

# LIVING OUR VALUES

Corporate Social Responsibility

Fiscal 2003 Annual Report



## 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.

### What It Means to Live Our Values at Starbucks

We are very proud to present you with Starbucks third annual Corporate Social Responsibility Report, this year titled "Living Our Values." Throughout our Report, we explain the measures we take to align our decisions and actions with Starbucks Mission Statement and Guiding Principles.

The topics presented here relate to our definition of corporate social responsibility. They are subjects we also believe to be important to our partners (employees), customers, shareholders, suppliers, communities, and others. As information was gathered for each topic, we stepped back and asked ourselves if we are hitting the mark or falling short of our own expectations. In the spirit of transparency, we share our findings with you, the reader.

Maintaining the trust of our stakeholders will never be taken for granted at Starbucks. We know it's something to be earned every day, and happens only if we uphold our core values. We are committed to doing this – it's our promise to you.



A handwritten signature of Howard Schultz.

Howard Schultz  
chairman and  
chief global strategist



A handwritten signature of Orin C. Smith.

Orin C. Smith  
president and  
chief executive officer

# living our values

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Blythe Brock

Starbucks partner

**B**lythe Brock was devastated when her mother became seriously ill and her health started to decline rapidly. Realizing that time was running out, Blythe treasured every moment with her mom, serving as her primary caretaker in every possible way. At the Starbucks store she supervises in Tucson, Arizona, Blythe cut back her hours, which drastically reduced her salary and benefits. But the support of her co-workers kept her strong. They urged her to apply for a financial assistance grant through Starbucks CUP (Caring Unites Partners) Fund. It's a special program that is funded by partners and designed to help fellow partners, like Blythe, during difficult times.

"I'm so thankful for the CUP Fund grant. It helped me get through the time when I was caring for my mom," Blythe explained. "At Starbucks, there's a genuine spirit of people helping people. We're more than co-workers here. We're partners."

The experience of losing a parent was traumatic for both Blythe and another Starbucks partner – her brother Josh. He also received a CUP Fund grant.



Provide a great work environment  
and treat each other with  
respect and dignity.

**S**tarbucks core business is more than just coffee. We are in the people business. And we know our success depends on the people we hire, retain and develop. The creation of Starbucks stock option plan in 1991, *Bean Stock*, made our employees our partners. Giving employees an ownership in the company and sharing the rewards of our financial success has strengthened our partnership.

Results from Starbucks 2003 Partner View Survey revealed that our partners have a high level of engagement – meaning they are emotionally and intellectually committed to Starbucks success. Engaged partners are more likely to say good things about the company, they often go beyond what is requested of them, and they indicate a desire to stay with Starbucks longer.

Many things contribute to the great work environment at Starbucks. While we aren't perfect, and we realize there are opportunities for improvement, we definitely see what's working. For a closer look inside Starbucks workplace, please read on.



Eduardo Bello (left), shift supervisor, and Melanie Bandulin, barista, add a little laughter to their day at Starbucks.

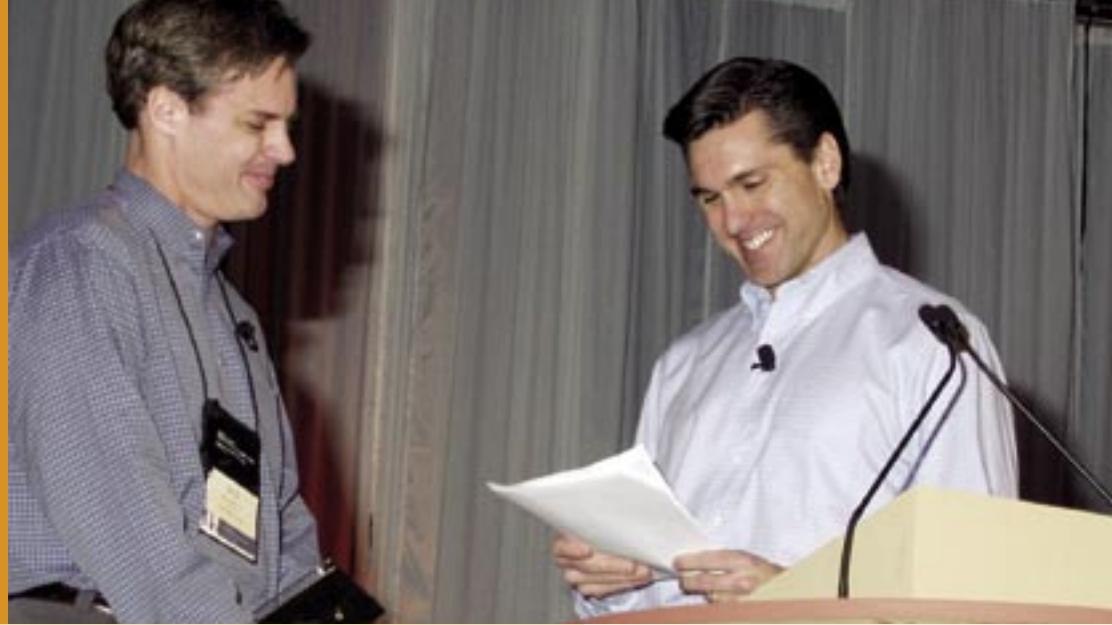
## OUR WORKPLACE CULTURE

**S**tarbucks Mission Statement and Guiding Principles, which were formalized in 1990, are the roots of our culture and serve as guideposts for our partners. In fact, 78 % of our partners say our values provide meaningful direction in their jobs at Starbucks.

An entrepreneurial spirit permeates the atmosphere at Starbucks, adding to an environment that values every person's ideas and talents. It's customary not to capitalize partners' titles at Starbucks, which signals that everyone, regardless of their position, contributes to the company's success. There is a significant focus on communication systems designed to give everyone a voice, including Mission Review and the Standards of Business Conduct Helpline. Recognition is integral to Starbucks culture as is the notion of helping each other, which is demonstrated through our internal CUP (Caring Unites Partners) Fund.

