunities, LLC (UCO) was created, a partnership between Starbucks and Johnson Development Corporation, a company owned by Earvin “Magic” Johnson. The goal of UCO is to bring Starbucks stores to diverse local communities in the U.S.

 [Learn more about UCO in our Diversity section.](#)

## BUILDING NEIGHBORHOOD ALLIANCES

Starbucks works closely with civic organizations to help us better understand the opportunities, concerns and challenges faced by local communities. Infrastructure, workforce development and urban revitalization are just a few of the issues we have addressed through these relationships. Through our involvement with the U.S. Conference of Mayors, and the National Trust Main Street Center, we have become more knowledgeable about how communities are impacted by sustainability and preservation issues. An example of our collaborative approach took place in Lake Tahoe, Nevada, where our engagement with the League to Save Lake Tahoe led us to offer a special blend of coffee that provided monetary support to preserve this treasured natural resource.

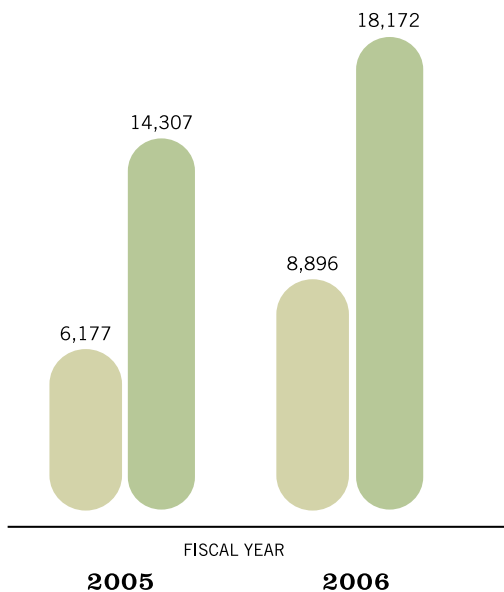
## STARBUCKS GROWTH

In fiscal 2007, Starbucks opened 2,571 new stores, bringing the worldwide total to 15,011 locations in 43 countries. We expect to add 2,150 net new stores next year.

To realize our ambitions for Starbucks long-term growth, we work closely with local communities when opening new stores and operating our business. When Starbucks is viewed as providing an inviting gathering place for residents, supporting neighborhood interests, and stimulating local economic development, we are almost always welcomed in.

Occasionally, Starbucks entry into an area raises concerns among local residents. Our approach is to engage with neighbors, merchants and other stakeholders openly and directly. Starbucks has designated a global team of partners who focus on building positive community and civic relationships with our neighbors and key stakeholders.

## COFFEEHOUSES IN THE UNITED STATES



- Total Starbucks stores in U.S. (company-operated and licensed)
- Number of smaller chain and independent stores in U.S. (estimated)\*
- \* Source: Mintel International Group Ltd. and Specialty Coffee Association of America

## CONTINUING MARKETPLACE EVOLUTION

Over the past several decades, the marketplace has become increasingly more global and competitive in nature. Starbucks has become one of the world's most successful and admired large retail companies, and we have done this by continually striving to be neighborhood-centered and locally relevant in every community we are in.

A common misperception is that large global brand retailers and small, independent businesses cannot coexist. But, specialty coffee retailers may offer an example of such coexistence. Just as Starbucks has grown in the U.S., thousands of independent coffee shops have also sprung up. This would suggest continuing synergy between the growth of Starbucks and that of smaller coffee retailers. See chart below.

### Market Segmentation

Independent Stores (1-3 units)	57%
Micro Chain Stores (4-9 units)	3%
Large Stores (10+ units)	40%

Source: Specialty Coffee Association of America

As Starbucks has grown, so has the industry, all of which has benefited coffee consumers.

In the following pages, we discuss the other ways Starbucks is contributing positively to local areas through community investments and grants from The Starbucks Foundation. Specifically, we address:

- Starbucks community investments
- The Starbucks Foundation
- Starbucks commitment to health and wellness
- Being responsive to our customers
- Public policy and government affairs

# Starbucks Community Investments

Starbucks has always cared about the communities where we do business. Over the years, we have contributed to many worthy causes, addressing children's literacy, poverty alleviation, and the environment, to name a few.

We are proud of our contributions, and honored to have worked with so many gracious and dedicated people around the world who support local communities through their work with schools, libraries and community-based organizations. As we have grown, we have considered how much greater our impact might be if we focused our philanthropic efforts on fewer causes. With more than 172,000 partners and 15,000 stores in 43 countries, we offer a sizeable force to unite behind a common goal to make the world a better place.

In Starbucks 2006 CSR Report, we shared our intent to focus and align the charitable efforts of Starbucks Coffee Company and The Starbucks Foundation. In fiscal 2007, we examined our investment priorities as a global company to determine how we could best focus our efforts to create community impact. We sought advice externally – from charitable foundations and community partners, and from customers and many of our partners around the world.

As we explored possibilities, we kept one fact in mind – that today, 50 percent of the world's population is under the age of 25. If technology could be leveraged as a tool, we began to imagine that Starbucks could help young people connect and work together on identifying and tackling issues in their own communities – a process that could build their confidence and their capacity to shape the future.

This led us to create a new approach and focus to our local giving programs. It will be centered on our vision to strengthen local communities by aligning resources and leveraging technology to support young social entrepreneurs who are seeking to change their local communities through innovative ideas, volunteerism and civic action. We hope to advance greater and more measurable outcomes that contribute to the long-term sustainability of local communities – and ultimately inspire positive change in the world.

In the following pages of this section, we provide an overview of our community efforts and further explanation about our activities, including:

- Total Giving in Fiscal 2007
- Starbucks New Approach to Supporting Local Communities
- Fiscal 2007 – A Transitional Year
- Our Contributions to Communities – U.S.
  - Starbucks Partners' Community Efforts
- Our Contributions to Communities Around the World
- Investments in Coffee- and Tea-Growing Communities
- The Starbucks Foundation

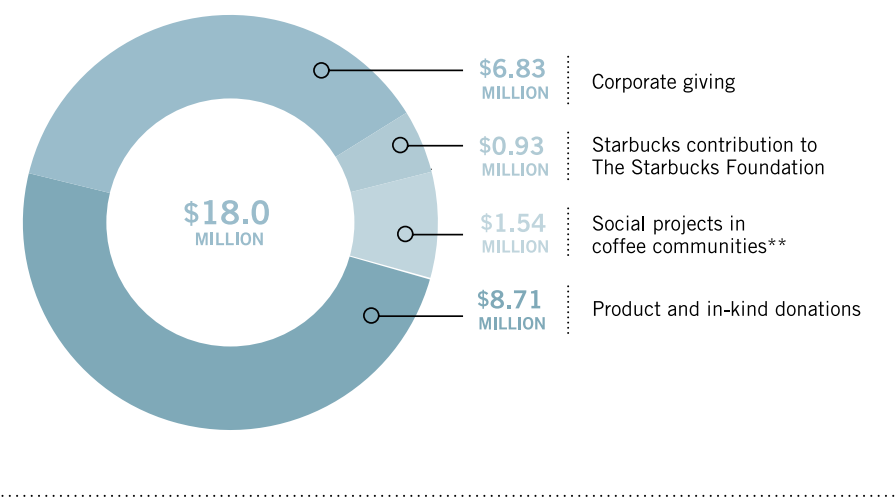
**"We cannot always build the future for our youth, but we can build our youth for the future."**

Franklin D. Roosevelt

# TOTAL GIVING IN FISCAL 2007

In fiscal 2007, Starbucks cash and in-kind contributions were valued at \$18.0 million, or 1.7 percent of the company's earnings before income tax. (See pie chart below.)

## STARBUCKS DONATIONS PAID IN FISCAL 2007\*



- \* This chart represents grants and product donations paid by Starbucks Coffee Company during fiscal 2007. These numbers differ from grant expenses recorded in our consolidated financial statements, which are shown on an accrual basis as required by generally accepted accounting principles (GAAP) in the U.S.
- \*\* Represents the total amount Starbucks paid through some coffee contracts to fund various projects to improve coffee-growing communities.

## STARBUCKS NEW APPROACH TO SUPPORTING LOCAL COMMUNITIES

For some time, Starbucks Coffee Company and The Starbucks Foundation have sought a unified framework for supporting our local communities. After many discussions with internal and external stakeholders, two common themes emerged: the idea that Starbucks could serve as a connection point for people interested in engaging with their local communities, and a strong passion for supporting young people who are striving to create positive change in their communities.

Our new approach to supporting local communities will combine and build on these two themes. We will leverage the unique strengths of Starbucks Coffee Company and The Starbucks Foundation in a way unlike anything we've done in the past.

We will build on what we learned from making several demonstration grants in fiscal 2007, including one with Youth Venture that is described in more detail later in this section.

During 2008, our efforts will focus on grants and activities, beginning in the U.S., Canada, Japan, Philippines, Malaysia, Australia, New Zealand, China, Mexico, Brazil, the UK, and Germany.

In addition to leveraging our resources to support young social entrepreneurs through Starbucks Foundation grants, Starbucks Coffee Company plans to bring other resources to the table, such as:

- Online tools that will provide opportunities for people to connect with each other and learn of projects that will improve their local communities.
- Partner volunteerism and company-matched gifts in support of our partners' work in communities.
- Starbucks stores as places where in-store promotions can help people connect on issues that are important to them and where local organizations have an opportunity to tell their story.
- A website to serve as a global community forum for people who share a passion for community engagement and the development of young social entrepreneurs. It will feature program recipients; enable people to make donations; and share outcomes of projects.
- In-kind donations of products and resources where appropriate.
- Talent, resources and expertise to help organizations become stronger and more self sufficient.

## FISCAL 2007 – A TRANSITIONAL YEAR

Our efforts in fiscal 2007 were largely focused on engaging with our partners and community stakeholders, and using their input to help us develop our new approach to supporting local communities. At the same time, we continued to provide support to many important causes around the world, and reached out to our existing community partners, explaining our plans to refocus Starbucks giving and how this may alter our support in the future. We reassured all of our long-time community partners that Starbucks will honor any multiyear commitments previously made.

## OUR CONTRIBUTIONS TO COMMUNITIES

In fiscal 2007, we contributed to local communities in the U.S. and around the world, through cash and in-kind donations, and through our U.S./Canada partner volunteer and matching gift programs. Representative highlights of our partnerships and volunteer programs from fiscal 2007 are summarized below.

### Starbucks Partners' Community Efforts

Giving back is part of our corporate culture and the way we do business. We have many programs that encourage and support partners to make a difference in their communities. Year after year, our partners inspire and amaze us with how enthusiastically they take advantage of these programs to make the world a better place.

*Make Your Mark* and *Choose to Give!*, described on the following pages, are programs unique to the U.S. and Canada, but many of our international partners are also involved in their communities through similar programs.


**Make Your Mark Volunteer Program – U.S. and Canada**

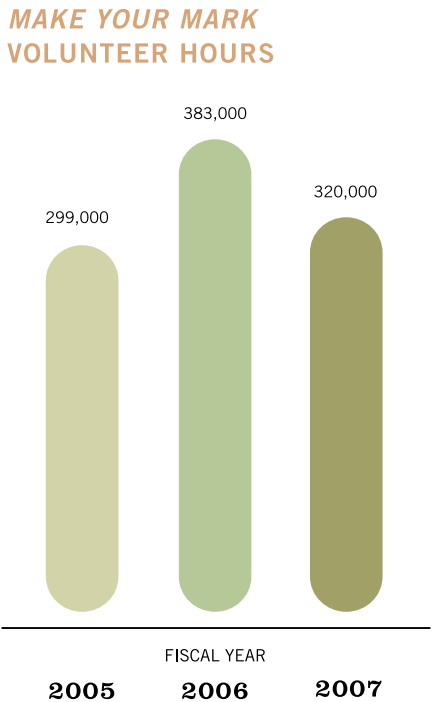
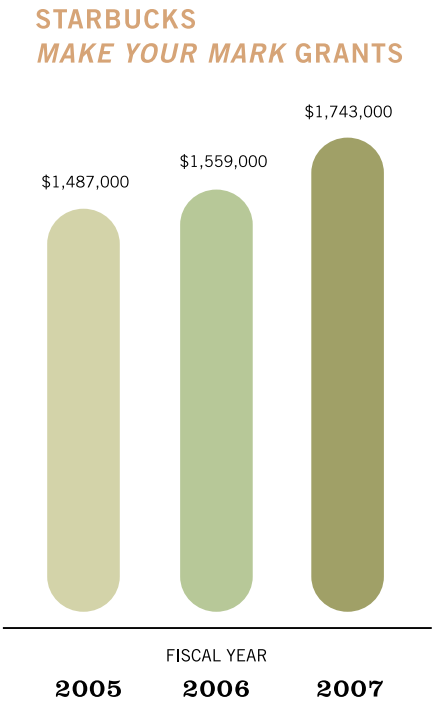
*Make Your Mark* (MYM) is our volunteer program, started seven years ago, that brings partners and customers together to work on projects that directly affect their communities. Our partners organize projects – such as park cleanups, AIDS walks and reading events – in conjunction with local nonprofit organizations.

In addition to the hands-on help from Starbucks partners, we donate \$10 to MYM projects for every hour volunteered – by partners and customers alike – up to \$1,000 per project. Since it was started in 2000, MYM has inspired our U.S. and Canadian partners and customers to volunteer 1.5 million hours for thousands of community organizations.

In fiscal 2007, partners and customers volunteered 320,000 volunteer hours in MYM events. Although this represents a decline in MYM hours from fiscal 2006, MYM continues to be a valued program that inspires our partners and customers to make a difference in their communities. We are committed to keeping opportunities for partner involvement vibrant.

Starbucks partners and customers took part in 2007 World Water Day events – such as Walk for Water – in 26 cities in the U.S. and Canada. The Walk for Water raises awareness about the struggle children and their families in developing countries face on a daily basis to obtain access to safe, clean drinking water. Nearly 11,000 Starbucks partners participated in last year’s World Water Day events, doubling the number from the previous year.

 [Learn more about our other support of water-related initiatives in Ethos Water Fund and World Water Initiatives later in this section.](#)



### ***Choose to Give!* Gift Matching Program – U.S. and Canada**

We encourage our partners to make their own charitable gifts to organizations they care about. Respecting that our partners' charitable giving is their personal decision, Starbucks designed *Choose to Give!*, a flexible workplace-giving program that matches each partner's charitable contributions, up to \$1,000 annually. In fiscal 2007, 3,500 of our partners' charitable contributions were matched by Starbucks for a total of \$650,000.

### **NAACP STRATEGIC ALLIANCE – U.S.**

In May 2006, Starbucks announced a five-year, \$2.5 million commitment of cash and in-kind donations to the National Association for the Advancement of Colored People (NAACP). Starbucks and the NAACP work together to identify and support projects reflecting our shared commitment to social and economic equality.

In partnership with the NAACP, Starbucks is proud to have helped support the restoration and preservation of one of the most historically and culturally significant restaurants in the city of New Orleans – Dooky Chase. The restaurant was left with a collapsed roof and four feet of floodwater after Hurricane Katrina, and insurance did not cover the costs of renovation.

In 2007, Starbucks contributed \$175,000 through NAACP to Dooky Chase and its executive chef, Leah Chase, to provide the final, crucial donation needed to complete reconstruction prior to its September 2007 grand reopening.

Leah Chase, owner and chef of Dooky Chase – and daughter-in-law of its founder – is known as the “Queen of Creole Cuisine.” Leah has served Rev. Jesse Jackson, Duke Ellington, Justice Thurgood Marshall, James Baldwin, Ray Charles, Rev. Martin Luther King, Jr. and countless others at Dooky Chase. The restaurant opened in 1941 as a sandwich shop and was one of the few commercial meeting places for African-Americans. In the 1960s, it became a gathering place for the civil rights movement. More recently, it has become an important gallery for an extensive African American art collection.

**“The generosity and ‘hand up’ Starbucks and the NAACP have given to Dooky Chase Restaurant has given me the boost I need to keep me on the battlefield of life.”**

Leah Chase  
Owner and Chef  
Dooky Chase Restaurant



# Our Contributions to Communities Around the World

Across our international markets there are examples of how Starbucks supports local communities through philanthropy, partner engagement and by opening our doors for community events. Here are some examples from fiscal 2007:

## Greater China

- **Mainland China** – Partners helped collect donated books, dictionaries, and study materials, and then distributed them while visiting students in rural areas. Partners also volunteered their time to participate in a wide variety of activities supporting the greater community, including the GIVES International Food and Fun Fair, a Grounds for Your Garden event and a celebration of Children's Day.
- **Starbucks Taiwan** – We continued our long-term support of aboriginal children through World Vision Taiwan, in addition to sponsoring an environmental awareness campaign and a community cleanup. Several partners from stores regularly visit children in remote mountain areas to provide academic tutoring services.