### MISSION REVIEW

At Starbucks, being truly committed to our core values means holding one another accountable for our actions. Through Mission Review, partners are encouraged to voice opinions about whether or not company practices are consistent with our Mission Statement and Guiding Principles. When our partners send their comments or questions to our Mission Review team, they are connected to the right person for a response. The process is monitored, and partners' concerns are shared with Starbucks leaders.



## THE HELPLINE

Another vehicle our partners use to communicate is the Standards of Business Conduct Helpline, part of our Corporate Compliance Program. It's open for calls around the clock so that partners can speak directly with non-company, impartial agents. Information shared through the Helpline is typically treated in an anonymous and confidential manner, assuring partners they are free from retaliation. Issues that arise are investigated and resolved in a manner consistent with our Mission Statement and Guiding Principles.

*Bob Shafroe (left) receives the District Manager of the Year Award from Jim Alling, executive vice president of Starbucks U.S., at Starbucks 2003 Leadership Conference.*

## ASK ORIN

Sometimes partners prefer to share their concerns directly with Starbucks ceo. We created a channel for non-retail partners to "Ask Orin" via Starbucks intranet. Partners can submit questions or suggestions directly to Orin Smith, anonymously and confidentially if desired. They can expect a reply within 10 business days. Orin also keeps in touch by hosting a variety of informal gatherings with partners throughout the company.

*"If people relate to the company they work for, if they share an emotional tie to it and buy in to its dreams, they will pour their heart into making it better."*

— Howard Schultz, Starbucks chairman and chief global strategist

## RECOGNIZING OUR PARTNERS

There are 30-plus recognition programs at Starbucks that are used to highlight the achievements of our partners, whether it's for "jobs well done," or to acknowledge the profound impact certain partners have had on the company. Workplace recognition goes a long way to let partners know they are deeply appreciated and valued.

Beyond our formal programs, we enjoy celebrating our partners' special occasions – anniversaries, birthdays and other personal or professional milestones. These are the types of everyday experiences that strengthen the bonds between our fellow partners, and create a better workplace community.



Starbucks partner Leanne Paluck went to Alaska to work alongside research scientists and study sea otters on a company-sponsored Earthwatch Expedition.

## EARTHWATCH EXPEDITIONS

Starbucks commitment to environmental stewardship has taken on special meaning for our partners. For the last two years, we have offered our partners the chance for an opportunity of a lifetime – a company-sponsored Earthwatch Expedition. In 2003, Starbucks sent five partners on two-week expeditions to work with the Earthwatch Institute's conservation scientists. This year, we plan to send another five partners. While it's not a formal partner recognition program, a great deal of excitement has been generated among our partners about the possibility of being selected for one of these incredible journeys.

## CARING UNITES PARTNERS – THE CUP FUND

Several years ago, Starbucks partners wanted a way to help their peers who fell on troubled times. Their desire led to the creation of the CUP Fund, an emergency assistance program available only to Starbucks partners, and funded exclusively by partners through payroll deductions and special fundraisers.

CUP Fund grants are made to U.S. and Canadian partners throughout the year. Any partner may apply to receive a CUP Fund grant of up to \$1,000 to ease the financial stress caused by an emergency. In fiscal 2003, the CUP Fund provided financial relief to 306 partners, totaling \$247,000, a 70% increase over grants made last year.



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## BEING A STARBUCKS PARTNER

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Through Starbucks Partner View Survey, we asked the majority of our partners in 2003 what they thought about working for the company. It was the most extensive research we've done with this many partners at one time. We went beyond surveying for satisfaction (attitude) to include engagement (behavior), which has a strong and consistent link to overall business performance.

Partners rated the following five items as important or very important in their decision to join Starbucks:

1. The opportunity to work with an enthusiastic team
2. Working in a position where I add value
3. Medical benefits
4. Opportunity to grow and develop skills
5. Growth-oriented company

*Starbucks partner Cherie Vinson works as a shift supervisor. She enjoys her team of co-workers, acknowledging that "we care about each other."*



*When Eric Yu was attending college five years ago, he joined Starbucks as a part-time barista and qualified for healthcare coverage and other benefits. "As a college student, the healthcare benefits were very important to me. Now that I'm a full-time assistant manager, the healthcare coverage and other benefits are still important to me."*

In rating overall satisfaction, 82% of our partners stated that they were satisfied or very satisfied with Starbucks. More important was the overall rating for partner engagement, which was measured at 73%, placing Starbucks among the best employers in the world based on engagement studies conducted by an independent consultant of 1,459 companies in 17 countries.

The 2003 Partner View Survey confirmed that Starbucks Mission Statement and Guiding Principles have a positive impact on partner engagement. We also heard how important health benefits were to our store partners in their decision to join Starbucks. Although soaring U.S. health care costs have challenged Starbucks and other companies, we are committed to designing health plans that ensure our partners have continued access to affordable health care.

## PARTNER BENEFITS

The story has been told many times, but it's worth repeating. When Howard Schultz became head of Starbucks, he vowed to leave no one behind. The commitment stemmed from his childhood experiences as the son of a blue-collar worker. An injury kept his father out of work, and without company-provided health coverage, the family suffered tough times. This instilled a vision at Starbucks to "treat people like family and they will be loyal and give their all."

The importance of treating people like family has never worn off. Today, Starbucks has one of the most competitive benefits and compensation packages in the retail industry. Here are a few examples of our Total Pay programs:

- In 1987, Starbucks became one of the first retail companies to offer our part-time partners who work at least 240 hours per calendar quarter the same comprehensive health benefits that our full-time partners receive. This includes medical, prescription drug, dental, vision and alternative healthcare coverage.
- Starbucks pays approximately 75% of the costs of healthcare coverage for U.S. partners.
- Starbucks pays 60% of the healthcare coverage cost for our U.S. partners' dependents, including their same-sex and opposite-sex domestic companions.
- *Bean Stock*, Starbucks stock option plan, is offered to all eligible part-time and full-time partners in the U.S., Canada, the UK, Hong Kong and, for the first time with the fiscal 2003 grant, partners in the Netherlands.
- S.I.P. (Stock Investment Plan) allows all eligible part-time and full-time partners in the U.S. and Canada to purchase company stock at discounted prices. A similar plan – Starbucks Corporation Share Save Plan – is available to eligible partners in the UK.
- Starbucks 401(k) plan, Future Roast, is a savings program open to all eligible U.S. partners. Contributions made by partners are matched by Starbucks, and immediately vested. Based on length of service, Starbucks matches partner contributions – from 25% to 150% on the first 4% of pay contributed. Canadian partners receive a 25% match on their contributions to the Registered Retirement Savings Plan (RRSP), which is similar to the 401(k).



## BRINGING OUT THE BEST IN OUR PARTNERS

First, Starbucks attracts and hires great people. Next, our new partners are immersed in Starbucks culture, based on three fundamentals – our Mission Statement and Guiding Principles; our passion for coffee; and our commitment to provide legendary customer service. Then throughout their journey as a Starbucks partner, they are offered all kinds of development opportunities to help them achieve job success.

### The Learning Journey for Retail Partners

Our baristas and their fellow store partners are the face of Starbucks, engaging with our valued customers every day. Our goal is to teach our store partners how to become passionate experts in the preparation and delivery of our core product. So on their first day as Starbucks baristas, and throughout their nine-part orientation, our new store partners are paired with learning coaches who guide them through the process of becoming “Certified Starbucks Baristas.”

Training for our baristas doesn’t end there. Their education continues as new products are introduced and company initiatives are launched. When store partners move into management roles, additional training is provided so they become strong leaders.

*One of our baristas, Angie Martin (left), gets trained by Amanda Cebull, store manager, on how to deliver the perfect Starbucks Experience.*



*Our non-retail partners have the opportunity to enhance their skills through a variety of training programs.*

### The Learning Journey for Non-Retail Partners

Our non-retail partners who work at Starbucks Support Center (our global headquarters in Seattle) contribute greatly to our success. We have created a variety of learning opportunities designed to enhance their skills and career development. Some examples are:

- New Partner Orientation and Immersion – an extensive program designed to impart Starbucks core values; build knowledge of our business and retail operations; inspire an appreciation of coffee; create awareness about Starbucks benefits programs and career development opportunities; and introduce partners to their key internal stakeholders.
- Managers' Training Series – provides new supervisors/managers with pertinent information and the tools to build a strong cross-functional network.
- Diversity Learning Journey – focuses on issues of diversity to help foster an inclusive environment for partners and customers.
- Computer Classes – a series of workshops that teach partners various software applications, providing skills they can use to be more efficient in their jobs.
- Situational Leadership® – teaches supervising partners how to tailor their leadership style in certain situations and bring out the best in their teams.
- Coffee Workshops – from Coffee Roasting to the Art of Espresso, our partners are exposed to the world of coffee to increase their knowledge and passion.

Our goal is to provide every new Starbucks partner with a comprehensive immersion experience. In fiscal 2003, Starbucks improved our Executive Immersion program, ensuring that new leaders get the information they need; are connected with their key cross-functional peers; and are exposed to Starbucks culture beginning with the in-store experience.

### RESPECTING OUR PARTNERS' RIGHTS

When people are treated with respect, they feel respected. Creating a great work environment where our partners are respected has been and will always be our goal. To us, this means continually finding new ways to nurture and strengthen the bond we have with our partners. In essence, this is our "labor policy."

Starbucks recognizes our partners' right to unionize. Trade unions represented less than one-fifth of 1% of our partners in fiscal 2003. Most union-represented partners are in Canada, and a few of our roasting plant partners in the U.S. are represented.

Starbucks follows all laws regarding the employment of minors. The current minimum age of employment at Starbucks is 16, but may be higher in some locations.