[Learn about the China Education Project later in this section.](#)

## Asia Pacific

- **Japan** – Partners in Japan continued to be involved with Make a Wish of Japan, a nonprofit organization that helps grant the wishes of seriously ill children. In December 2006, the efforts of our store and field partners led to hundreds of additional holiday gifts for Make a Wish Japan's "Play Santa" Campaign. These were donated to four children's organizations.

During a period when Tanzanian coffee was featured, Starbucks Japan organized a Tanzanian art exhibition in three Japanese cities. A limited number of special tumblers with Tanzanian art were sold, raising \$3,800 to support education in Tanzania.

- **Singapore** – Starbucks partners in Singapore supported a walkathon, raising more than \$2,000 for the Pathlight School for students with autism.
- **South Korea** – Starbucks Korea supported the Korea Welfare Foundation with a total of more than \$100,000 in donations, and hundreds of hours of volunteer time. Our donations have helped support World Vision Korea and Citizen's Network for Drinking Water.
- **Philippines** – Starbucks Philippines and our licensee, Rustan Coffee Corporation in the Philippines, have been working with Project SparkHope, an initiative with UNICEF Philippines to create early childcare development programs in poverty-stricken communities. Our efforts helped build and restore daycare centers and train parents and volunteer teachers. To date through Project SparkHope, Starbucks has donated \$31,515 and helped 12 severely disadvantaged communities in remote areas in the Philippines.

## Europe/Middle East/Africa (EMEA)

- **The UK** – Starbucks partners worked with the National Literacy Trust for seven years to develop All Books for Children (ABC), a program that introduces preschool children and their families to the benefits of libraries and reading. Hundreds of Starbucks partners have been involved with the program since its inception.

In fiscal 2007 Starbucks invested \$115,000 to take more than 1,000 preschool children and their families through the ABC program. These families received a share of more than 3,400 new books to take home and keep. For the third year in a row, UK partners were honored for their outstanding efforts to support literacy, with a prestigious award from Business in the Community – a movement that encourages positive civic engagement by businesses.

- **Germany** – In 2007 Starbucks began a partnership with Youth for Understanding Foundation, a network of nonprofit organizations that organize educational opportunities through youth exchanges between countries around the world. Starbucks donated \$7,000 toward scholarships.

For its five-year anniversary celebration, Starbucks Germany raised an additional \$16,000 through the sale of commemorative anniversary mugs. The money was donated to Wunsch Dir Was (Make-a-Wish) in October 2007, a foundation that fulfills wishes of seriously ill children.

## Latin America

- **Mexico** – Our partners in Mexico have continued the support of the Chiapas School Project, a three-year program developed by Starbucks and the Comon Yaj Nop Tic coffee cooperative, focused on bringing higher education to the coffee-growing communities of Chiapas.

In early 2007, Starbucks Mexico, with the support of Fundación Alsea, launched the book, *Our Coffee: A Journey to the Biosfera del Triunfo in Chiapas*. The book celebrates the farmers who cultivate coffee in the Chiapas region and gives a firsthand glimpse of their daily lives. In October 2007, Starbucks raised \$73,000 through the sale of the book, a themed bookmark, and Organic Shade Grown Mexico coffee sales for the FONCET's (El Fondo de Conversación El Triunfo AC) Chiapas School Project.

- **Brazil** – Starbucks partners in Brazil have focused their support of literacy with their involvement in Ciranda da Leitura – a project developed by Starbucks Mexico and Ipanema Coffees to provide a mobile library for impoverished children in rural communities. In 2007, partners organized several in-store book drives that gave customers an opportunity to donate books to children. The generosity of our customers allowed Starbucks Brazil to donate more than 700 books to Ciranda da Leitura children's library.

## Canada

- **ABC CANADA Literacy Foundation** – for the second year, Starbucks Coffee Canada worked with the Gift of Words™ (GOW) program to address the significant need for funding for family reading initiatives in schools, libraries and literacy organizations. The goal of the program is to provide children with more access to books and one-on-one reading opportunities to encourage their development as lifelong readers and learners. Starbucks Coffee Canada is dedicated to supporting family literacy and working with national and local literacy organizations to enrich the reading and writing experiences of young Canadians. Starbucks provided grants to facilitate reading circles and book donations. There were also some opportunities for partner involvement, and some local stores supported GOW with coffee service donations.

## INVESTING IN COFFEE- AND TEA-GROWING COMMUNITIES

Rural communities that are dependent on cash crops, such as coffee and tea, often face challenges that begin at the farm and extend beyond. Starbucks invests in programs designed to strengthen local economic and social development. We work collaboratively with nongovernmental organizations (NGOs) that have the experience and expertise to work with farming communities and improve their capacity to consistently bring their highest quality coffee and tea to market.

Our efforts can involve supporting programs that introduce growers to better farming practices or help to preserve a forest of environmental and agricultural importance to the surrounding regions. In this and a variety of other ways, we are helping farmers and their communities become more resilient to market, weather and other forces, such as crop diseases and soil degradation, therefore improving their crop quality and production of sustainable coffee.



[Learn more about these investments in coffee-growing communities in our Products section.](#)

In 2007, we supported projects involving wildlife conservation, microlending, biodiversity preservation, education and poverty alleviation. Among our efforts, The Starbucks Foundation provided funding for community development programs in Ethiopia, and Starbucks Coffee Company supported a community development program in Guatemala.

### Gewgew Dingete Community Development Program with CARE in Ethiopia

Since 1992, Starbucks and The Starbucks Foundation have contributed to CARE, an international humanitarian and development organization. Our support to CARE has allowed us to respond to humanitarian crises, and helped empower community development in parts of Asia, Africa and Latin America. In fiscal 2007, The Starbucks Foundation made a gift of \$492,000 to help fund a three-year program focused on improving economic and educational prospects for 6,000 people, or 1,500 households, in Ethiopia's rural coffee-growing region of West Harrarghe. The project combines education, savings and lending groups, and agricultural training methods to provide both immediate and long-term benefits.

Over the next three years, Starbucks UK is adding \$400,000 to this commitment to support small-scale projects that will deliver life-long learning in Gewgew Dingete. Starbucks partners in the EMEA are helping raise money toward the effort by donating volunteer time toward charitable projects in their local communities, with money donated toward projects in Gewgew Dingete for each hour of donated time. Part of the funds will help support CARE's projects to improve access to water in a community of coffee farmers in West Harrarghe.

"We view this project as an example of empowering households to take command of their own futures and their potential through education and training," says Abby Maxman, country director for CARE Ethiopia.

## Guatemala Education Initiative with Save the Children

In fiscal 2005, Starbucks Coffee Company committed \$1.5 million over four years to support the Guatemala Education Initiative, an effort with Save the Children to bring education programs to remote highland villages of Guatemala. Indigenous Mayan communities like these are frequently marginalized from the Guatemalan economy and typically suffer the highest rates of poverty and the lowest levels of education attainment in the nation. Our aggregate contribution to this effort from 2005-07 totaled \$1.1 million.

In the past year, 5,076 Guatemalan children in 22 schools learned from updated curricula that honors and incorporates their cultural traditions. Save the Children worked with parents to increase their level of commitment and involvement in local schools, trained teachers on how to facilitate interactive learning in the classroom, and provided teachers and students with new learning materials.

Starbucks partners enthusiastically supported this initiative again in fiscal 2007 with their personal contributions of more than \$40,000. Eight U.S. partners, selected through an essay contest, traveled to Guatemala to visit the area and volunteer at two of the schools that receive assistance from Save the Children.



[Learn more about the Guatemala Education Initiative and Save the Children, at www.savethechildren.org/starbucks.](http://www.savethechildren.org/starbucks)

## Coffee Kids

Since 2000, Starbucks has been a supporter of Coffee Kids, an organization that has worked with the specialty coffee industry for 20 years on ways to help coffee-farming families improve the quality of their lives. In fiscal 2007, Starbucks provided \$25,000 to support programs in Mexico and Nicaragua, helping many local families. Projects we helped support include:

- Workshops for 735 women about diverse subjects such as gender equity, breast cancer prevention, microfinances, women leadership, business planning and administration in Nicaragua
- 30 microcredit and savings organizations in Northern Nicaragua
- 336 scholarships (217 high school, 84 university and 35 adult education) in Costa Rica

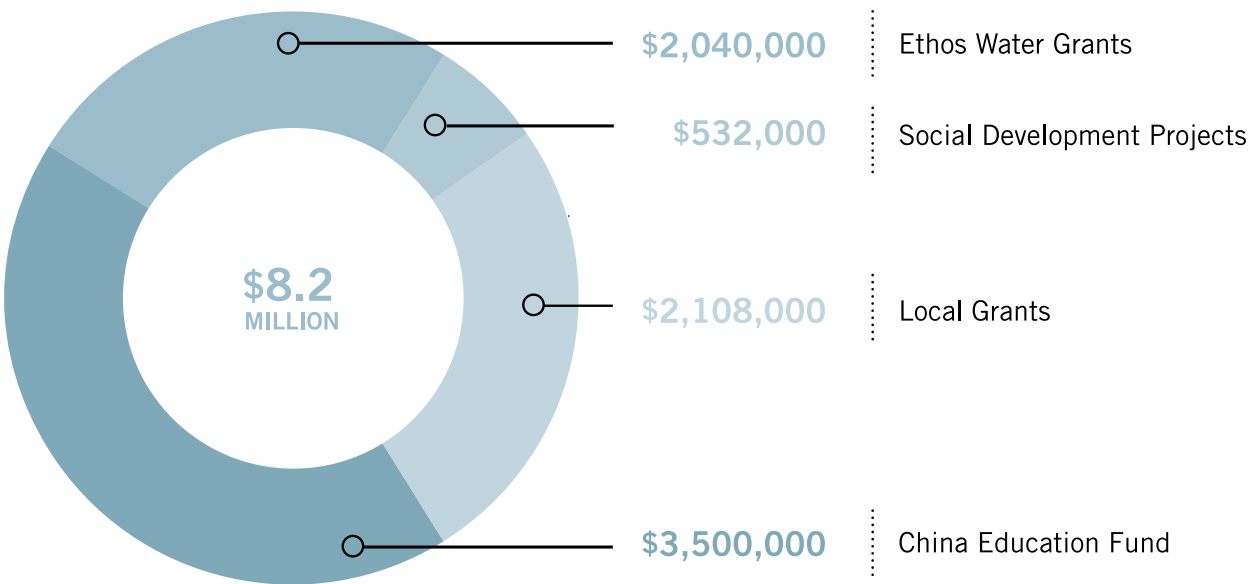
# The Starbucks Foundation

The Starbucks Foundation was founded in 1997 with a mission to create hope, discovery and opportunity in communities where Starbucks does business. Since that time, The Foundation has provided more than \$26 million in funding to programs in underserved communities. The Starbucks Foundation, a separate 501(c)(3) charitable organization, receives the majority of its funding from Starbucks Coffee Company. The remaining funding is from private donations. In fiscal 2007, The Foundation made 141 grants to nonprofit organizations, totaling just over \$8 million dollars.

In this section, we summarize The Starbucks Foundation's activities in fiscal 2007, including:

- Demonstration Grants for new community-giving strategy
- Giving Voice Grants
- Special projects to support the U.S. Gulf Coast
- Education Programs in China
- Ethos Water Fund and World Water Initiatives
- Social Development Grant – CARE

## THE STARBUCKS FOUNDATION DONATIONS IN FISCAL 2007



## DEMONSTRATION GRANTS FOR NEW COMMUNITY GIVING STRATEGY

In fiscal 2007, The Starbucks Foundation prepared for the launch of our new community giving approach by piloting several grant-making projects in a number of Starbucks markets, including Boston, Dallas, London, and in Washington state where we worked with an organization called Youth Venture.



[More information on Starbucks new global philanthropic program in Starbucks New Approach to Supporting Local Communities earlier in this section.](#)

### Dream It. Do It. with Youth Venture – Washington State

The Washington state program successfully demonstrated the power of investing in youth in local communities. The Foundation selected Youth Venture as a partner organization for the demonstration program. Youth Venture, a global organization, is creating a movement focused on inspiring and investing in teams of young people to start social ventures, and working to build a powerful network of young social entrepreneurs. ([www.genv.net](http://www.genv.net)).

This demonstration project awarded 10 young social entrepreneurs up to \$1,000 each in seed money. The selections were made by a panel of Youth Venture staff, Starbucks partners and community members.

## GIVING VOICE GRANTS

*Giving Voice* is a regional grant program supporting youth literacy programs. In fiscal 2007, the final year of *Giving Voice*, The Starbucks Foundation gave more than \$1 million in grants to support 120 organizations across the U.S. and Canada. The programs reach youth, ages 6–18, and integrate literacy with personal and civic action in local communities.

## SPECIAL PROJECTS TO SUPPORT THE U.S. GULF COAST

Communities along the U.S. Gulf Coast that were affected by the 2005 hurricanes have faced a long and difficult job of recovering and rebuilding. Following the storms, The Starbucks Foundation and Starbucks Coffee Company pledged \$5 million over five years for relief, recovery and rebuilding efforts. Our efforts to date have included:

- In 2005, an initial \$1 million was contributed to directly support relief in the aftermath of the hurricanes.
- In 2006, The Foundation supported early rebuilding projects with more than \$1 million.
- In 2007, The Foundation committed \$465,000 toward rebuilding and revitalizing Gulf Coast communities through the COAST Fund (described below).
- Since 2005, The Foundation has matched the volunteer efforts of 200 Starbucks partners and customers with contributions of more than \$47,500 to the ACORN Institute, a New Orleans-based nonprofit organization that helps low-income communities.

The Foundation will continue to monitor rebuilding efforts in the region, working with community leaders to determine how the remaining \$2 million of the five-year commitment will be invested over the next three years, and how these funds can best serve Gulf Coast communities.

In fiscal 2007, The Foundation's approach to revitalizing affected communities took two paths: small, community-based grants through the Creators of a Strong Tomorrow (COAST) Fund, and larger grants for more significant rebuilding projects.

### The COAST Fund

The COAST Fund was launched in 2007 in cooperation with four Louisiana regional community foundations. COAST Fund grants are awarded to community-based, grass roots organizations that are directly involved in the recovery efforts. Local Starbucks partners participated in the COAST Fund grant-making process by helping review proposals and making grant recommendations. In fiscal 2007, the COAST Fund awarded 21 grants ranging from \$2,500 to \$10,000.



[Learn more about The COAST Fund at www.starbuckscoastfund.com.](http://www.starbuckscoastfund.com)

The Starbucks Foundation also made several contributions in fiscal 2007 to New Orleans community organizations that provide places for people to gather and spend time with friends and family. Each contribution underwrites the rebuilding of a community asset destroyed by Hurricane Katrina. Following are three examples:

### City Park of New Orleans

This 1,300-acre park is located in the center of New Orleans and offers many recreational activities for New Orleans residents. Starbucks adopted a section of the park and invested \$250,000 in restoration projects, including rebuilding picnic shelters and picnic tables.

### Café Reconcile

Café Reconcile employs and trains local at-risk youth from the Greater New Orleans area for hospitality and construction employment. A grant of \$120,000 funded two years' salary for a director's position to extend the food service operations at the café.

### Louisiana Children's Museum

The Louisiana Children's Museum is an interactive haven for children and families. Though it managed to reopen ten months after the storm, funding limitations kept it closed on Sundays. The Starbucks Foundation's contribution made it possible for the Children's Museum to open its doors on the first Sunday of each month, free of charge to all visitors. Starbucks Coffee Company has augmented The Foundation's donation with signage in Starbucks stores, provided assistance with promotion and partners' volunteer efforts, and helped attract thousands of visitors.

"It was amazing! There was never a lull at the front desk, and often a group of ten or so waited to be counted and welcomed. [People] were so thankful and appreciative! We continue to be awed by your investment in us and by your understanding of the support you consequently give to children and families," says Julia Bland, Executive Director of the Children's Museum.

## CHINA EDUCATION PROJECT

In 2005, The Starbucks Foundation pledged \$5 million over five years to create the Starbucks China Education Project at Give2Asia, an organization dedicated to encourage charitable giving to meet needs in Asia. In fiscal 2007, the Starbucks China Education Project supported the following activities:

- **Water Education:** \$600,000 over two years was committed to the All-China Women's Development Foundation to provide training to women in 14 regions of five provinces. Training is focused in the areas of water safety, sanitation and conservation, as well as training people about the connection between clean drinking water and good health. The organization conducted baseline research to assess the current situation of water, health, sanitation, water purification and habits of local residents. The findings will shape the curriculum and future direction of the training program.
- **Tutoring:** Through the Xi'an Women and Children Activity Center, \$16,000 was given for a one-year program to support students from families of land-lost peasants, migrant workers and impoverished city residents. The program provides extracurricular tutoring for students, and potential volunteering opportunities for Starbucks partners.

The China Education Project's partnerships with the China Soong Ching Ling Foundation (CSCLF) continued this past year:

- **Rural Teacher Training Program:** Two trainings sessions were conducted this past year and included sessions focused on school principals. The most recent session took place in Kunming, the capital city of Yunnan Province, and brought together more than 500 primary school teachers from Yunnan, Ningxia, Sichuan, Shaanxi and Chongqing. The session focused on the reform and development of basic education; theory of new curriculum; and active teaching. CSCLF will continue to integrate what it has learned in order to improve future training sessions.
- **Teaching College Scholarships:** The Starbucks Student Assistance Scholarship Program provided support to 300 students from 15 universities in China who are studying to become teachers. Each student received an award to assist them with their tuition fees and education expense. Recipients were selected based on their financial needs and outstanding academic performance.

## ETHOS WATER FUND AND WORLD WATER INITIATIVES

The Ethos Water Fund is housed within and directed by The Starbucks Foundation to support nonprofit, nongovernmental organizations working to bring safe water to those in need around the world.

For each bottle of Ethos™ water purchased in the United States, \$0.05 is contributed to the Starbucks Foundation's Ethos Water Fund. For each bottle purchased in Starbucks stores in Canada, \$0.10 is contributed to The Starbucks Foundation's Ethos Water Fund. Our goal is to contribute at least \$10 million by 2010 in support of nonprofit organizations who are working to alleviate the world water crisis through a range of integrated and sustainable water, sanitation and hygiene education programs. Since Starbucks first launched the sale of Ethos™ water in Starbucks stores in August 2005, we have announced grants of more than \$4.2 million, benefiting approximately 370,000 people in Ethiopia, India, Indonesia and Kenya.

The programs we support empower community members to act as agents of change by making decisions about water and sanitation systems while contributing time, labor and financial resources. Programs are designed with sustainability in mind so communities can continue to benefit from improved access to water, sanitation and safe hygiene practices long after grants are administered.

The Ethos Water Fund helped support the following water initiatives in fiscal 2007:

### Mercy Corps in Indonesia

In its second year of a \$1 million, two-year commitment, Mercy Corps' Healthy Schools Program on Sumatra Island addresses anemia and other serious nutritional and health problems caused in part by a lack of potable water in schools. The ultimate goal of the Ethos-funded program is 170,000 healthy elementary school children in four provinces of Sumatra Island. Highlights of the second six months of implementation included the creation of a comprehensive water and sanitation database of more than 200 schools, and advocacy efforts that led to eight new memorandums of understanding with district governments to replicate the program, benefiting an additional 58,000 schoolchildren.

### WaterAid in Ethiopia

In 2006, the Ethos Water Fund pledged \$1.1 million over three years toward WaterAid's work to bring safe water, sanitation and hygiene education to 22 remote villages in the mountains of northwestern Ethiopia. The project is on track to achieve its goal of providing access to water and sanitation for 100 percent of the population in this region. More than 50 percent of the targeted population had access to water and sanitation in the first year of the three-year project, and more than 20 wells were dug and fitted with pumps. The engagement of communities and local government helps ensure that health and other gains will continue after the project is completed.

### WaterAid in Madhya Pradesh, India

Millions of residents of Madhya Pradesh struggle daily with the consequences of poor water supply and sanitation. Only nine percent of the rural population has access to adequate sanitation, and fewer than 50 percent are not able to obtain adequate amounts of water per day. Urban populations also face alarming deficits in water and sanitation services.

In fiscal 2007, WaterAid embarked on a three-year work plan to bring water and sanitation to 80 rural villages and 40 urban slums, where an estimated 120,000 people will benefit. Supported by a grant of \$1 million, WaterAid will teach the most impoverished and vulnerable communities how to advocate for their water needs, and will work with community and government representatives to plan and construct integrated water, sanitation and hygiene initiatives.

### International Medical Corps in Kenya

In the remote Samburu district of Kenya, 98 percent of the land is either marginal or semidesert, and communities lack the resources to manage, operate and maintain the limited water that does exist.

In fiscal 2007, the Ethos Water Fund committed \$1 million over two years to support a program of the International Medical Corps (IMC) in this region. The IMC program will focus on:

- Increasing access to clean water
- Forming Village Water Committees to manage and rehabilitate water sources
- Reducing waterborne illnesses through the provision of water, sanitation and hygiene awareness in schools and households

International Medical Corps expects the project to directly benefit 45,000 Samburu district residents, and will assess the impact of the program to ensure that it helps communities make lasting improvements.

 Learn more about The Starbucks Foundation at [www.starbucks.com/foundation](http://www.starbucks.com/foundation).



# Starbucks

## Commitment to Health and Wellness

As concern over the worldwide public health issue of obesity mounts, Starbucks is continually listening to what customers are telling us, and we are making adjustments according to their preferences, including providing a variety of menu options and balanced offerings. In fiscal 2007, Starbucks implemented a number of specific health and wellness measures to address our customers' needs, such as:

- Removing artificial trans fats from our beverages and bakery products in North America
- Switching our North American milk standard to reduced fat
- Offering more options for beverages and encouraging customization
- Extending the choices for bakery and other food items
- Creating nutritional guardrails
- Providing better access to nutrition information for customers
- Strengthening our long-term commitment to health and wellness

### ELIMINATING ARTIFICIAL TRANS FATS

Our customers' concerns about nutrition are important to us and we are continually working to address them. For instance, we focused on eliminating artificial trans fats in our beverages and food items. As of the end of 2007, Starbucks stores located in the continental U.S., Alaska and Canada are no longer serving food and beverage products containing artificial trans fats. Efforts are also underway to begin removing artificial trans fats from products in some of our markets outside North America.

The approach we have taken is to eliminate artificial trans fats, while retaining or improving the quality, flavor and overall nutrition of our products. As a result, we will continue to use ingredients in some of our products, such as dairy items, that may contain small amounts of naturally occurring trans fats.

### WORKING TOGETHER ON REMOVING TRANS FATS

Starbucks reached out to our suppliers – and in some cases worked closely with them – to ensure the removal of artificial trans fats from our beverages and food products. We also considered the issue of trans fats when evaluating potential new suppliers.

For instance, when Howard Schultz, Starbucks chairman, president and ceo, visited Seattle's local Top Pot Doughnuts for the first time, the brand immediately resonated with him as did the quality of the products. He knew that if Starbucks could work with them to eliminate artificial trans fats, Top Pot doughnuts could become a featured item in Starbucks U.S. stores.

Starbucks encouraged Top Pot to take an aggressive approach to reformulating its doughnuts – a process that involved experimenting with various oils and testing for consistency, quality, taste, and artificial trans fats. Starbucks offered some direction and guidance on product testing, while Top Pot embraced Starbucks health and nutrition requirements. Our collaboration has helped Top Pot Doughnuts grow from a small retail bakery to become a major supplier of Starbucks U.S. stores today.

## OUR MILK OFFERINGS

Milk is a nutrient-rich beverage, providing nine essential nutrients including protein; calcium; potassium; phosphorus; vitamins A, D, and B12; riboflavin; and niacin. We want our customers to feel good about the dairy products they consume and the benefits their daily intake provides for energy and nutrition.

After listening to our customers – and conducting detailed research to ensure great taste – Starbucks decided to modify our milk standard for all espresso-based drinks, switching from whole milk to reduced fat or two percent milk. The change was finalized in all Starbucks stores in the U.S. and Canada at the end of calendar 2007. Currently, Starbucks is exploring a similar move in markets outside of North America.

Our store partners overwhelmingly support the switch to reduced fat milk, believing it is completely aligned with what our customers want and have been requesting.

Whole, nonfat and reduced fat milk and soy milk will continue to be offered at Starbucks, enabling our customers to customize as they please.



[Learn about our switch to rBGH-free dairy products in Customer Feedback later in this section.](#)

## OUR BEVERAGE OFFERINGS

We believe we have a responsibility to provide options so our customers can make their own choices. In recent years our customers have requested a wider range of beverage options and we have responded by expanding our offerings on both a companywide and regional basis. We have continued to build on the options currently offered, such as nonfat milk, soy milk and the sugar-free syrups used in some of Starbucks handcrafted beverages. In fiscal 2007, we introduced sugar-free cinnamon dolce and caramel syrups.

In January 2008, we introduced Skinny Lattes, a Starbucks espresso drink made with nonfat milk and a choice of sugar-free syrup (sugar-free vanilla, hazelnut, mocha, cinnamon dolce or caramel). These beverages have the same great flavor as our regular lattes, but contain significantly fewer calories.

## OUR BAKERY SELECTIONS

As with our beverages, we expanded our menu offerings and provided more reduced-fat baked items, as well as some smaller portioned items. In January 2007 we began offering a Reduced Fat Cinnamon Chip Mini Loaf on a national basis in the U.S. New regional offerings were introduced, including multigrain and whole wheat bagels, muffins and breads.

We also introduced several new lunch and ready-to-eat items that expanded our lineup with more whole grains, fruit, vegetables and lean meats. These offerings include our Fiesta Salad and Peachy Raspberry Parfait.

## CREATING NUTRITIONAL GUARDRAILS

Starbucks collaborated with nutrition experts to develop nutritional guardrails that are used as an internal guide to our ongoing product development. Since adopting the nutritional guardrails, Starbucks has made significant progress in reducing the percentage of calories, fat and saturated fat in our food and beverage products. The change to 2 percent milk as the beverage default was a significant driver behind calorie, fat and saturated fat decreases (see graph).

### BAKERY\*

Calories	5% DECREASE
Total Fat	15% DECREASE
Saturated Fat	8% DECREASE

### BEVERAGE\*\*

Calories	14% DECREASE
Total Fat	36% DECREASE
Saturated Fat	38% DECREASE

\* Bakery: Average nutrient changes for more than 60 unique menus in U.S.

\*\* Tracked nutrient changes over time for approximately 50 core beverages, including Caffè Latte, Mocha, Cappuccino, iced teas and Frappuccino® blended beverages.

## THE ANATOMY OF A STARBUCKS TALL CAFFÈ LATTE

Below is the nutritional profile of a Starbucks® Tall Caffè Latte – a rich, full-bodied Starbucks® espresso in steamed milk lightly topped with foam. With our recent switch to reduced fat (two percent) milk, Starbucks reduced the calories, fat and cholesterol contained in our espresso-based beverages. Customers can request nonfat milk and enjoy further reductions, or order plain espresso or brewed coffee. All espresso and coffee beverages can be ordered as decaffeinated.

Nutrition Facts	
Serving Size 1 Tall Nonfat Latte	
Amount Per Serving	
Calories 100	Calories from Fat 0
% Daily Value*	
<b>Total Fat</b> 0g	<b>0%</b>
Saturated Fat 0g	1%
Trans Fat 0g	
<b>Cholesterol</b> 5mg	<b>2%</b>
<b>Sodium</b> 120mg	<b>5%</b>
<b>Total Carbohydrate</b> 15g	<b>5%</b>
Dietary Fiber 0g	0%
Sugars 14g	
<b>Protein</b> 10g	
Vitamin A 10%	Vitamin C 0%
Calcium 35%	Iron 0%
*Percent Daily Values are based on a 2,000 calorie diet.	

Nutrition Facts	
Serving Size 1 Tall Whole Milk Latte	
Amount Per Serving	
Calories 180	Calories from Fat 80
% Daily Value*	
<b>Total Fat</b> 9g	<b>14%</b>
Saturated Fat 5g	<b>26%</b>
Trans Fat 0g	
<b>Cholesterol</b> 30mg	<b>9%</b>
<b>Sodium</b> 115mg	<b>5%</b>
<b>Total Carbohydrate</b> 14g	<b>5%</b>
Dietary Fiber 0g	0%
Sugars 13g	
<b>Protein</b> 10g	
Vitamin A 6%	Vitamin C 0%
Calcium 30%	Iron 0%
*Percent Daily Values are based on a 2,000 calorie diet.	

Nutrition Facts	
Serving Size 1 Tall 2% Latte	
Amount Per Serving	
Calories 150	Calories from Fat 50
% Daily Value*	
<b>Total Fat</b> 6g	<b>9%</b>
Saturated Fat 3.5g	<b>18%</b>
Trans Fat 0g	
<b>Cholesterol</b> 25mg	<b>8%</b>
<b>Sodium</b> 115mg	<b>5%</b>
<b>Total Carbohydrate</b> 14g	<b>5%</b>
Dietary Fiber 0g	0%
Sugars 13g	
<b>Protein</b> 10g	
Vitamin A 10%	Vitamin C 0%
Calcium 35%	Iron 0%
*Percent Daily Values are based on a 2,000 calorie diet.	

## NUTRITION INFORMATION ON STARBUCKS BEVERAGES AND FRESH FOOD

We encourage our customers to compare the difference between a standard tall Caffè Latte at Starbucks made with two percent milk versus the same beverage made with whole or nonfat milk. Having current information available to our U.S., Canadian and UK customers via an in-store brochure enables them to customize and create their favorite beverages exactly as they like – from lighter versions to indulgent splurges.

Customers can also go to our website for nutrition information on all fresh food items offered at Starbucks stores in the U.S., the majority of which are regional offerings. Customers visiting the nutrition page on Starbucks website are prompted to enter their local zip code and then they can access nutrition information on specific fresh food items offered at their local Starbucks store.



Nutrition information is also available online at [www.starbucks.com/retail/nutrition\\_info.asp](http://www.starbucks.com/retail/nutrition_info.asp).

Over the past four years, approximately 10 million customers, including more than 3.5 million in 2007, visited Starbucks.com for nutrition information. This indicates to us that Starbucks customers are taking personal responsibility to make well-informed choices about their daily energy source.

## OUR LONG-TERM COMMITMENT TO HEALTH AND WELLNESS

Our commitment to health and wellness is part of Starbucks history and culture. It is reflected in the way we care for our partners and in the relationships we have with our customers. In recent years, Starbucks has become an advocate for healthcare reform in the U.S. Learn more about Starbucks advocacy efforts in Advocating for Healthcare Reform in our Workplace section.

We believe in being proactive when it comes to addressing the shared concerns of our customers and the public at large. We actively reach out to stakeholders and experts from the nutrition community and our suppliers.

In Starbucks 2006 CSR Report we stated our plans to establish a Health and Wellness Advisory Panel of experts from the medical and nutrition communities to provide insight and advice to Starbucks. After much consideration, Starbucks is pursuing a different approach by engaging a number of senior level nutrition experts and seeking targeted advice on key health and wellness initiatives. We are finding this approach to be helpful as we are able to gain more in-depth input and strategic insight related to specific areas.

For example, we consulted on an unpaid honorarium basis with Dariush Mozaffarian, MD, a cardiologist and professor at Harvard School of Public Health, who helped inform our decision to eliminate artificial trans fats from our foods and beverages. Janet C. King, RD, Ph.D., a senior scientist and professor at University of California at Berkeley and Davis, also worked with us on dairy initiatives and helped inform our decision to switch to two percent milk. Maintaining these types of critical relationships will help to ensure that we are on the cutting edge of nutritional research.

### Future Goals

Our customers' health and wellness is and will continue to be a top priority for Starbucks. We will continue to innovate new and high-quality products, providing our customers with a broader range of menu options and up-to-date nutrition information so they can make informed decisions.

We will measure our progress through customer surveys. Currently, 21 percent of our customers surveyed view Starbucks as having healthy menu options. We have set an ambitious goal. By 2010, we are aiming to increase the percentage of customers who view Starbucks as having healthy menu options to 50 percent.

# Being Responsive to Our Customers

At the end of fiscal 2007, we were serving customers around the world approximately 48 million times per week. To ensure Starbucks continues to deliver an outstanding experience every time, we let our customers know that their opinions matter to us. And we work very hard to respond to every customer comment appropriately and in a timely manner.