## INTEGRATING OUR NEW SEATTLE COFFEE COMPANY PARTNERS

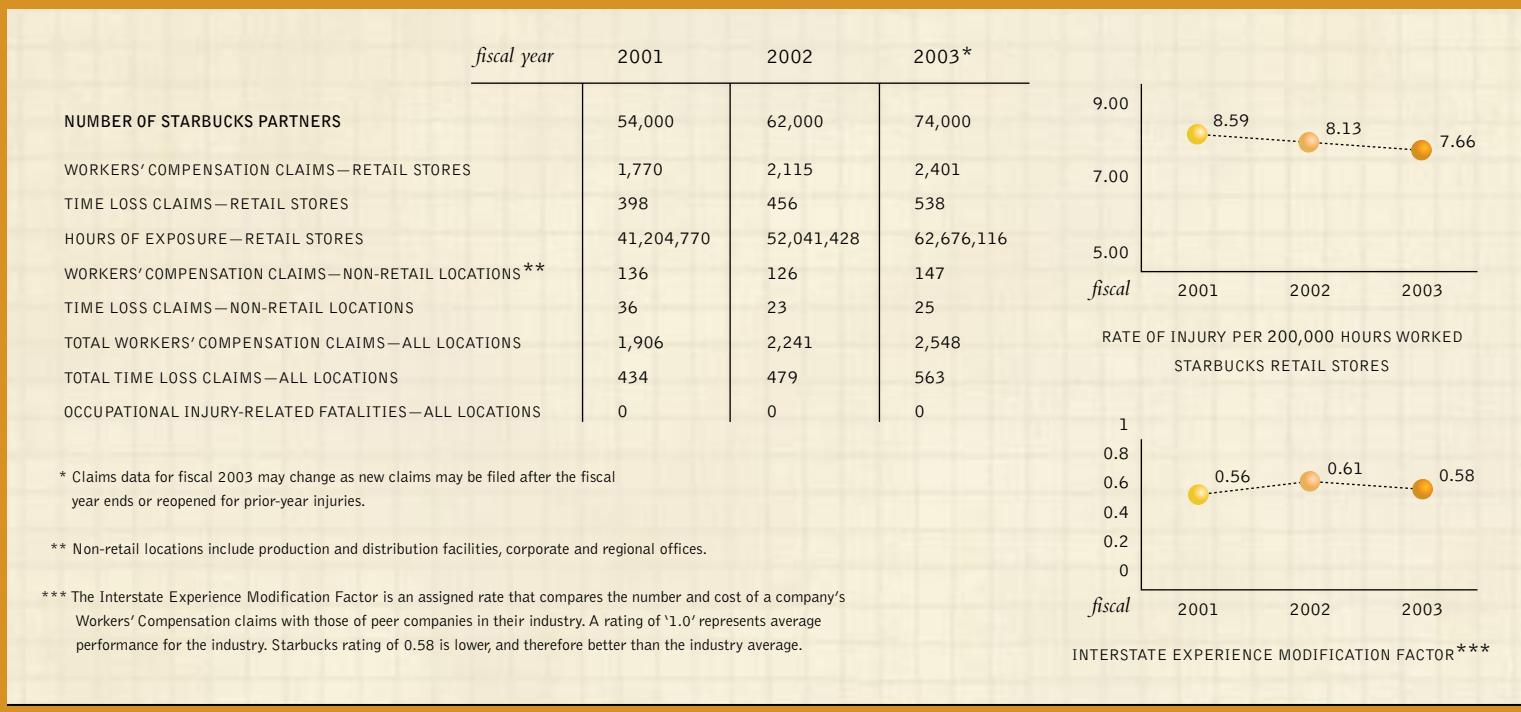
In July 2003, Starbucks acquired Seattle Coffee Company (SCC) and its wholly owned subsidiaries, Seattle's Best Coffee (SBC) and Torrefazione Italia (TI). Acquiring these brands allows Starbucks to reach new customers and cultivate new business accounts that have not previously been served by Starbucks. Once the deal closed, a Starbucks integration team quickly went to work to ensure SCC, SBC and TI employees (now partners) were treated with the utmost sensitivity, respect and dignity.

The Starbucks/SCC integration team is continuing to review the operations of SCC and its subsidiaries. As business decisions are made, Starbucks will ensure SCC, SBC and TI partners are informed regarding the potential impact to their employment.

Some SCC partners have been displaced as a result of the acquisition. Starbucks has provided those partners with transition assistance, including an in-placement process to identify other opportunities at Starbucks. SCC partners who do not find other opportunities with Starbucks will be provided with financial transition assistance.

*Cheree Best (left) and Steph Morrison work at Seattle's Best Coffee, a wholly owned subsidiary of Seattle Coffee Company. After Starbucks acquired Seattle Coffee Company, its employees became our partners.*

# STARBUCKS HEALTH & SAFETY WORKPLACE PERFORMANCE RECORD



## CREATING A HEALTHY AND SAFE WORK ENVIRONMENT

**S**tarbucks wants to ensure a healthy and safe environment for our partners and customers. We combine industry best practices and regulatory requirements to create retail and roasting plant safety programs to prevent workplace injuries and comply with applicable regulatory standards. Our retail and plant safety programs have been designed to meet or exceed the workplace safety standards required by the most stringent jurisdictions in which we do business – California (Cal-OSHA), Washington (WISHA) and British Columbia (WCB-BC). All of these jurisdictions have standards more rigorous than the U.S. Occupational Safety and Health Administration (OSHA) or Canadian national standards.

Partner safety is a primary consideration in the ongoing development, design and selection of equipment and work procedures at Starbucks. We continually evaluate our injury experience to determine where partner injuries originate, and then address those causes of injury to prevent future hazards. If an occupational injury occurs, Starbucks partners are trained to follow our published procedures. This includes calling 911 to seek medical attention if necessary, investigating how the injury occurred, and reporting the incident to Starbucks Risk Management by telephone and through a written incident report.

Our corporate culture supports partner safety and concern for one another. At a minimum, every store is required to devote time each month to discuss safety and security issues with all partners. We believe our culture and workplace safety practices compare favorably with others in the retail and food service industry. (See performance record above.)

## RECOGNITION

- For the fifth time, Starbucks was listed among *FORTUNE*'s "100 Best Companies to Work For." In 2003, Starbucks received its highest ranking of 47 on the list – up from 58 in 2002.
- Starbucks received the **2003 Workforce Optimas Award in the Quality of Life category**. *Workforce* magazine bestowed the award to recognize Starbucks for providing a great workplace environment and offering excellent benefits to partners, which has earned Starbucks a reputation for having one of the lowest turnover rates within the restaurant and fast food industry.
- Tazo Tea Company, a wholly owned subsidiary of Starbucks, was named to the **Oregon Governor's 2002 Honor Roll for Employers of Persons with Disabilities**. The honor recognized Tazo as one of six Oregon companies making outstanding achievements in improving employment opportunities for persons with disabilities.

## GOING FORWARD

**S**tarbucks remains committed to providing a positive and supportive work environment that maintains our position as one of America's best places to work. With the help of our Partner View Survey process, we will continuously monitor the overall health of our organization and take the actions required to address areas of opportunities. In 2004, we will focus our efforts to achieve the following:

- Expand our training and development offerings to improve the skills and management capabilities of our partners as well as to deepen their overall coffee knowledge.
- Develop processes and systems that allow our partners to be more actively involved in their own personal development and career movement. This includes offering tuition reimbursement for the first time.
- Redefine the way we work with our partners to get them more actively involved in our efforts to maintain comprehensive healthcare benefits while controlling costs.
- Introduce new tools and vehicles for increasing the level of two-way communications with our partners both within and across all departments.
- Continue to maintain both formal and informal recognition processes as a critical element of how we express our appreciation for the efforts of our partners.
- Measure the progress of our efforts and identify new opportunities through the administration of another Partner View Survey in October 2004.