There are a number of channels available for customers to provide their feedback. They can call Starbucks customer relations at a toll-free number, fill out comment cards in our stores, or submit comments online at Starbucks.com. The comments we receive from our customers are shared with partners, management and others as appropriate.

In fiscal 2007, Starbucks received more than one million customer contacts. The majority of these customer contacts concerned the use of a Starbucks Card or the service in a Starbucks store. Customer contacts concerning Starbucks CSR practices totaled 6.5 percent, up from less than two percent in fiscal 2006. Consistent with prior years, the areas of social responsibility that customers asked about most often pertained to Starbucks recycling policies, ethical sourcing, and the nutritional value of our products.

Starbucks strives to act responsibly in all areas of our business, and we appreciate that our customers share our concerns.



*Learn more about Starbucks ongoing environmental efforts in our [Environment section](#), the way we source and purchase coffee in our [Products section](#) or Starbucks health and wellness policy in [Our Long-term Commitment to Health and Wellness](#) later in this section.*

## CUSTOMER FEEDBACK

Through various channels, customers also expressed their interest in other CSR-related issues in fiscal 2007, including our support of the U.S. military, rBGH in dairy products and a situation involving Starbucks and the government of Ethiopia. A summary of Starbucks positions on the military rumor and rBGH-free dairy are below.



*[Learn about the Ethiopian trademark issue in our Products section.](#)*

### Starbucks Support of the U.S. Military

More than four years ago a single e-mail erroneously accused Starbucks of not supporting U.S. military personnel. The private e-mail began to circulate widely online. In a subsequent e-mail, the author apologized for the early misstatement and retracted it. Despite this, the original, inaccurate e-mail has continued to circulate, and customers have frequently asked about it. We have assured them that this online rumor is absolutely false.

Starbucks and our partners have consistently demonstrated support of U.S. military personnel. For example, since 2005 Starbucks has donated a total of more than 100,000 pounds (45,000 kilograms) of coffee to the American Red Cross for distribution to U.S. troops serving in Afghanistan, Iraq and Kuwait. We have made a commitment to the Red Cross to continue providing coffee for American troops serving in these areas of conflict.

### Dairy: rBGH-free

Several years ago, we explored the possibility of serving milk sourced from cows not treated with rBGH, a synthetic growth hormone given to increase milk production. But we ran into constraints due to the way milk may be co-mingled during the production process. In response to customer requests, throughout fiscal 2007 we worked with our existing U.S. dairy suppliers to buy milk from dairy farmers whose cows have not been treated with rBGH. As of January 1, 2008, all core dairy offerings in our U.S. company-operated stores – fluid milk, half and half, and whipping cream – are sourced from dairy farms that do not use rBGH.

# Public Policy and Government Affairs

As a growing and increasingly more complex global business, Starbucks participates in the public policy arena, which includes direct and indirect lobbying at the local, state and federal level in the U.S. In all of our efforts, we strive to comply with all applicable laws and regulations, and work fairly and honestly with government officials and others in our communities. Starbucks policy forbids partners from offering or making payments or gifts on behalf of the company in order to influence a government official, or from representing their personal views as those of the company.

In fiscal 2007, Starbucks did not have a Political Action Committee established for our partners to make political contributions, nor did the company make any corporate political contributions.

## PUBLIC POLICY FOCUS AREAS

Starbucks has a responsibility to maximize and protect the company's value for our partners and shareholders. Our efforts are focused on the following:

- **Tax Policy** – Sound tax policy will continue to play a key role in the competitiveness of U.S.-based companies. Starbucks closely monitors tax policy developments and has advocated for a tax structure that maintains incentives for increased productivity.
- **Trade Policy** – Starbucks supports bilateral and multilateral trade agreements that help to create opportunities for investment in emerging markets. We provide input to U.S. and foreign governments on specific trade agreements that help to reduce barriers to U.S. exports, provide safeguards for intellectual property and trademarks, and promote transparency on both sides of the trading relationship. In fiscal 2007, our advocacy efforts related to Peru, Colombia and Korea Free Trade Agreements, as well as general market access issues.
- **Healthcare** – Providing healthcare benefits to our eligible full- and part-time partners is a commitment by which Starbucks stands. However, we are greatly concerned about the impact rising healthcare costs will have on our long-term ability to sustain these benefits. In fiscal 2007, we focused on identifying and prioritizing the macro issues that we believe will help to solve Starbucks current healthcare challenges, which we are using to inform our objectives and action items for fiscal 2008.

- 01 PRODUCTS
- 02 SOCIETY
- 03 ENVIRONMENT**
- 04 WORKPLACE
- 05 DIVERSITY

# 03 ENVIRONMENT

## OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP

Starbucks understands that environmental responsibility is necessary if we hope to preserve our world for generations to come. Our commitment to contribute positively to the environment is a Guiding Principle of our company. We elaborated further on this commitment in 1992 when we adopted our environmental mission statement, which guides our approach to minimizing our environmental footprint. Since then, Starbucks has continuously evolved and expanded our definition of environmental responsibility and what it means to be an environmental leader.

In keeping with this spirit, we are focused on a number of bold initiatives Starbucks plans to take over the next decade aimed at dramatically reducing our environmental impact.



[Learn more about these initiatives in Starbucks Long-Term Commitment to Environmental Responsibility later in this section.](#)

In this section, we describe the initiatives we undertook in fiscal 2007 to be environmentally responsible, and we report on our progress to date. Specific topics include:

- **Our Climate Change Strategy**
  - Starbucks Greenhouse Gas Emissions
  - Renewable Energy
  - Energy Conservation
  - Collaborating and Advocating
- **Understanding and Improving our Environmental Footprint**
  - Greening Our Stores through Design
  - Water Conservation
  - Recycling, Reusing and Waste Reduction Initiatives
  - Involving our Partners
  - Engaging our Customers
- **Footprint of a Typical Starbucks Store**
- **Sustainable Packaging and Paper Initiatives**
  - Paper Hot Beverage Cups
  - Plastic Cold Beverage Cups: Lifecycle Assessment
  - Packaging Reductions
  - Paper
- **Starbucks Long-term Commitment to Environmental Responsibility – Our Future Goals**



## ENVIRONMENTAL MISSION STATEMENT

Starbucks is committed to a role of environmental leadership in all facets of our business. We fulfill this mission by a commitment to:

- Understanding environmental issues and sharing information with our partners.
- Developing innovative and flexible solutions to bring about change.
- Striving to buy, sell and use environmentally friendly products.
- Recognizing that fiscal responsibility is essential to our environmental future.
- Instilling environmental responsibility as a corporate value.
- Measuring and monitoring our progress for each project.
- Encouraging all partners to share in our mission.

## Our Climate Change Strategy

Climate change is one of the most critical global challenges of our time. We believe that an increase of carbon dioxide and other greenhouse gases (GHG) has resulted in the warming of the earth's climate. This rise in temperature is already posing a serious threat to the future of our planet by adversely affecting human communities and natural ecosystems around the world.

Starbucks core business is high-quality coffee, an agricultural product which requires specific climatic conditions in tropical microclimates for its production. Since climate influences the yield and quality of coffee crops, we are concerned that climate change will threaten the production of high-quality coffee crops and ultimately impact our business.

Addressing climate change will not be an easy task. We continue to believe that governments, organizations and individuals have a shared responsibility to take meaningful action to reduce GHG emissions, regardless of the size of their respective contributions. At Starbucks, we are actively working to identify how we can minimize our own GHG emissions.

Since 1992, Starbucks has been evolving and implementing an environmental strategy focused on the stewardship of key coffee-growing regions. We revamped our coffee-buying practices several years ago to include evaluated criteria for environmental preservation of these areas. We believe this approach will help to support and encourage ecological stability and resilience in coffee-growing areas across the globe.

To address other aspects of our business operations, Starbucks established a three-year climate change mitigation strategy, which includes:

1. Purchasing renewable energy
2. Focusing on energy conservation measures
3. Educating and advocating the need for collaborative action

We selected these criteria after assessing our GHG footprint and identifying the points of our greatest impact. We are currently in the final year of implementing this initial strategy. Our progress is described throughout this section.

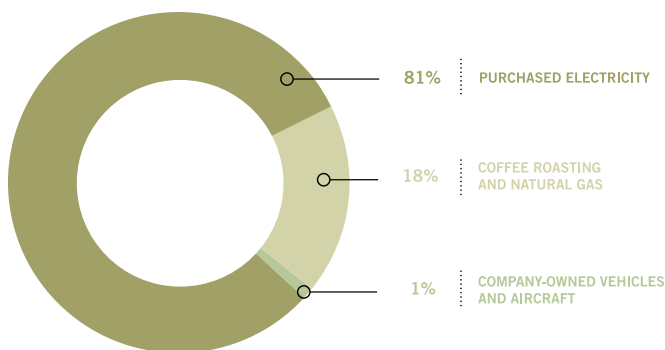
## STARBUCKS GREENHOUSE GAS EMISSIONS

In 2004, we conducted an inventory of our 2003 GHG emissions as part of a broader effort to better understand and quantify our environmental footprint. Using the World Resources Institute Greenhouse Gas Protocol, we conducted an inventory of major emissions from our company-operated retail stores, coffee roasting, administrative operations and distribution network. We did not include our international retail operations or other businesses. The inventory found that 81 percent of our GHG emissions are attributable to electricity purchased for use in our stores, while 18 percent comes from coffee roasting. We have used this inventory as a guide in the development of our climate change strategy and have directed our focus to emission sources under our direct control, primarily electricity used in our stores and coffee roasting (Scopes 1 and 2 in the World Resources Institute Greenhouse Gas Protocol<sup>1</sup>).

<sup>1</sup> Starbucks used the World Resources Institute Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition to assess our baseline greenhouse gas emissions. According to the Protocol, Scope 1 includes direct GHG emissions from sources that are owned or controlled by the company. For Starbucks these include coffee roasting and natural gas, and company-owned vehicles and aircraft. Scope 2 includes indirect GHG emissions from the generation of purchased electricity consumed by the company. Scope 3 is an optional reporting category that includes all other indirect emissions that are a consequence of the activities of the company, but offer from sources not owned or controlled by the company. For complete information on the Protocol, visit [www.ghgprotocol.com](http://www.ghgprotocol.com).

### 2003 BASELINE GREENHOUSE GAS EMISSIONS

Scope 1 and 2



#### Future Goal

In 2008, we plan to conduct a second GHG inventory which will measure our global emissions for sources under our direct control. The results from this inventory will provide the most current information on our environmental footprint, and help us better understand how to address our impact.

## RENEWABLE ENERGY

During fiscal 2007, we continued to purchase renewable energy in the amount that represents 20 percent of the total energy used in our company-operated stores in the U.S. and Canada. Our commitment will remain consistent for fiscal 2008.

For our renewable energy purchases, we worked with 3Degrees™ (formerly 3 Phases Energy) to buy wind renewable energy certificates<sup>2</sup> (RECs), offsetting 153 million pounds (69,482 metric tons) of carbon dioxide in fiscal 2007. This is equivalent to removing 15,042 cars from the road for one year. Our REC purchases help to reduce our carbon footprint, as well as drive the development of additional wind power resources nationwide.

Pooling our purchasing power with other companies has helped us obtain favorable rates for our renewable energy – less than a two percent premium over our average rate for conventional electricity.

### Promoting Renewable Energy

In 2007, we reached out to 387 of our largest suppliers in the U.S. and encouraged them to purchase RECs through our preferred rate contract in an effort to “green” our supply chain. This innovative project represents a new way for large purchasers of renewables to multiply the effects of their commitment by inspiring demand for renewable energy along their entire supply chain. Eleven suppliers took advantage of this opportunity, and while Starbucks and 3Degrees hoped for a greater degree of participation, we both counted it as a qualified success.

Starbucks is a member of the U.S. Environmental Protection Agency’s (EPA) Green Power Partnership. In fiscal 2007, Starbucks purchased 185,000 megawatt-hours (MWh) worth of RECs, ranking Starbucks tenth overall among other EPA Green Power Partners and among the largest in the food services sector.

### Special Recognition by the EPA

In December 2006, Starbucks was recognized by the EPA with the Green Power Partner of the Year Award. In presenting Starbucks the award, the EPA emphasized our program aimed at “greening” our supply chain, calling it “a model for how U.S. companies shape the actions of their stakeholders to achieve corporate environmental goals.” According to the EPA, “the impact that this program can have on renewable energy growth is immense.”

<sup>2</sup> A Renewable Energy Certificate represents one megawatt-hour (MWh) of renewable electricity generated and delivered somewhere on the power grid. Each MWh of clean renewable electricity results in one less MWh of power coming from a CO<sub>2</sub> emitting process. Therefore, a Renewable Energy Certificate also represents the environmental benefits of replacing this type of power with clean power. (Source: 3Degrees)

## ENERGY CONSERVATION

We see energy conservation and efficiency as practical measures that can be taken to reduce our GHG emissions. In the past, we have struggled with getting an accurate assessment of how energy is consumed in our operations – and specifically in our stores.

This led us to begin a comprehensive energy audit during fiscal 2007, which involved 24-hour monitoring of all aspects of energy usage among a representative sample of 19 Starbucks stores in the U.S. over a six-month period. The stores selected for the audit account for variations in store design, size and age, as well as climatic regions.

The data collected to date is currently being analyzed, and final results of the audit will be available for Starbucks to evaluate in spring 2008. Our intent is to use these findings to establish a baseline, identify conservation opportunities, and measure our progress going forward.

We have focused attention on our energy usage because this currently represents our greatest climate impact and our best opportunity to make significant improvements.

## COLLABORATING AND ADVOCATING

We believe Starbucks can play an important role in addressing climate change. By leveraging the strength of Starbucks brand and the scale of our operations, we are in a position to inspire consumers and encourage collaboration among parties that share our concern about climate change. Some specific steps we took in fiscal 2007 included:

- Launching Planet Green Game, an interactive, educational online game that engages and informs individuals about climate change. Planet Green Game was developed in partnership with Global Green USA, a nonprofit organization that works to create a global value shift toward a sustainable and secure future ([www.globalgreen.org](http://www.globalgreen.org)). The game offers real-world examples of how individuals can change their own behavior, and assists individuals – through simple tools and links – in advocating action by elected officials, business and community leaders. Planet Green Game won a 2007 Stevie® Award<sup>1</sup> and was recognized in June 2007 by Games for Change<sup>2</sup> as a game that inspires social change. Tens of thousands of people have already experienced and played the game.



Learn more at [www.planetgreengame.com](http://www.planetgreengame.com).

- Hosting a “National Day of Discussion: Solutions to Climate Change” on August 15, 2007. Meaningful conversations took place in 48 Starbucks stores across the U.S. on the impacts of climate change and simple changes that people can make to positively affect the environment. Partners, customers, community members and others participated in the discussions. The events coincided with Starbucks Entertainment’s launch and promotion of the family-friendly film *Arctic Tale*, which highlights the impacts of climate change.
- Placing three full-page advertisements in the *New York Times* that promoted the need for collective action on this issue. The advertisements discussed the problem; highlighted Starbucks emission reduction activities; provided simple, high-impact actions readers could take to contribute to solutions; and informed readers of our partnership with Global Green USA.
- Driving awareness of climate change by engaging celebrities and artists to turn Starbucks green umbrellas into expressive works of art depicting their vision of climate change.
- Supporting and participating in organizations that are taking effective action on the issue of climate change, including the World Resources Institute’s Green Power Market Development Group ([www.wri.org](http://www.wri.org)); The Climate Group ([www.theclimategroup.org](http://www.theclimategroup.org)); Global Green USA; and Earth Day Network ([www.earthday.net](http://www.earthday.net)).
- Helping to elevate the issue within the business community through speaking engagements and participating actively in peer groups, such as the Paper Working Group, Sustainable Packaging Coalition and others.

<sup>1</sup> Starbucks won a Stevie® Award: International business award in the category of Websites: Brand Building/Promotion. Stevie Awards honor the efforts, accomplishments, and positive contributions of companies and business people worldwide. Source: Stevie Awards, The International Business Awards, [www.stevieawards.com](http://www.stevieawards.com).

<sup>2</sup> Games for Change provides support, visibility and shared resources to organizations and individuals using digital games for social change. Source: [www.gamesforchange.org](http://www.gamesforchange.org).

# Understanding and Improving Our Environmental Footprint

We continually strive to better understand our environmental footprint and reduce our impact. In fiscal 2007, we launched and continued progress on several initiatives that we believe will help us achieve a consistent, high level of environmental performance across our operations and the lifecycle of our products.