Kirandeep Shergill (left) and  
Sharon Barr, Starbucks partners

**K**irandeep Shergill starts her day doing something she loves. She goes to work. Just putting on her green Starbucks apron brings a smile to her face. Most of all, Kirandeep senses how much she's appreciated by her fellow partners.

"Kirandeep has been a great addition to our team and has added tremendous value," remarked Sharon Barr, the store's manager. "In fact, Kirandeep has helped my entire staff bond as a team."

With the support of her family and Northwest Center, Kirandeep has achieved many of her goals. She recently completed high school through a transitional outreach program and then entered

Northwest Center's Individual Employment Program. Northwest Center provides job training to people with developmental disabilities and helps place their clients in suitable positions where they have an opportunity to contribute.

Scheduled to work during the store's busiest hours, Kirandeep focuses on keeping the customer areas neat and tidy, and the condiment bar fully stocked. Her efforts are definitely noticed, especially by her fellow partners. They know when Kirandeep is there, the store shines a little brighter.



## Embrace diversity as an essential component in the way we do business.

**S**tarbucks does business all over the world. We source coffee from more than 20 countries, and our stores are located in 32 countries – places all rich with their own cultures, languages and customs. To operate successfully in the global marketplace, we believe embracing diversity in every aspect of our business is absolutely essential.

Our commitment to diversity begins with the inclusive work environment we've created at Starbucks, where we strive to make our partners feel valued and respected. Starbucks has launched a number of diversity initiatives that help to guide our hiring and workplace practices. But more than this, embracing diversity at Starbucks is a deeply held value – a Guiding Principle – that is integral to our company's long-term viability and success.

In this section, we explain how Starbucks has created an inclusive environment in our workplace and in our stores. We also share what we are doing to build a more diverse supplier base and to engage with diverse communities.



*May Snowden joined Starbucks in 2003 as our vice president of global diversity.*

## DIVERSITY IN OUR WORKPLACE

**S**tarbucks commitment to diversity begins with our goal of attracting and retaining a dynamic and diverse work team. We strive to mirror the customers and communities we serve, creating a store environment where all of our customers and partners feel comfortable and welcome.

To attract a diverse representation of qualified candidates, Starbucks links with a number of local and national community-based organizations. We participate in career fairs and annual conferences, such as those sponsored by the National Black MBA and National Hispanic MBA associations and Women in Foodservice Forum. Our goal is to have diverse representation in all positions of our company, from our baristas to the boardroom.

On a quarterly basis, Starbucks monitors the demographics of our workforce to determine whether we reflect the communities in which we operate. We also look at representation within specific positions and evaluate whether there are pathways to higher-level positions.

Based on available data we have from partners who voluntarily disclose their race and gender, at the end of fiscal 2003:

- Starbucks U.S. workforce is comprised of 63% women and 24% people of color.
- Of Starbucks executive team – vice presidents and above – 32% are women and 9% are people of color.



## DIVERSITY TRAINING

Diversity content is woven through Starbucks general training and development modules, as well as management training courses. Our goal is to foster a climate of inclusiveness, cooperation and productive relationships between our partners and with our suppliers, business partners and customers.

Diversity courses are also offered at Starbucks to address our partners' relevant business needs. These include:

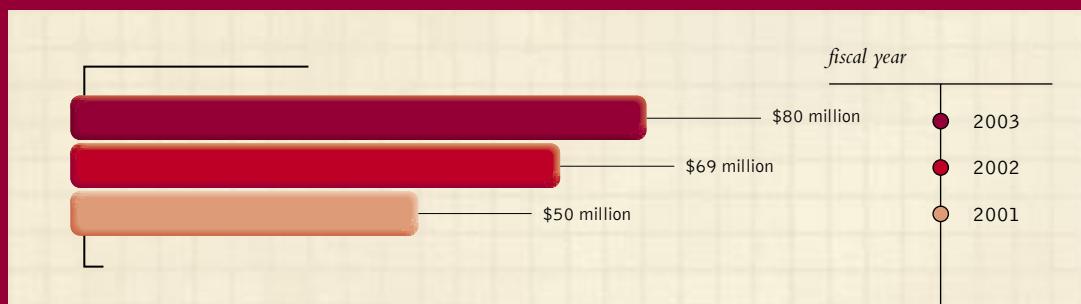
- Diversity Learning Journey, a course with separate modules that can be conducted as individual workshops.
- Bias-free Interviewing Workshops, which prepare our managers and recruiters for the hiring process.

*Starbucks partners Terri Johnson (left),  
Gay Niven (center) and Tamara  
Robertson worked together to ensure  
diversity content is woven throughout  
our partner training modules.*

## POLICIES AND PROTECTION

After joining Starbucks, our partners are oriented about Starbucks core values, including that all people be treated with respect and dignity. Anything less is intolerable. They learn about Starbucks antiharassment and antidiscrimination policies and procedures for protecting partners against gender, ethnicity, age, sexual orientation, religion and other forms of discrimination.

## SPENDING WITH DIVERSE SUPPLIERS



## SUPPLIER DIVERSITY

**W**hen doing business with suppliers in the U.S., Starbucks has made a strong commitment to diversity. We select companies that share our core values and meet our key requirements of quality, service, value, stability and sound business practices.

We have an established Supplier Diversity Policy that speaks to our efforts to increase the amount of spending we do with diverse suppliers. To do business with Starbucks as a diverse supplier, the company must be 51% owned, operated and managed by women, minorities, or socially disadvantaged individuals. We request that diverse suppliers provide proof of their status in the form of certification or verification from a third-party entity. Information about certification can be found online at [Starbucks.com](http://Starbucks.com). Certified diverse suppliers can create a company profile on our website that gives our buyers visibility to their businesses.