## GREENING OUR STORES THROUGH DESIGN

Since the design and operation of our retail stores affect the company's environmental performance, we have taken a comprehensive approach aimed at reducing our impact. Validating the process through certification, which we discuss on the right, is an extension of our overall approach.

For a number of years, we have worked to incorporate sustainable building materials, furnishings, and energy- and water-efficient fixtures and measures in our stores. In fiscal 2007, we continued to advance our efforts by:

- Changing the standard thermostat setting in our stores from 72 to 75 degrees Fahrenheit on warm days, which conserves energy and provides a more comfortable and consistent ambient store temperature for our customers and partners.
- Beginning the installation of new emissions control equipment at our Kent, Washington, roasting plant, which is intended to reduce natural gas consumption and thus reduce carbon emissions.

## LEED Certification

For several years, Starbucks has worked collaboratively with the U.S. Green Business Council (USGBC) to identify and explore green building certification opportunities in the retail sector. The USGBC has developed the Leadership in Energy and Environmental Design (LEED) Green Building Rating System™, which is the nationally accepted benchmark for the design, construction and operation of high performance green buildings. LEED promotes sustainable building by recognizing performance in site development, water savings, energy efficiency, materials selection and indoor environmental quality.

Given that similar building design, materials and strategies are used in many of our stores, we wondered whether the USGBC's process of LEED certifying individual buildings could be modified to work on a "volume certification" level, where LEED standards would become integrated into our design and construction standards, thus addressing our entire portfolio through the certification of a prototype. This led us to play an active role in the LEED Portfolio Pilot Program and the LEED for Retail Program – a pilot program that is working to shape a LEED standard for the retail sector. We continued to be involved with this pilot in fiscal 2007, and are currently working on the final application for our volume certification prototype, anticipated to be completed in 2008. The Portfolio Program represents a new certification model for the USGBC and has the potential to greatly increase the impact of green building throughout the retail sector globally.

In the meantime, we worked with our landlord to improve the environmental performance of our Starbucks Support Center in Seattle and received LEED-Existing Building (EB) Gold certification in 2007. The 1.5 million-square-foot building was built in 1912 and is the country's largest and oldest to receive LEED-EB Gold certification from the USGBC.

### Future Goals

We plan to build a new office building in Seattle, and a roasting plant in Columbia, South Carolina, in accordance with the LEED Silver standard. The two projects are targeted to be completed in 2009.

RECYCLING, REUSING AND WASTE  
REDUCTION INITIATIVES

Reducing the volume of solid waste we generate is primarily accomplished through recycling and composting biodegradable materials.

Recycling

Starbucks policy for company-operated stores is to recycle where both space and commercial recycling services are available. During fiscal 2007, 73 percent of our stores in the U.S. and Canada where Starbucks controls waste removal (2,344 out of 3,192 stores), recycled at least one or more items, including cardboard, plastic, paper and organic wastes.

Some of our stores are located in markets where recycling is greatly hampered. This may be the result of commercial recycling services not being available in a specific area; the landlord, not Starbucks, controlling solid waste disposal; or a building owner not providing adequate exterior space to place recycling bins. Between fiscal 2006 and fiscal 2007, the percentage of Starbucks company-operated stores that recycled their garbage actually declined. In 2008, we plan to work more closely with our landlords and building owners on fostering more robust recycling programs in areas where commercial recycling services are available.

Future Goals

- Increase the recycling rate of our stores in the U.S. and Canada where Starbucks controls waste and recycling to 76 percent by the end of fiscal 2008.
- In 2008, we plan to pilot front-of-house recycling bins in several major metropolitan markets in the U.S. and Canada.

Composting – Grounds for Your Garden

At a typical Starbucks store, coffee grounds make up more than a third of the waste stream by weight.

 See Starbucks 2002 Waste Audit table in this section.

That's why we introduced the *Grounds for Your Garden* program in North America in 1995, which offers complimentary five-pound (2.27-kilogram) bags of used coffee grounds to customers to use as a nutrient additive to their soil. The program has spread to a variety of locations including Chile, Greece, Australia, Hong Kong, Canada, the UK and Korea.

During fiscal 2007, we worked to promote the *Grounds for Your Garden* program throughout Starbucks greater China region. We had some success, but, after trying to implement the program a number of ways, we canceled or suspended it in a few of the markets due to local environmental policies.

STORE RECYCLING



## INVOLVING OUR PARTNERS

Contributing positively to our communities and our environment is one of our Guiding Principles, and a value shared with our partners. We encourage our partners to find ways to be environmentally responsible, not only in their work with Starbucks, but also in their everyday lives.

While we have been working to “green” our own operations, we have also sought to involve our partners. With the help of 3Degrees, Starbucks launched a website encouraging our partners to calculate their own carbon footprints, and offering them the chance to offset their impacts by purchasing RECs through 3Degrees.

Starbucks also piloted an initiative in fiscal 2007, providing 409 store managers in eight regions with resource report cards that gave them feedback on their store's energy and water usage. The intent was to help partners identify ways to use water and energy more efficiently and help reduce costs. However, the initial pilot did not produce the kind of results necessary to adequately inform future strategies. We now realize adjustments are needed to refine this project in order to generate more insightful and useful results. Based on our findings from the initial pilot, we plan to refocus and launch a second pilot program in 2008.

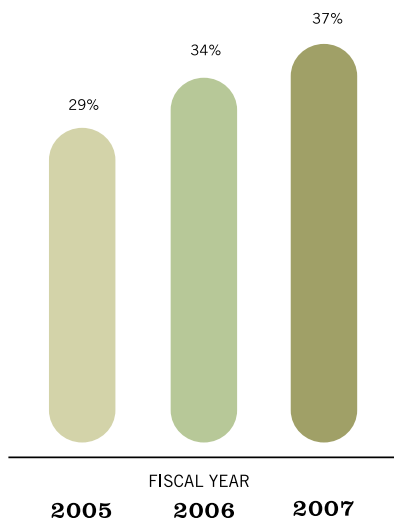
At Starbucks Support Center (SSC) in Seattle, we encourage partners to use a variety of transportation options to cut solo commuting. Our Transportation Options Program (TOP) helps partners identify all available commute modes to get to and from the SSC. In fiscal 2007, 37 percent of our partners at the SSC took advantage of TOP by using one or more environmentally preferable modes of transportation.

## EARTHWATCH EXPEDITIONS

In 2007, we revamped Starbucks and the Earthwatch Institute's traditional environmental expeditions with a new program that enables partners and customers to work with scientists and farmers of the CoopeTarrazú cooperative in Costa Rica, a coffee farm that Starbucks buys from.

 [Learn more about Earthwatch Expeditions in our Products section.](#)

## PARTNERS PARTICIPATING IN TRANSPORTATION OPTIONS PROGRAM



### Future Goal

In 2008, we will work to increase the number of partners participating in TOP to 38 percent.

## 03 ENVIRONMENT

# ENGAGING OUR CUSTOMERS

Many of our customers share our interest in reducing their environmental impacts. And to help them help us, we offer a 10-cent discount in the U.S. and Canada to encourage customers to use their own “commuter” mugs for their beverages. Customers can also request that their beverages be served in a ceramic mug if it’s a “for-here” order.

Although customers in the U.S. and Canada increased their use of commuter mugs for their beverages to nearly 20 million times during fiscal 2007, as a percentage of total transactions it was a decrease over the previous year. We are hoping to reverse this trend by exploring options that create incentives for our customers to use their own mugs more often.

## COMMUTER MUG USAGE – U.S.



## Celebrating Earth Day

Every April for the past five years Starbucks has turned Earth Day into a month-long event to heighten environmental awareness and inspire our partners and customers to make a difference. Below are some highlights from last year’s celebration:

- On Earth Day 2007, Starbucks Canada once again promoted the commuter mug program by inviting customers to enjoy a complimentary cup of Fair Trade Certified™ Café Estima Blend® coffee when they used their own mug. More than 10,000 customers took advantage of the offer, increasing commuter mug usage by 19 percent, compared to Earth Day 2006.
- Stores in the Mid-Atlantic region of the U.S. offered customers who used reusable mugs this past spring a chance to donate their 10-cent discount to the Chesapeake Bay Foundation. Redirecting the commuter mug discount to a locally relevant nonprofit organization increased customer participation in this promotion nearly 18 percent, and sales of commuter mugs more than doubled. As hoped, we saw an increase in reusable commuter mug usage in the Mid-Atlantic region during our Earth Month promotions, which was sustained beyond the promotion period.
- Earth Month provided our partners with numerous opportunities to volunteer and give back to their communities and the environment. Eighty-two events, ranging from beach cleanups to habitat restoration, took place in 25 states across the U.S. Volunteer opportunities included activities such as participating in the 10th Annual Streams Cleanup for the Chester-Ridley-Crum Watersheds Association in Pennsylvania, and helping inner city youth sell their home-grown produce through The Food Project in Boston.



# FOOTPRINT OF A TYPICAL STARBUCKS STORE

At the end of fiscal 2007, there were 15,011 Starbucks stores in 43 countries. Our stores operate similarly around the world, but with local variations. A look at a typical Starbucks store provides a better understanding of Starbucks environmental profile and challenges.

Our stores are designed with furnishings and artwork in a style that lets someone know instantly they are in a Starbucks. Less obvious are environmental features of some of the materials we use in our stores. These may include high-efficiency lighting, flooring containing recycled material, and furniture made from sustainably harvested wood, certified by the Forest Stewardship Council.

Out of sight is an area where materials are delivered to the store. These include items such as coffee and food, packaging (cups and other containers), disposable items (napkins and coffee stirrers), and merchandise for sale. This is the area where the bulk of our solid waste is created and recycled in many of our stores.

The store gets its electricity, water and other utilities from local service providers. On average, each store uses about:

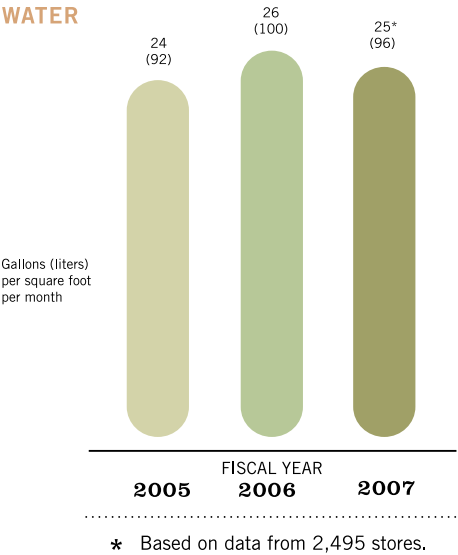
- 6.78 kilowatt-hours of electricity per square foot per month to light and cool the store and operate equipment.
- 0.058 therms of natural gas per square foot per month to heat water and warm the store.
- 25 gallons of water per square foot per month to make our beverages and clean up.

As a result of all these activities, waste is created. This includes:

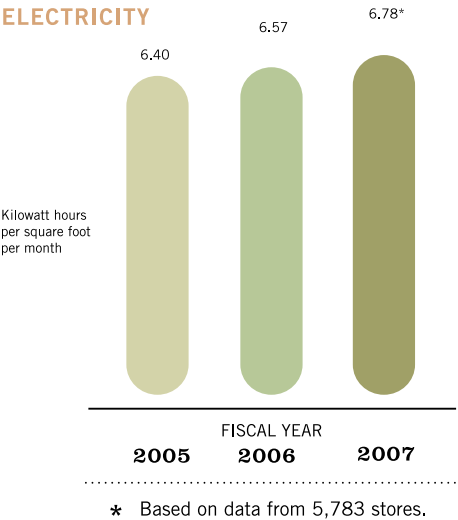
By Volume	By Weight
<ul style="list-style-type: none"> <li>• 32% cardboard</li> <li>• 15% milk jugs</li> <li>• 9% paper cups</li> <li>• 8% pastry boxes</li> <li>• 7% other dairy cartons</li> <li>• 29% other waste</li> </ul>	<ul style="list-style-type: none"> <li>• 37% coffee grounds</li> <li>• 12% cardboard</li> <li>• 7% newspaper</li> <li>• 6% food waste</li> <li>• 38% other waste</li> </ul>

Source: Starbucks 2002 Waste Audit

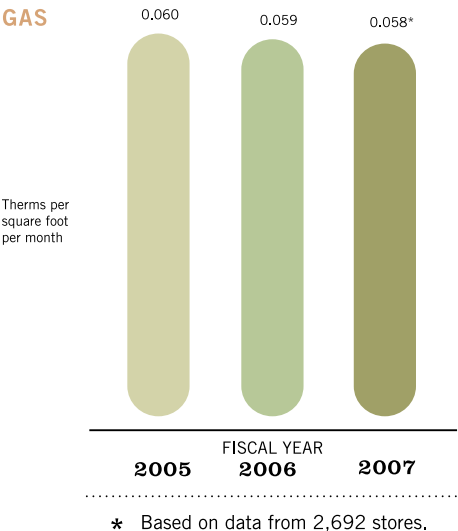
## WATER



## ELECTRICITY



## GAS



## SUSTAINABLE PACKAGING AND PAPER INITIATIVES

### Paper Hot Beverage Cups

In 2006, Starbucks introduced hot beverage paper cups containing 10 percent post-consumer paper fiber in our U.S. and Canada stores. These revolutionary cups are the result of four years of collaboration with our suppliers, and are the first direct contact food packaging containing post-consumer recycled content to receive a favorable safety review by the U.S. Food and Drug Administration (FDA).

In 2007, our first full fiscal year using the cups, we are pleased with the results we have seen. Starbucks purchased 2.5 billion paper cups in fiscal 2007. The Environmental Defense paper calculator tool estimates that Starbucks use of hot cups with 10 percent post-consumer recycled fiber achieved the following environmental improvements in fiscal 2007:

Resource savings	Equivalency
15,966 fewer tons of wood consumed	about 110,000 trees
82 billion BTUs of energy saved	enough to supply 900 homes for a year
66 million gallons (249.837 million liters) of wastewater avoided	enough to fill 100 Olympic-sized swimming pools
4 million pounds (1.8 million kilograms) of solid waste prevented	equivalent to 153 fully loaded garbage trucks

Source: Environmental Defense ([www.environmentaldefense.org](http://www.environmentaldefense.org)), calculation by [www.papercalculator.org](http://www.papercalculator.org)

We plan to continue this level of commitment in fiscal 2008. Although we do not have immediate plans to distribute these cups outside North America, we are committed to working with our international business units in hopes of finding similar opportunities to reduce our consumption of virgin tree fiber.

Starbucks hot beverage paper cups are made of paper fiber with a lining of low-density polyethylene plastic (PET). The paper provides the rigidity for the cup, while the plastic layer keeps the paper layer intact by protecting it from the hot beverage. This plastic layer also makes the hot beverage cups unrecyclable in most paper recycling systems.

Our efforts to reduce the environmental impacts of our disposable cups date back to the mid-1990s. Over the last decade, we have adopted additional measures, including:

- Eliminating most double-cupping by utilizing corrugated hot beverage sleeves made of 60 percent post-consumer recycled fiber.

## Plastic Cold Beverage Cups: Lifecycle Assessment

The true environmental footprint of any product is determined by calculating the impacts of its entire lifecycle, which includes extraction of raw materials, production, manufacturing, distribution, use and disposal. Each step in the life of a product has associated environmental and climate costs. To identify products with the least environmental impact, we believe a comprehensive analysis of all these steps is required. This involves looking at the entire lifecycle and environmental performance of one product and comparing it to viable alternatives through a process called lifecycle assessment, or LCA.

In fiscal 2007, we began a thorough scientific LCA of polylactide (PLA) plastic resin, an alternative material made from corn that we are considering using in our cold beverage cups. We want to determine whether using PLA plastic in place of our current PET (polyethylene terephthalate) plastic cups is less impactful on the environment. Our assessment will be completed in 2008. The results of our assessment will inform our cold beverage cup sourcing beginning in the summer of 2008.

## Paper

Through our membership in the Sustainable Packaging Coalition, we are exploring more sustainable alternatives to conventional packaging as well as methods for analyzing material choices.

Starbucks also considers environmental impacts when purchasing paper and has tracked the recycled and unbleached fiber content of our paper purchases for seven years (see charts). The decreases in post-consumer fiber and unbleached paper percentages were mainly driven by increases in tonnage but no significant increase to PCF or unbleached changes in product categories. We are close to maximizing PCF and unbleached in many categories without having operational impacts to products.