Building a viable diverse supplier base is an ongoing process. Starbucks exceeded our fiscal 2003 goal of achieving \$75 million in spending with diverse suppliers. (For results of the past three years, see graph above.)

The fact that Starbucks is increasingly spending more with diverse suppliers can be attributed to the strong commitment of Starbucks leaders, and our active affiliation with the Northwest Minority Business Council (NMBC). Our involvement with the NMBC during fiscal 2003 included:

- A representative from Starbucks serving as the chairman of the board of directors.
- Consulting on the upgrade of the NMBC website so corporate members can easily find certified suppliers.
- Co-instructing NMBC's Supplier Diversity Training Workshop for buyers.
- Orin Smith, Starbucks president and ceo, serving as the keynote speaker at NMBC's Annual Trade Show in October 2002.

# Dairy

PRODUCTS

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## BARTLETT DAIRY DELIVERS ON ITS PROMISE

Tommy Malave and his four brothers are second-generation Americans, raised by parents who emphasized strong work ethics and values. Together, they run their family-owned distribution business, Bartlett Dairy, in the tri-state area (New York, New Jersey and Connecticut).

When the Malaves say they're customer-focused, they are not kidding. Starbucks can vouch for this, given our ten-year relationship with Bartlett. This commitment to service is one reason we've remained their loyal customer. We also like Bartlett's attitude – they listen to our needs and invest in solutions.

As we have continually opened more Starbucks stores in the tri-state region, Bartlett has managed to keep pace by widening its distribution area and expanding the menu of products it delivers. What impresses us even more is that Bartlett will go the extra mile to serve its customers.

In the chaotic wake of September 11th, Bartlett kept our stores up and running by delivering products, including some they typically don't distribute. Because of this, the *Spirit of Starbucks* award was presented to Bartlett Dairy, one of the only times it has been given to someone outside the company.

Bartlett Dairy is one of the many certified diverse suppliers with whom Starbucks does business. We are committed to expanding our supplier diversity program by building on our existing relationships and establishing new ties with other minority- and women-owned suppliers.

One of Starbucks suppliers is Bartlett Dairy, a Brooklyn, New York-based business owned and operated by a Hispanic family – the Malaves. (From left) Kenny, Tommy, Jimmy, Donald and Michael Malave. Bartlett Dairy is a certified diverse supplier.

## ENGAGING WITH DIVERSE COMMUNITIES



*Customers relax while sipping their favorite beverages at this UCO location.*

*"When I go to our UCO stores and see our customers and partners, I see how we have changed the community, provided hope and provided opportunities. I'm very proud of what we've been able to do."*

— Howard Schultz, Starbucks chairman and chief global strategist

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. At the end of fiscal 2003, there were 52 UCO locations in the U.S.

Starbucks UCO stores offer communities an inviting, comfortable place for neighbors to gather and relax. While customers are assured a consistent *Starbucks Experience* at our UCO stores, they may find the music is tailored to local tastes, subtle differences in the food offerings, and mural art that is unique to these stores.

A UCO store can be a catalyst for creating jobs and encouraging business development in the communities where these stores are located. At the end of fiscal 2003, our UCO locations employed 971 Starbucks partners. When hiring for our UCO stores, we attend community job fairs and seek applicants from the local neighborhoods.

### PROVIDING SUPPORT TO DIVERSE COMMUNITIES

Through The Starbucks Foundation and Starbucks community and giving programs, we provide support to nonprofit organizations that serve diverse communities. We also partner with various community organizations to provide employment opportunities to their constituents. A full description of our community efforts can be found in the Community and Environment section of this report, beginning on page 48.

Here are just a few highlights of how Starbucks supported diverse communities in 2003:

- Starbucks sponsored the New York and Los Angeles 2003 Gay & Lesbian Alliance Against Defamation (GLAAD) Media Awards. We were one of the first corporate sponsors of GLAAD's Digital Initiative Capital Campaign.
- The Seattle Jewish Film Festival, organized by the American Jewish Committee, received sponsorship support from Starbucks.
- We taught barista skills to inner city youth through partnerships with FareStart and Youthcare, Seattle-based organizations that provide job training and placement services to homeless and disadvantaged individuals.
- Starbucks recruited partners through the Project Opportunity Program of United Cerebral Palsy of Golden Gate, the local chapter based in Oakland, California. The program provides employment services to people with disabilities, enabling them to have the same opportunities as nondisabled people for work and independence.
- A \$50,000 contribution from Starbucks helped the Earth Day Network promote environmental stewardship in Hispanic and other diverse communities.

## RECOGNITION

- Starbucks was named the Northwest Minority Business Council's 2003 Regional Corporation of the Year.
- In Oakland, California, United Cerebral Palsy of the Golden Gate recognized Starbucks as the April 2003 Employer of the Month for our participation in their Project Opportunity Program.
- Starbucks was ranked 15th on PlanetOut Partners' list of "20 Best Companies to Work For" in 2003. The PlanetOut list and Corporate Pride Directory contain information for job seekers, investors and consumers, helping them make more informed decisions about how well companies treat the gay, lesbian, bisexual and transgender communities.

## GOING FORWARD

We have made progress in our diversity efforts during 2003, including the hiring of a vice president of global diversity. We also improved diversity within the executive levels of our company and on our board of directors. Starbucks spent more with diverse suppliers compared to last year. And UCO opened 17 stores in diverse communities.

Despite these advances, we still have opportunities for improvement. Here are some of our plans for 2004.

- Implement a global strategic diversity plan that will effectively increase diversity at all levels within the company, including an emphasis on succession planning.
- Increase the number of UCO stores in diverse neighborhoods.
- Create a stronger business and communications strategy for Supplier Diversity to increase the amount of business Starbucks does with diverse suppliers.
- Increase the amount we spend with diverse suppliers to \$95 million by identifying new certified diverse suppliers for future business with Starbucks, as well as encourage more of our existing diverse suppliers to become certified.
- Create a new position at Starbucks to oversee the Supplier Diversity Program.
- Develop strategic alliances with national organizations that serve diverse constituents, such as the National Association for the Advancement of Colored People (NAACP) and the National Council of La Raza.