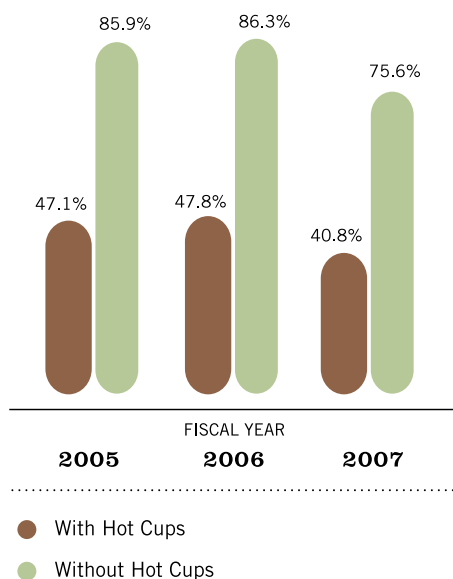
To better address the entire paper product lifecycle impacts, we have been active participants in the Paper Working Group (PWG), a collaboration of 11 leading companies and the nonprofit organization, Metafore. The Paper Working Group developed the Environmental Paper Assessment Tool (EPAT), designed to help paper buyers better understand the environmental impacts associated with the lifecycle of paper and to help them purchase environmentally preferable paper. The Paper Working Group defines environmentally preferable paper in terms of the following desired outcomes:

- Efficient use and conservation of raw materials
- Minimization of waste
- Conservation of natural systems
- Clean production
- Community and well-being
- Economic viability of environmentally preferable paper
- Credible reporting and verification

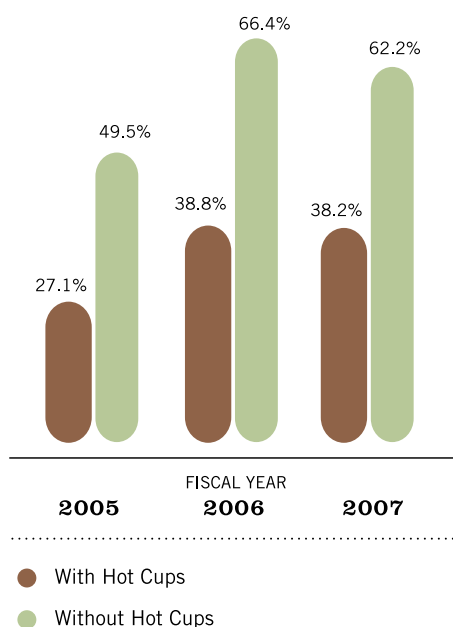
EPAT is based on these desired outcomes. Key environmental indicators for these outcomes are measurable and within the standard range of attributes monitored by the pulp and paper industry. This newly released procurement tool compels suppliers to take a more holistic lifecycle look at their supply chain and operations. EPAT will enable us to perform a comprehensive evaluation of our paper suppliers, and work with them to reduce their environmental footprint.

Testing of this tool was not completed in 2007 as we had planned. We hope to finish testing it with our largest paper supplier by 2008. The results of this pilot will serve to inform our future direction and enable us to incorporate EPAT into our future paper procurement decision-making process.

### PAPER: UNBLEACHED PAPER FIBER



### PAPER: POST-CONSUMER FIBER



# Starbucks Long-Term Commitment to Environmental Responsibility

Our 2003 Greenhouse Gas (GHG) Inventory indicated that 81 percent of Starbucks overall GHG emissions could be attributed to electricity purchased to run our stores. As a result, we understand that meaningful reduction in Starbucks climate footprint must concentrate on our stores as the primary focus of our long-term GHG footprint reduction targets moving forward.

Starbucks has established a set of focused long-term goals that we believe will achieve a meaningful reduction in our GHG footprint globally. Ultimately, we believe these strategies will enable Starbucks to continue to grow into communities around the world without increasing our carbon footprint beyond 2007 levels. Specifically:

- We aspire to have stores that are powered by renewable energy
  - In 2008 and 2009, our goal is to build four test stores in different regions around the world to evaluate the latest technologies designed to reduce energy and water use.
  - By 2010, we plan to reduce in-store energy use by 25 percent in all company-operated and international stores.
  - By 2010, our goal is that 50 percent of our store energy will come from certified renewable sources.
- We will aspire to build only green stores.
  - By 2010, our plan is that all company-operated stores will be certified green by the U.S. Green Building Council and international equivalents.
  - By 2010, our goal is to incorporate green building standards into all new building construction.

We also recognize that Starbucks disposable hot and cold cups, although not a major contributor to our GHG footprint, present a major challenge to our environmental performance as a company.

- In the long term, we aspire to a time when our cups create no waste. Achievement of this goal will require multiple solutions, including:
  - By 2010, reestablishing ceramic serveware as our global standard for our customers that choose to enjoy the Starbucks Experience in our stores.
  - By 2010, increasing our customers' use of reusable commuter mugs tenfold.
  - Maintaining 10 percent post-consumer fiber content in our hot cups.
  - Continuing research and development into fully recyclable hot and cold cups and working closely with local municipalities to support the development of more robust local recycling infrastructures.

- 01 PRODUCTS
- 02 SOCIETY
- 03 ENVIRONMENT
- 04 WORKPLACE**
- 05 DIVERSITY

## 04 WORKPLACE

### PROVIDING A GREAT WORK ENVIRONMENT

A lot happens in a Starbucks store besides a great cup of coffee. Starbucks offers our customers a welcoming place to allow life to unfold – to work, socialize, meet, relax – and more. Our employees, whom we call partners, deliver that experience along with each cup of coffee they serve. We value and respect our partners because we know that our success depends on the contributions they make every day to create a welcoming experience.

In turn, we work to earn and maintain the respect of our more than 172,000 partners worldwide. We strive to create the best possible workplace environment, to attract and retain talented individuals who will grow their careers along with our company, and to be regarded by our partners as a great place to work. The following section provides an overview of the ways in which we try to ensure a great work environment, including:

- Listening to Our Partners
- Offering Benefits to Our Partners
- Focusing on Health and Wellness
- Recognizing Our Partners
- The CUP Fund
- Partner Training and Career Development
- Workplace Policies and Respecting Partners' Rights
- Health and Safety

We're working hard to create a great workplace, and the world is taking notice.

In 2007, the Great Place to Work Institute, a research and management consultancy based in the U.S., and with international affiliate offices throughout the world, named Starbucks to several lists:

- 100 Best Companies to Work For in the U.S. (#16)
- Best Companies in Mexico (#2)
- UK's 50 Best Workplaces (Top 10)
- Best Companies to Work For in Latin America (#11)
- Best Workplaces in Spain (#23)
- 100 Best Workplaces in Europe

STARBUCKS EMPLOYMENT PROFILE – FISCAL 2007	
Number of partners globally	172,000
U.S. partners – retail	136,000
U.S. partners – nonretail	8,000
International partners – retail	27,000
International partners – nonretail	1,000
Net jobs created (Starbucks partners) in fiscal 2007	26,200
Total wages and benefits paid to U.S. and Canada partners*	\$3 billion

\*Includes salaries, bonuses, vacation, payroll taxes, healthcare benefits, workers' compensation and 401(k) match

# Listening to Our Partners

We offer a flexible and progressive work environment that fosters open, two-way communication. We encourage our partners to share their thoughts, opinions and concerns about Starbucks and their work environment, and we value and respect their input. Partner input often helps shape Starbucks policies and actions as we strive to create the best possible work environment.

Open communication is encouraged at all levels of the company on a daily basis. Several comprehensive, company-wide channels have also been created so we can hear from our partners on a regular basis. These include our biennial Partner View Survey, our Mission Review and Business Ethics and Compliance programs, as well as frequent Open Forums and Town Hall meetings.

## PARTNER VIEW SURVEYS

Approximately every two years we survey our partners for their feedback. Partners confidentially express their views on what we do well, where we can improve, and how engaged they feel in their work environment and our company. The most recent Partner View Survey was conducted in March 2006, with 84 percent of our partners in company-operated stores – almost 102,000 partners globally – participating. Overall, the results revealed that our partners remain highly satisfied with Starbucks and engaged with their work teams.

Based on feedback from the 2006 survey, Starbucks set goals to improve in the areas that our partners told us we could do better. This included the areas of pay and benefits, communication within and between groups, and future job opportunities. Goals were established in these three areas for us to focus on in fiscal 2007. Our progress is highlighted here.

We took a number of steps in fiscal 2007 toward our goals in the areas of pay and benefits, streamlining internal communications and creating future job opportunities:

### Pay and benefits:

- Increased wages of the majority of hourly store partners in the U.S. and Canada at the beginning of fiscal 2007, as a result of our partners' feedback and competitive market studies.
- Implemented market adjustments for most of our salaried store partners in the U.S. and Canada.
- Made the decision to expand our management incentive program to include about 1,200 additional partners in the U.S. and Canada who will be eligible for the bonus/incentive in fiscal 2008.
- Completed an international Total Pay assessment to review Starbucks compensation and benefits in international markets where we do business.
- Provided greater partner access to online Total Pay information, including the redesign of Starbucks Total Pay website.

### Streamlining communication between and within groups:

- Consolidated partner publications into one company-wide publication, *Siren's Tale*, and took it online to make it easier for partners to access, while continuing to provide all of the information previously available to partners.
- Redesigned and upgraded the store portal, which is the intranet for partners in stores in the U.S. and Canada.
- Consolidated various links to partner-specific websites available on Starbucks.com.

### Creating future job opportunities:

- Enhanced the Partner Career website, giving partners better networking and career planning tools and raising their visibility to recruiters and hiring managers.



[Learn more about MyPartnerCareer later in this section.](#)

#### Future Goals

As we look ahead to other areas that need to be strengthened, we have established additional goals for fiscal 2008:

- Identify strategies for closing any gaps in our International Total Pay as part of our ongoing effort to ensure competitive global pay packages.
- Further update and enhance Total Pay communications and the Partner Career website, [www.MyPartnerCareer.com](http://www.MyPartnerCareer.com).

## PULSE SURVEYS

In fiscal 2007, Starbucks also conducted two smaller-scale “Pulse” surveys with approximately 15,000 randomly selected partners. The Pulse surveys allowed us to gather partner feedback to evaluate whether our efforts to improve in the areas identified in the 2006 Partner View Survey were on the right track, and to adjust our action plans if necessary. The Pulse surveys also enabled us to track our partner engagement levels to ensure that we are continuing to provide a great work environment for our partners. The next Partner View Survey will be held in fiscal 2008, when our partners will again give us their opinions about their experiences working at Starbucks.

## OTHER CHANNELS FOR PARTNER FEEDBACK

While the comprehensive Partner View Survey is conducted every two years, we enable partners to communicate with Starbucks management whenever the need arises. Partners are encouraged to speak up through the Mission Review and Business Ethics and Compliance programs. Through these channels we gather insight into our partners’ observations about our business practices, and how well they believe Starbucks is living up to our Mission Statement and Guiding Principles, as well as legal and ethical standards. There have even been times when our partners shared drink recipes and other innovative ideas.

## Mission Review

Through Mission Review, partners have the opportunity to voice their concerns and raise questions when they believe company policies or practices are inconsistent with Starbucks Mission Statement and Guiding Principles. A member of the Mission Review team ensures that each partner submission receives a timely follow-up by someone knowledgeable about the topic raised. Comments and summaries are circulated for review by leadership and interested teams.

In fiscal 2007, we made Mission Review easier for partners to use by providing online access through the Manager’s Work Station in company-operated stores in the U.S. and Canada. We also made Mission Review accessible through the partner section at [Starbucks.com](http://Starbucks.com). Partners’ ability to submit inquiries electronically doubled communications through Mission Review, and at the same time, dramatically reduced the period of time between receipt and response for many submissions.

#### Future Goals

To continue the improvement of the Mission Review process, we plan to focus on two key areas in fiscal 2008:

- Responding to partner submissions more quickly, while encouraging even more substantive, personal responses.
- Improving visibility of the ideas expressed through Mission Review so that all levels of the business can benefit from partners’ thinking.




# Business Ethics and Compliance

Starbucks Business Ethics and Compliance (BEC) program develops and distributes *Standards of Business Conduct*, facilitates legal compliance and ethics training, investigates sensitive issues such as potential conflicts of interest, and provides additional channels for partners to voice concerns. Starbucks BEC program encourages partners to raise any question or concern – including matters too sensitive or uncomfortable to report elsewhere. The following channels are available through our BEC program:

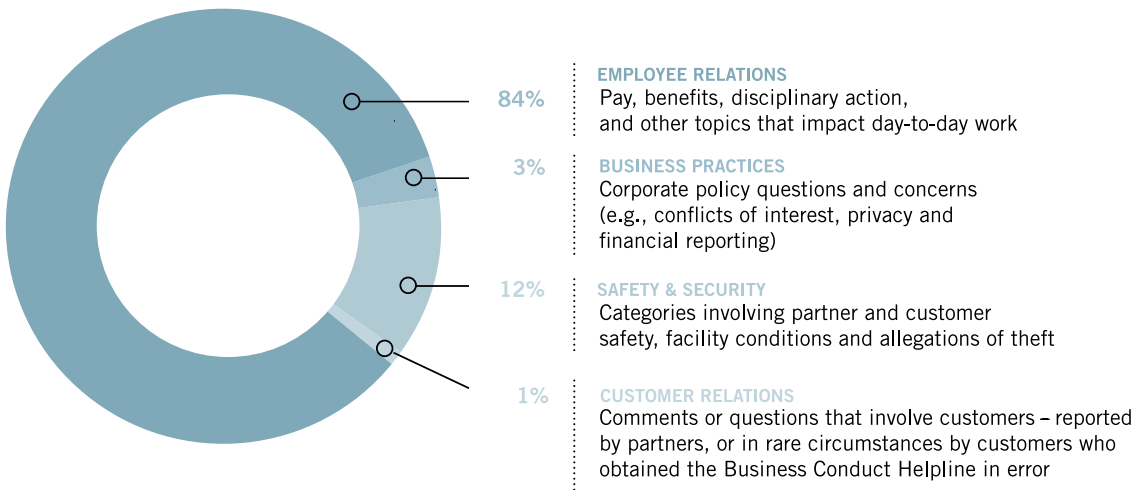
- Business Conduct Helpline, a toll-free, independent call center that partners may call anonymously 24 hours a day, seven days a week
- Business Conduct Webline, an online alternative to the Helpline
- E-mail via [BusinessConduct@Starbucks.com](mailto:BusinessConduct@Starbucks.com)
- Direct contact with BEC team members
- Auditline, a toll-free phone number for third parties – vendors, investors, customers, or others – to report possible accounting or auditing irregularities
- Referrals from other departments and programs, such as Mission Review

The majority of reports received by the BEC program involve employee relations issues. This trend is consistent with other companies – retail or otherwise – that provide alternative reporting mechanisms as part of a comprehensive ethics and compliance program. Starbucks encourages partners to report all types of issues or concerns to the BEC program through their choice of the offered communication channels.

By providing partners with a variety of reporting mechanisms, the program helps to ensure that Starbucks continues to provide a great work environment for partners, and remains an employer of choice.

 Our comprehensive efforts to ensure an ethical workplace are detailed in [Starbucks Standards of Business Conduct](#), and can be reviewed in the [About Us](#) section of [Starbucks.com](#).

## CATEGORIES OF PARTNER CONCERNS REPORTED TO STARBUCKS BUSINESS ETHICS AND COMPLIANCE PROGRAM – FISCAL 2007



# Offering Benefits to Our Partners

Starbucks Total Pay philosophy is to recognize and reward partners' contributions toward achieving the company's strategic goals and business objectives, while aligning with Starbucks Mission Statement and Guiding Principles.

Components of the program include competitive base pay, bonuses, comprehensive health coverage, income protection, vacation, stock options, a savings program, adoption benefits, tuition reimbursement and partner perks such as discounts on merchandise. We constantly search for ways to update the Total Pay package to optimize its benefits to our partners and ensure that it is relevant to partners in different regions of the world.

Pay at Starbucks reflects the knowledge, skills and experience required for a specific job. We regularly consult industry salary surveys to determine competitive rates, and strive to pay accordingly. As part of our ongoing efforts, we continue to work globally to identify and close any gaps to the competitive market where they may exist.

It's important to us that our partners truly understand their benefits and know how to take advantage of them. Managers are our first line of communication to partners about benefits. Information is also available at our redesigned Total Pay website, [LifeAt.sbx.com](http://LifeAt.sbx.com) or from our Partner Resources team. In fiscal 2007, we tested a new technology-based system with a series of online modules that communicate our Total Pay benefits.

After the end of each fiscal year, Starbucks board of directors votes to approve a *Bean Stock* grant (stock options) of up to 14 percent of eligible partners' base pay, based on Starbucks annual performance. The first *Bean Stock* grant was awarded in 1991, shortly before the company went public. Since then, partners have used *Bean Stock* to help purchase homes, pay for college, save for retirement, catch up on bills, and for many other purposes.

## PARTNER BENEFITS

This chart summarizes the core benefits that our eligible part- and full-time partners receive.

PARTNER BENEFITS	PROGRAM DESCRIPTIONS AND COVERAGE	ELIGIBILITY
<b>Comprehensive health care benefits (U.S. and Canada)</b>	Benefits include medical, dental, vision, prescription drugs and alternative health coverage. In the U.S., Starbucks paid 81 percent of health coverage costs for partners and 67 percent for dependents. In Canada, 75 percent of costs were paid for partners and 50 percent for dependents.	Once initially eligible, full- and part-time partners who are paid a minimum of 240 hours per calendar quarter and their eligible dependents, including spouses, domestic partners and children. In fiscal 2007, 64 percent of U.S. partners and 60 percent of Canadian partners were eligible for these benefits.*
<b><i>Bean Stock</i> – Starbucks stock option plan (eligible partners in Australia, Canada, Chile, China, Costa Rica, Germany, Hong Kong, Netherlands, Puerto Rico, Republic of Ireland, Singapore, Switzerland, Thailand, U.S. and UK).</b>	The board of directors determines annual stock option grants based on company performance, up to 14 percent of our partners' eligible base wages. Every partner up to the director level receives the same percentage of his or her fiscal-year wages. For fiscal 2007 performance, the basis for stock option grants was 10 percent.	Full- and part-time partners up to the director level who have been employed by Starbucks since April 1 and have been paid for at least 500 hours from the first of the fiscal year through March 31 or from April 1 through the end of the fiscal year. (Eligibility requirements may vary by country.) More than 85,000 partners qualified for <i>Bean Stock</i> for fiscal 2007 performance.
<b>S.I.P. – Stock Investment Plan (U.S. and Canada), Share Incentive Plan (UK)</b>	Partners can purchase company stock at discounted prices on a quarterly basis (U.S. and Canada) or a semiannual basis (UK).	Partners who have worked as a regular partner at least 90 days for Starbucks and have been paid for an average of 20 hours a week during the three months preceding the offering. No hour requirement in the UK. In fiscal 2007, 29 percent of eligible partners in the U.S. and Canada participated in S.I.P.
<b>Future Roast – Starbucks 401(k) Plan (U.S.)</b> <b>RRSP – Registered Retirement Savings Plan (Canada)</b>	Starbucks matches between 25 percent and 150 percent (based on the partner's length of service from most recent date of hire) on the first four percent of pay that partners contribute to the U.S. 401(k) Plan. Eligible partners in Canada receive a 25 percent match on the first four percent of pay that they contribute to the RRSP.	U.S. partners age 18 or older may participate after the completion of 90 days of service. In fiscal 2007, 20 percent of eligible U.S. partners participated in Future Roast. Canada partners are eligible after one year of service. Eleven percent of eligible partners in Canada participated in the RRSP.

\* Approximately 6,000 partners become newly eligible for health care coverage each month in the U.S.

# Focusing on Health and Wellness

Offering comprehensive and affordable medical coverage to all eligible part- and full-time partners is one of our proudest accomplishments, and continues to be very important to us. Despite significant increases in the cost of health care coverage in the U.S., Starbucks has been striving to minimize the impact on partners. In fiscal 2007, the average partner contribution for medical, dental and vision coverage did not increase, and instead Starbucks absorbed the full share of medical cost increases. The trend in rising costs will continue in fiscal 2008, and while Starbucks plans to absorb the majority of these cost increases, our partners' contributions for health coverage will unfortunately rise.

In fiscal 2007, we continued to focus on ways to help partners make informed decisions as health care consumers. We improved our communications to partners about health and wellness by redesigning LifeAt.sbox.com, the Starbucks Total Pay website for U.S. and Canadian partners, which was enhanced with improved navigation and more robust information.

We also advocated for transparency in health care costs and quality, so that all consumers can make informed health care choices. Starbucks advocacy and other efforts in this area are described below.

## Thrive Wellness Initiative

Thrive Wellness combines education, communication and active participation to help our partners improve and maintain their health.

More than 14,000 partners have registered on the Thrive Wellness website since its inception in 2004. The Thrive Wellness website, from WebMD, links partners and their families to health-related tools and educational forums, including:

- WebMD's confidential Health Risk Assessment (HRA)
- A personalized health regimen based on the HRA
- Programs targeting many of the top health risks facing our partners
- Electronic tools to record and track personal health data, such as shots and doctor visits, and to easily retrieve the information for medical visits or other purposes

Our Thrive Wellness Initiative also encourages partners to stay healthy, active and connected with one another through:

- Health club discounts at contracted facilities.
- Partner Connections, which covers 50 percent of the costs of teams or clubs for partner groups of three or more. Partner Connections is a popular and successful program that has spawned partner groups from the expected, like golf and soccer, to those we could never have imagined, like roller derby and dragon boat racing.

In fiscal 2006, Starbucks teamed with Kinetix, a personalized exercise and nutrition company, to pilot a new program in the Thrive Wellness Initiative. In fiscal 2007, we expanded access to Kinetix, offering 470 partners in Seattle (the location of our global headquarters) eight weeks of personal training and nutrition coaching from Kinetix staff. An additional 1,200 partners registered online to download nutritional advice, recipes and exercise programs. Kinetix will expand further in fiscal 2008, offering, for example, virtual coaching to up to 3,000 partners via a website and community networking tools.

## ADVOCATING FOR HEALTH CARE REFORM

Like other employers, we have watched health care costs continue to rise, sometimes alarmingly, and we know that finding quality care can be difficult and confusing. We believe that creating transparency in health care costs and quality will help not only our partners, but all consumers of health care, in making better informed choices. The challenges of providing health care benefits compel Starbucks to continue working for health care reforms.

In fiscal 2007, we advocated for better patient care, higher-quality service and increased value for all health care consumers.

Affordable health care is a national issue, and, as such, we support and will encourage health care providers, insurers and others to achieve the Secretary of Health and Human Services four cornerstones for health care improvement:

- Health information technology systems that allow secure and efficient exchanges of health care information between providers.
- Quality measurement and reporting programs that give consumers access to knowledge of the quality of care delivered by health care providers.
- Uniform tools for measuring and providing information on the cost of health care services.
- Innovative approaches to encourage and facilitate high-quality and cost-effective health care, such as alternative methods of reimbursement for providers or the use of high-performance provider networks.

We recognize that this initiative is part of an ongoing effort. These cornerstones are the foundation for a value-driven healthcare system that delivers continued progress in medical care and good health for our partners and for all Americans.

## RECOGNIZING OUR PARTNERS

Starbucks success reflects the quality, imagination and initiative of our partners. To recognize partners' contributions, we developed the Starbucks Partner Recognition Program. Currently there are 18 formal recognition programs worldwide that partners use as tools to reward and inspire one another. Among others, Starbucks has company awards for leadership and exceptional service, "on the spot" awards given by co-workers for a job well done, and team awards for groups of partners who make a significant and positive difference at Starbucks in the spirit of our Mission Statement and Guiding Principles.

## THE CUP FUND

Starbucks CUP (Caring Unites Partners) Fund allows partners to make a difference in the lives of their fellow partners. CUP Fund grants help partners and their families through some of their most difficult times. Many of the requests received are for assistance in situations such as catastrophic injury, death and illness, natural disasters and domestic violence. Partner contributions are voluntary and can be made at any time, or through an automatic paycheck contribution. Currently the CUP Fund is available in the U.S. and Canada. All Starbucks partners in these locations are eligible to apply for assistance.

In total, the CUP Fund provided more than \$2.2 million in direct financial assistance to more than 2,500 partners in fiscal 2007.

# Partner Training and Career Development

In neighborhoods around the world, our partners are delivering the *Starbucks Experience* one cup at a time. That is why we strive to give partners the best possible training from the day they start with us, and then offer many opportunities for them to develop further skills, deepen their knowledge of our business and eventually find the right career path with Starbucks. This philosophy is even more important as we expand, and is a driving force behind our investment to offer an array of training and career development opportunities tailored specifically for our partners.

## TRAINING FOR PARTNERS IN OUR STORES

Partners in our stores receive comprehensive training, beginning with a two-week Barista 100-level training program in which partners learn to prepare and deliver our products. We revised Barista 100 in fiscal 2007 with improved flow and newly updated and recyclable training materials. Heeding a suggestion from our partners, we created a deck of recipe “flash cards” for each store, to help partners master the beverages that customers may order.

If a barista followed a path of increasing responsibility, he or she would typically receive an additional four weeks of training as a shift supervisor, eight months of development as an assistant store manager to become a store manager, multiple elective development workshops as a store manager and four weeks of training when promoted to district manager. Starbucks partners hired into the company at the assistant store manager, store manager, or district manager level would be provided with training beginning at the barista position, but in an accelerated time frame.

In fiscal 2007, our U.S. and Canadian retail partners received, in total, an estimated 5.1 million hours of training in addition to practice hours.

## OTHER PARTNER TRAINING PROGRAMS

In addition to function-specific training like that offered to retail partners, Starbucks provides all partners with orientation and foundational training to support high performance in their current roles and their career advancement at the company.

In fiscal 2007, Starbucks defined a global core curriculum which includes leadership and personal development, as well as customer-focus and cultural awareness. Starbucks also outlines curriculum maps, which support partner development in current roles and give visibility to development for key roles in the company. Additionally, in fiscal 2007, all Starbucks managers benefited from a new, Starbucks-specific foundations of management program.

U.S. and international partners have access to a breadth of learning and career development offerings – both traditional classroom and innovative online learning. In fiscal 2007, nearly 350 programs were offered at the Starbucks Support Center alone, serving more than 9,000 partners. In addition, several hundred programs were offered in the field, serving thousands of partners across the U.S. and internationally.

In addition to the global core curriculum, most partners have access to functional and technical training offered through their business units or professions. In fiscal 2007, retail partners, as well as those in the Starbucks Support Center, Supply Chain, and other business units, benefited from Starbucks-specific and industry-standard programs delivered at the enterprise, business unit and team levels.

### Training specific to Starbucks international partners includes:

- Seattle Cultural Immersion Experience, a program designed to enrich our international partners' understanding of Starbucks culture, mission, values, Guiding Principles and coffee knowledge. This experience was redesigned in 2007 and has helped partners convey the Starbucks culture within their market and build enthusiastic partners around the globe.
- A 15-week training program for new international district managers.
- A 10-week training program for partners in new Starbucks international markets (Brazil, Romania and Russia in fiscal 2007) on Starbucks retail operations, coffee and culture.

## CAREER DEVELOPMENT

Many career planning tools are featured in our award-winning website, MyPartnerCareer.com, which helps partners throughout Starbucks connect with peers, discover career opportunities within the company and access job-preparation tools. More than 120,000 partners have visited MyPartnerCareer.com since its launch in May 2006.

We retooled and enhanced MyPartnerCareer.com in fiscal 2007 to further help our partners grow in their career with Starbucks. To provide better visibility to career opportunities we:

- Provided job preparation tools, including resume writing and interview tips to assist partners in advancing their careers.
- Created a *Groups* feature where partners can gather around common career interests.

Starbucks was honored for the development of MyPartnerCareer.com with two prestigious recruiting awards in fiscal 2007:

- Recruiting Excellence Award for the Best Corporate Careers website by ERE Media, Inc.
- *Training* magazine's Top 125 Best Practices

### Future Goals

In fiscal 2008, we plan to continue to develop partners and improve career opportunity access by:

- Creating career paths on MyPartnerCareer.com to assist partners in mapping a future career.
- Deepening U.S. district managers' coaching, business acumen and problem-solving skills.
- Building a global learning architecture and global core curriculum with a key focus on management and coaching.

## PARTNER TRAINING AND CAREER DEVELOPMENT

Starbucks "Look Internal First" philosophy is reflected in the following figures from fiscal 2007:

- 85 percent of shift supervisor positions were filled by Starbucks baristas.
- Approximately 72 percent of assistant store and store managers were filled by internal partners.
- 70 percent of district manager positions and 80 percent of regional director positions were filled by internal partners.

## Workplace Policies and Respecting Partners' Rights

At Starbucks, treating our partners with respect and dignity is one of our Guiding Principles. Our workplace policies actively promote equal employment opportunities, and strictly prohibit discrimination or harassment on the basis of race, national origin, age, sex, religion, disability, sexual orientation, marital status, veteran status, gender identity and expression, or any other basis, as well as any other basis prohibited by federal, state, local or provincial laws. We follow all laws regarding the employment of minors. The current standard minimum age of employment at Starbucks is 16, although it may be higher or lower in some locations as required by local regulations.

The people who work at Starbucks are the heart and soul of our company. We value and respect each partner because our success would not be possible without the contributions they make on a daily basis. We honor their free choices and strictly comply with all state and federal workplace laws and guidelines, including those associated with labor organizing activities. We recognize our partners' right to organize, and do not take action or retaliate against partners who express their views about unions or who take part in union activity. At the end of fiscal 2007, 24 Starbucks partners from one store in Canada had certified union representation.

We firmly believe that the direct employment relationship we currently have with our partners is the best way to ensure a great work environment. We are proud to provide eligible partners benefits that include a Total Pay package of competitive compensation, flexible scheduling, health care coverage and company stock.

 [Learn more about in Total Pay earlier in this section.](#)

Likewise, we are proud of the open, direct relationship we have with our partners. Together we have been able to address truly important workplace issues.

With more than 172,000 partners worldwide, occasionally there are labor and employment disputes that must be worked out through the legal process. We continuously seek positive resolutions to all disputes with our partners and others, while vigorously defending claims that are groundless. Several matters are currently progressing through the appropriate legal channels.

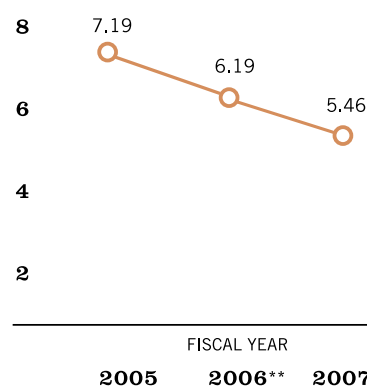
## Health and Safety

Starbucks is committed to creating a safe environment for our partners and customers by working proactively to reduce the risk of injuries. Safety programs for Starbucks stores and roasting plants are designed to meet regulatory standards, wherever we do business.

We consider partner and customer safety first and foremost as we develop and select Starbucks products and equipment – and strive to “engineer out” as many causes of injury as possible. When we identify potential risks of injury in our stores and production facilities, we develop and implement specific action plans to remove or mitigate those risks through changes in design, engineering, equipment or materials. We take the same care and effort to protect partners and customers from common causes of injury such as repetitive stress, lifting or falls.

Starbucks emphasizes partner awareness of our safety standards and any potential risks in the work environment. We reinforce company-wide awareness of our safety standards through training, safe work procedures, regular communication, inspections and audits.

**INJURY RATE  
PER 200,000 HOURS WORKED\***  
STARBUCKS US STORES



- \* Claims data have been retroactively adjusted to reflect new claims that were filed after the fiscal year ended
- \*\* Above figure for fiscal 2006 has been corrected to exclude Canadian hours of exposure, which is consistent with prior years and fiscal 2007



01	PRODUCTS
02	SOCIETY
03	ENVIRONMENT
04	WORKPLACE
05	DIVERSITY

# 05 DIVERSITY

## Fostering Diversity, Inclusion and Accessibility

Diversity and inclusion are at the heart of how we define ourselves at Starbucks. Our Guiding Principle to “embrace diversity as an essential component in the way we do business” compels us to move beyond words to action – to prioritize and institutionalize diversity, inclusion and accessibility throughout our global business.

Our vision is to inspire partners to embrace the diversity of all people in order to create the world’s most inclusive and accessible company and brand.

As we expand throughout the world, Starbucks is recruiting and operating within a broad range of multicultural, multilingual, and multiracial environments. Not only must Starbucks actively prepare to embrace and navigate diversity across the globe, we must design scalable and sustainable solutions that will support our business as we grow.