### Village residents

Bensa Ware, Ethiopia

Bensa Ware, a small coffee-farming village in southern Ethiopia, is home to about 8,000 villagers. This is also the place where some of the world's finest coffee is grown, including Starbucks® Ethiopia Sidamo. Until recently the only water source available was a river that was subject to periodic pollution. Some time ago, the government started building a well for the community, but abandoned the project due to a lack of funds. Starbucks UK heard about this

situation and decided to take action. They mounted a campaign in our UK stores to raise customer awareness and committed to pay for completion of the well, the construction of a reservoir and a series of water points throughout Bensa Ware. Today, the residents of Bensa Ware have a healthy and reliable source of fresh water for drinking, cooking and washing.



## Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.

Our customers expect the best from Starbucks. They want exceptional service, convenient locations, pleasant surroundings and supreme quality coffee.

But there's more to the story. Our customers expect us to conduct our business responsibly. While enjoying their favorite Starbucks® coffee beverage, they want to know that we paid the farmers a fair price for the beans; that the coffee was grown in an ecologically sound manner; and that we invested something meaningful in the farming communities where our coffees are produced.

These, too, are *our* expectations and we strive to meet them on all fronts. Our actions are guided by Starbucks Guiding Principles, and in particular the third – applying the highest standards to the purchasing of our coffee. It signals the enormous emphasis we place on quality, and calls upon us to embrace a socially, economically and environmentally responsible approach to sourcing the finest coffees in the world.

## The World of Coffee

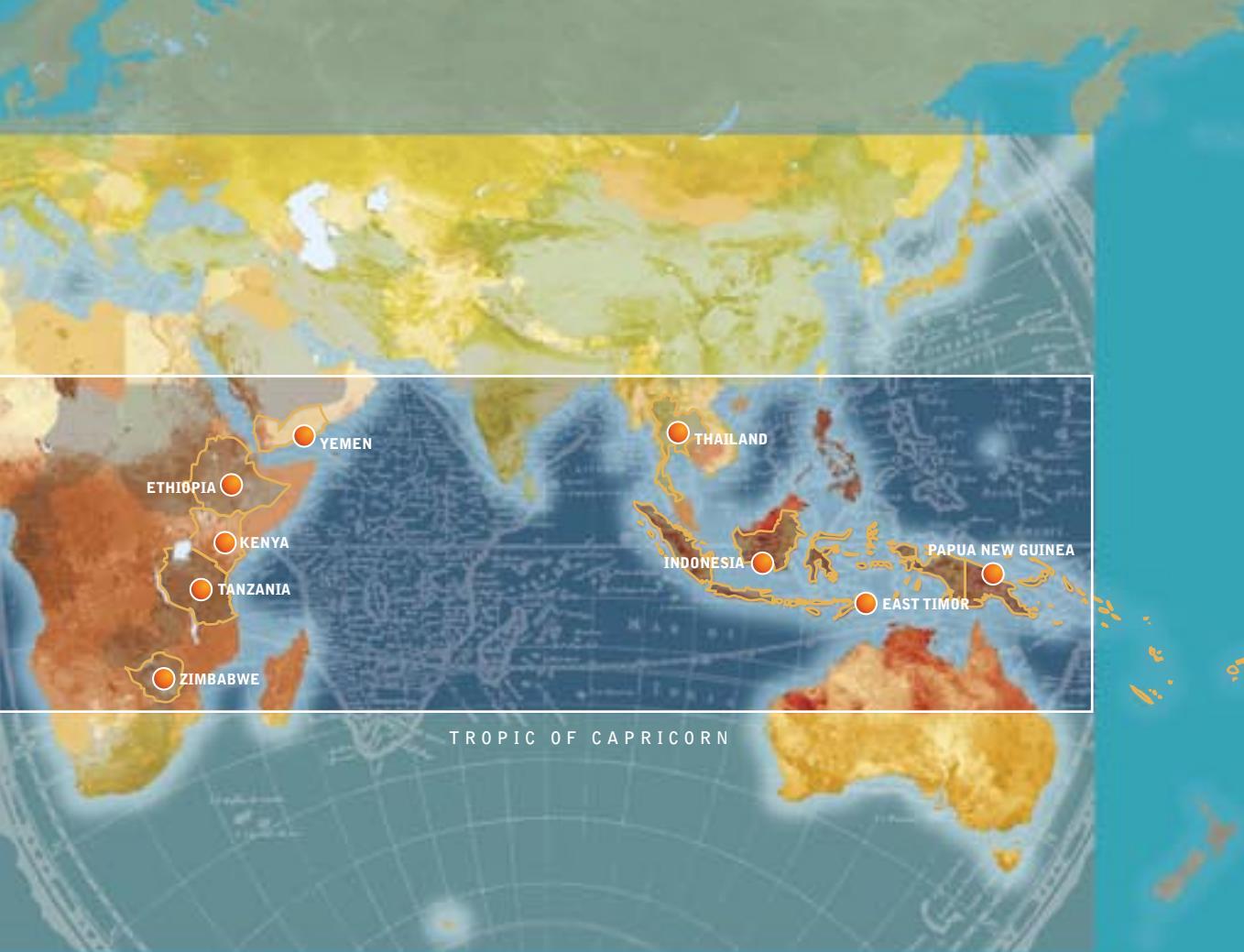
Located between the Tropics of Cancer and Capricorn are the lands where coffee trees thrive – also known as the bean belt. Our coffee buyers travel to the higher elevations where the climate and soil provide perfect growing conditions. These are the places where they find the finest *arabica* beans in the world. Most of our coffees come from Central America, while others are found in Africa, Indonesia and South America.