Our Diversity and Inclusion team works collaboratively across business divisions to address both the personal competencies and systemic improvements required to achieve our vision. This involves educating, innovating and driving best practices to advance the goal of total integration of diversity throughout our business. Featured in this section are our efforts to embrace diversity:

- Diversity, Inclusion and Accessibility in the Workplace
- Supplier Diversity
- Urban Coffee Opportunities: Bringing the *Starbucks Experience* to Urban Communities

# Diversity, Inclusion and Accessibility in the Workplace

At Starbucks our workforce includes men and women of diverse ages, races, national origin, religious affiliations, sexual orientation, disability, and differing levels of education, skills and experiences. We view the richness of our diverse workforce as an asset that encourages creativity and innovation, helps us recruit and retain top talent and makes us more attractive as an inclusive employer, ultimately enhancing our success.

Reaching our goal of creating a truly diverse and welcoming environment – for our partners and customers – is a challenge. It will take time, but we are dedicated to making the effort, step by step. In fiscal 2007, Starbucks made notable progress on our diversity goals through our partner network groups, our new and revised educational offerings and our diversity leadership teams.

## Partner Network Groups

Our Partner Network program is designed to capitalize on the energy, passion, and experience of our partners in the advancement of Starbucks diversity and inclusion strategy. Built on a model of shared accountability, the program empowers partners to foster inclusion, develop solutions that contribute to business success, and enhance personal and professional development.

Partner Network Groups – and their contributions to Starbucks – are listed here:

<b>Starbucks Access Alliance</b>	The Access Alliance hosted the president of the American Association of People with Disabilities to speak at a roundtable discussion with local corporations to address emerging accessibility issues. Members of this network also helped teach access and disability classes, and participated in a marketing symposium focusing on disabilities.
<b>Starbucks Black Partner Network</b>	The Black Partner Network, launched in 2007, developed its mission and core areas of focus.
<b>Starbucks Emerging Workforce Network</b>	The Emerging Workforce Network focuses on driving innovative solutions for work and life. In fiscal 2007, they piloted a successful telecommuting project and helped create a telecommuting tool kit for partners and managers. They presented to Starbucks senior leadership team on multiple occasions about the progress of this work.
<b>Starbucks Hora del Café</b>	Hora del Café, our network for Latino partners, participated in a recruiting event hosted by our Global Staffing and Finance teams and sponsored events celebrating Hispanic Heritage Month.
<b>Starbucks Pride Alliance</b>	Following a collaborative effort with the Pride Alliance (gay, lesbian, bisexual and transgender), Starbucks included gender identity and expression in our nondiscrimination and Equal Employment Opportunity policies in the U.S. and Canada, earning us a 100 percent rating on the Human Rights Campaign Foundation's Corporate Equality Index.

## 2007 RECOGNITION FOR STARBUCKS DIVERSITY PROGRAMS

- **Black Enterprise** magazine recognized Starbucks as one of their “40 Best Companies for Diversity” in the U.S., 15 Best in Senior Management Diversity, and 15 Best in Corporate Board Diversity.
- **Corporate Equality Index:** In 2007, Starbucks achieved a score of 100 percent on the Human Rights Campaign Foundation's Corporate Equality Index, a nationally recognized measure of gay, lesbian, bisexual and transgender workplace equality.
- **The Disability Rights Legal Center** honored Starbucks with its “Corporate Award” for nurturing an environment of respect and sensitivity to people with disabilities.

## CREATING A WELCOMING ENVIRONMENT FOR THE DISABILITY COMMUNITY

In fiscal 2007, we hosted a two-day marketing symposium at Starbucks Support Center in Seattle to understand the disability community as consumers. Leaders within the disability community representing national nonprofit organizations were present, along with Starbucks partners from a variety of departments.

As a result, Starbucks is reviewing many areas of our operations in an effort to become more inviting to people with disabilities. At the participants' suggestion, we are examining our ordering process, the universal design and layout of our stores, as well as additional ways to become a more welcoming gathering place for those with disabilities.

### Future Goals

In fiscal 2008, we will focus on becoming more inclusive of partners and customers with disabilities. Based on what we learned from our disability marketing symposium, we plan to:

- Pilot Braille and large print menus and advise our partners on how to communicate these options to customers.
- Develop and deliver a communication strategy to organizations serving people with disabilities. This communication plan will serve as our primary conduit between our efforts and this emerging market.
- Tap Starbucks Access Alliance Partner Network Group as an internal advisory council.

## EDUCATIONAL OFFERINGS FOR DIVERSITY AND INCLUSION

Our Diversity and Inclusion team, in partnership with our Global Learning team, works to review and improve diversity classes and educational programs.

In fiscal 2007, we updated and revised many educational programs to incorporate best practices on diversity and inclusion. These included:

- Training on interviewing skills to help managers understand different communication styles and make hiring decisions based on talent and skills.
- Diversity Deconstructed, a new foundational class piloted to the Starbucks human resources department (which we call Partner Resources) at Starbucks Support Center.
- Development of modules and case studies for New Manager Training and Partner Resources 101.

## DIVERSITY LEADERSHIP TEAMS

As our company continues to grow, we recognize the importance of creating channels to involve partners as owners of the diversity, inclusion and accessibility strategies. Our partner engagement approach has grown in significance and evolved into a much more structured part of our overall strategic diversity plan. Our Diversity Leadership Teams (DLTs) were created to engage leaders at all levels of the company in taking action toward integrating diversity and inclusion principles into the way they operate their business units, regions or functions.

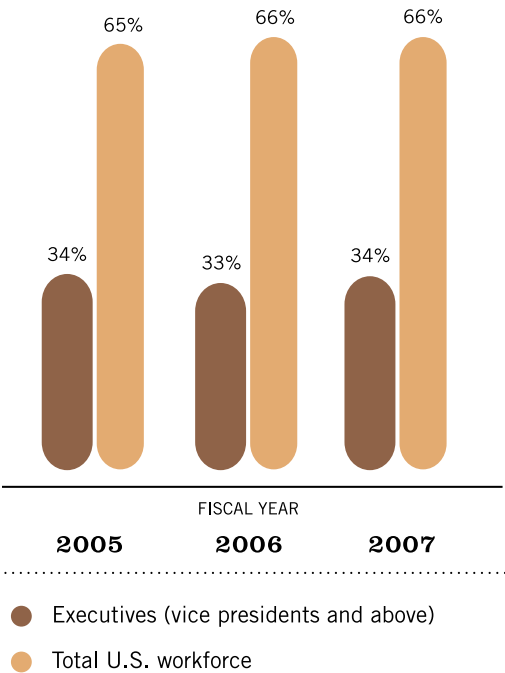
In 2007, DLTs continued to emerge across regions and business units. Many teams have adopted diversity and inclusion principles to enhance their work environment and strengthen their business goals and strategies. Individual teams focused on outreach to the disability community, partner development, flexibility, recruiting efforts, and connecting to communities where we have stores. With the help of our DLTs, Starbucks is becoming more inclusive throughout our business and representative of the customers, shareholders and communities we serve around the world.

MEASURING PERFORMANCE

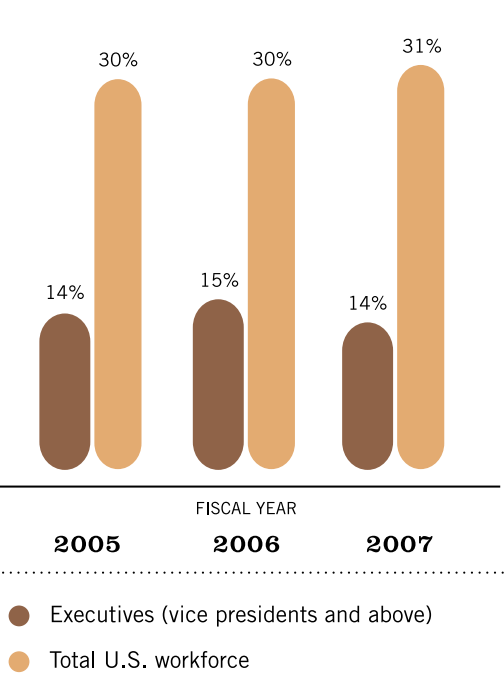
Currently we track and report the percentages of women and people of color in our total U.S. workforce and among our vice presidents and above, those who voluntarily disclose their race and gender (see graphs below).

Starbucks executive leadership reflects our dedication to diversity with a roster of senior officers (senior vice presidents and above) that included 27 percent women and 18 percent people of color at the end of fiscal 2007.

WOMEN



PEOPLE OF COLOR




## Supplier Diversity

To operate and grow our business, Starbucks depends on a broad network of suppliers that range in size and scope. We are dedicated to providing a world-class supplier program that supports diversity. Starbucks instituted a Supplier Diversity program several years ago to help ensure that qualified and certified diverse U.S. businesses have equal opportunities to provide our goods and services. A diverse supplier is defined by Starbucks as a business that is certified by an independent third party to be at least 51 percent owned, operated and managed by women, minorities, or individuals who are socially or economically disadvantaged.

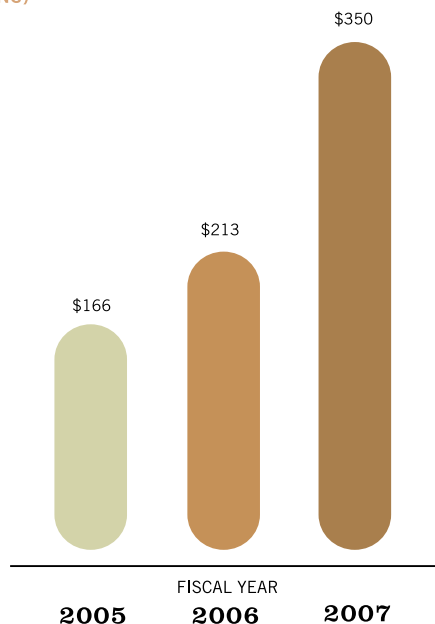
The commitment we've made to supplier diversity is intended to provide not only opportunities for diverse businesses, but also to create a positive and sustained economic impact on the local communities where these businesses are based.

In fiscal 2007, Starbucks did \$350 million in business with first tier\* women- and minority-owned businesses, exceeding our goal of \$250 million. We also implemented a new coding system to better identify minority- and women-owned suppliers.

*\*First tier suppliers are paid directly or relationships are managed directly by Starbucks for their products and services. Only first-tier suppliers are counted in our diverse supplier spending.*

 [Learn more about Starbucks Supplier Diversity program at www.starbucks.com/aboutus/sup\\_div.asp.](http://www.starbucks.com/aboutus/sup_div.asp)

### SPENDING WITH DIVERSE SUPPLIERS (IN MILLIONS)



#### Future Goal

In fiscal 2008, Starbucks will increase our goal for spending with diverse suppliers to \$375 million.

## Urban Coffee Opportunities

### BRINGING THE STARBUCKS EXPERIENCE TO DIVERSE COMMUNITIES

In 1998, Starbucks formed a joint venture with Johnson Development Corporation (JDC), which is owned by Earvin "Magic" Johnson. Together we created Urban Coffee Opportunities, LLC (UCO), bringing Starbucks stores to diverse communities. We opened 13 new UCO locations in fiscal 2007 and ended the year with a total of 114 across U.S. cities.

We are close to meeting our goal of having 125 UCO stores in the U.S. and expect to reach this milestone by the end of 2008.

When scouting for new UCO locations, Starbucks and JDC consider the economic vitality and long-term potential of a given market. In many of the communities where UCO stores have opened, Starbucks arrival has helped to serve as an economic stimulus with the creation of new jobs, use of local suppliers, our support for community-based organizations, and by attracting other retailers to the area. The collective economic impact that our UCO stores generated in fiscal 2007 included:

- Providing more than 2,240 jobs in 114 UCO stores.
- Paying an estimated \$34.8 million in salaries/wages and benefits to UCO partners.
- Providing health care benefits to eligible and participating part- and full-time store partners, their spouses, domestic partners and eligible dependent children.

## INDEPENDENT ASSURANCE REPORT

### To the Stakeholders of Starbucks Coffee Company:

We have been engaged to provide assurance on the Corporate Social Responsibility ("CSR") Fiscal 2007 Annual Report (the "Report") of Starbucks Coffee Company ("Starbucks"), for the fiscal year ended September 30, 2007.

We have performed evidence-gathering procedures on the following subject matter:

- Key Performance Indicators Summary and Highlights for Fiscal 2007;
- Information and data provided in each area of focus of the Report (Starbucks and Corporate Social Responsibility, Products, Society, Environment, Workplace, and Diversity); and
- The management and reporting for the preparation of this information and data.

We have considered the subject matter against the following evaluation criteria:

- The procedures by which the CSR information and data were prepared, collated and compiled internally and
- The control environment over the quality of the information and data.

Our statement should be considered in conjunction with the inherent limitations of accuracy and completeness for CSR data, as well as in connection with Starbucks internal reporting guidelines.

The Board of Directors of Starbucks is responsible for both the subject matter and the evaluation criteria.

Our responsibility is to report on the internal reporting processes, information and data for CSR based on our evidence-gathering procedures. Currently there are no statutory requirements or generally accepted verification standards in the United States of America that relate to the preparation, presentation, and verification of CSR reports. There are international standards for the CSR reports that were approved by the International Auditing and Assurances Standards Board (IAASB) in January 2005. Using the IAASB approved standards as a guideline, we planned and performed evidence-gathering procedures to provide a basis for our conclusion. However, we have not performed an audit in accordance with the International Standards on Auditing. Accordingly, we do not express such an opinion.

Our evidence-gathering procedures included, among other activities, the following:

Testing the effectiveness of the internal reporting system used to collect and compile information on each area of focus in the Report;

Performing specific procedures, on a sample basis, to validate the CSR data on site at Starbucks coffee buying operations in Switzerland; C.A.F.E. Practices operations in Costa Rica; and Corporate headquarters in Seattle, Washington;

Interviewing partners responsible for data collection and reporting;

Interviewing partners at retail locations;

Assessing the information gathering and compiling process of each area of focus in the Report;

Reviewing relevant documentation, including corporate policies, management and reporting structures; and

Performing tests, on a sample basis, of documentation and systems used to collect, analyze and compile reported CSR information and data.

In our opinion, based on our work described in this report, the CSR information contained in the Report gives a fair representation of CSR performance and activities of Starbucks Coffee Company for the fiscal year ended September 30, 2007. Statements, assertions and data disclosed in the Report are reasonably supported by documentation, internal processes and activities, and information provided by external parties.



Seattle, Washington  
March 5, 2008

# RESOURCES

## Forward-Looking Statements

This CSR Annual Report includes forward-looking statements about the company's business and the company's future business plans, initiatives and objectives. These forward-looking statements are based on currently available operating, financial and competitive information, and are subject to various risks and uncertainties. Actual future results and trends may differ materially depending on a variety of factors, including but not limited to, coffee; dairy and other raw material prices and availability; successful execution of internal performance and expansion plans, fluctuations in U.S. and international economies and currencies; the impact of initiatives by competitors; the effect of legal proceedings; and other risks detailed in the company's filings with the Securities and Exchange Commission, including the Risk Factors section of Starbucks Annual Report on Form 10-K for the fiscal year ended September 30, 2007. The company assumes no obligation to update any of these forward-looking statements.



## On the Cover

Herbazú Coffee Farm  
Costa Rica

## Your Feedback Matters

In preparing Starbucks Fiscal 2007 CSR Annual Report, we provided a copy of our previous year's report to a broad cross-section of stakeholders, and asked for their candid feedback and advice on the ways in which we could improve transparency. We also received a great deal of feedback from readers of last year's report via an online survey, something we are doing again.

We invite our readers to help us improve our future reporting by providing feedback on Starbucks fiscal 2007 CSR Annual Report. Take our online survey at [www.starbucks.com/csrsurvey](http://www.starbucks.com/csrsurvey). Please be assured that all feedback will be thoughtfully considered and greatly appreciated.

## VERIFICATION

External verification of the data and statements made in Starbucks CSR Annual Reports began in 2002, when the company retained Seattle-based Moss Adams LLP, the 12th largest accounting and consulting firm in the U.S. The selection of Moss Adams met Starbucks criteria for a high-quality firm that had not worked with the company previously, and a firm that could develop a customized approach for verifying CSR-related data and content.

## FOR MORE INFORMATION:

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Phone: 800-23-LATTE (800-235-2883)

Contact us through the Customer Service section of [Starbucks.com](http://Starbucks.com).



*Continue the conversation. Share your ideas for Starbucks CSR at our online community: [www.mystarbucksidea.com](http://www.mystarbucksidea.com).*

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