## A SNAPSHOT OF THE COFFEE INDUSTRY

Coffee is consumed all over the globe, making it one of the most valuable primary products in world trade. It is an important source of income for an estimated 25 million people living in more than 70 tropical coffee-producing countries. As an export, it is crucial to the economies and politics of many developing countries, and in some cases accounts for 80%\* of their foreign exchange earnings.

There are two commercially important species of coffee – *robusta* and *arabica*. About 75% of the world's production is *arabica* coffee, which flourishes in higher altitudes and has a more refined flavor compared to the *robusta* varieties, which grow in lower elevations. Starbucks only purchases *arabica* coffee beans.



*Arabica* coffee is sold in two distinct markets – the commodity and specialty markets:

- Commercial-grade *arabica* coffee is traded as a commodity in a highly competitive market on the New York “C” (the worldwide reference used by coffee traders for commercial-grade coffee). During 2003, “C” prices for commercial-grade *arabica* coffee were as low as \$0.55 per pound (\$1.21 per kilogram).
- Higher-quality *arabica* beans are sold to the specialty coffee market, which represents 10%\*\* of total worldwide coffee purchases. Specialty coffee is produced mostly on small-holder farms and can command much higher prices than commercial-grade *arabica*.

In recent years, a variety of factors have stimulated a rise in global coffee production, while consumption has remained relatively static. The result is a coffee surplus that has driven prices down to levels not seen in 30 years. This has been devastating for many coffee farmers who produce commercial-grade coffee. They are not earning enough to cover their costs of production or make a profit.

One encouraging sign is the rise in consumer demand for high-quality specialty coffee. Since the early 1990s, this segment of the market has grown dramatically, as consumers have demonstrated their willingness to pay more for gourmet coffee. As a result, farmers who produce high-quality coffee can command better prices for their crops from Starbucks and other coffee companies that buy only premium beans.

\*\* Specialty Coffee Association of America



*When our coffee buyers visited the Thai hill tribe that grows coffee used in Starbucks Muan Jai Blend,<sup>™</sup> they shared a coffee break with Ler Kankheaw, a member of the tribe.*

#### **Connecting with Farmers in Thailand**

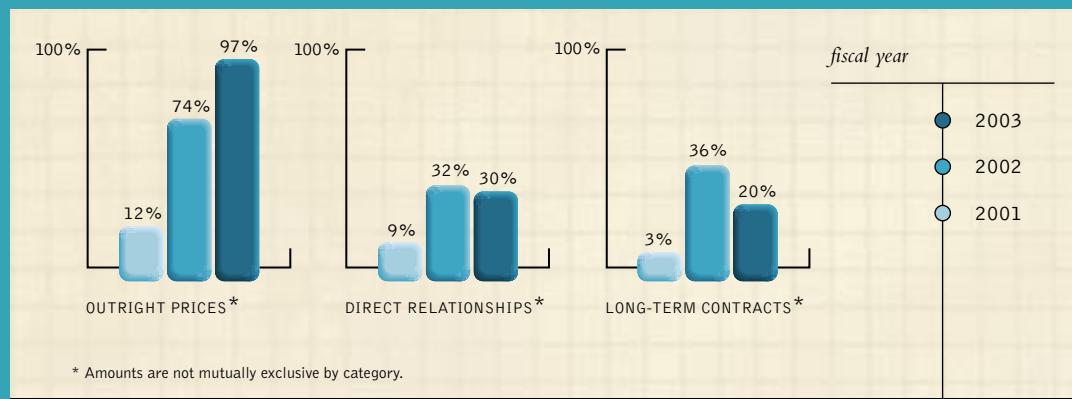
Five years after we opened stores in Thailand, Starbucks introduced Thai customers to Muan Jai Blend.<sup>™</sup> Muan Jai means "wholehearted happiness" in the Kum-Muang Thai language. For this blend we searched the northern mountainous districts of Chiang Mai and Mae Hong Sorn, where local hill tribe farmers grow high-quality arabica coffee under the canopy of shade trees. The farmers are members of a Fair Trade cooperative and receive a Fair Trade Certified<sup>™</sup> price. Currently, Muan Jai Blend<sup>™</sup> coffee is being sold exclusively in Thailand. Our hope is to expand the distribution of this wonderful coffee so Starbucks customers around the world can enjoy it, too.

#### **SUSTAINING COFFEE COMMUNITIES**

**S**tarbucks believes that by implementing a long-term, sustainable strategy we will be able to improve conditions for farmers. We've formalized our practices into a holistic approach that is focused on helping farmers earn more, protecting the environment and ensuring Starbucks demand for high-quality coffee continues to be met. Our approach includes the following measures:

- Paying farmers fair prices and offering favorable terms
- Rewarding farmers who adopt Starbucks Coffee Sourcing Guidelines
- Investing in social programs that benefit coffee-producing communities
- Purchasing certified and conservation coffees
- Providing farmers access to affordable credit

## COFFEE SOURCING



### PAYING FAIR PRICES AND OFFERING FAVORABLE TERMS

A fair price to a Guatemalan coffee farmer living in a small, remote village may be different than that of a farmer living in Kenya. But in the end, both farmers must earn enough to cover their costs of production and adequately support their families. Otherwise, they may stop growing coffee.

That's why for the vast majority of our purchases we negotiate prices outright. This way our suppliers know in advance that they will be paid a fair price for their high-quality coffee regardless of any downturn in the market.

In fiscal 2003, when prices of commercial-grade *arabica* coffee ranged from \$0.55–\$0.70 per pound (\$1.21–\$1.54 per kilogram), Starbucks paid an average price of \$1.20 per pound (\$2.64 per kilogram) for our green (unroasted) coffee, excluding freight.

Indeed, prices are paramount to farmers, but contract terms are also important. Farmers want the security of knowing they have buyers for future crops, an advantage of long-term contracts. And they prefer to trade more directly with their buyers, modifying the brokers' role and potentially earning themselves a larger share of the purchase price. So while Starbucks focused on purchasing most of our coffee in 2003 at outright prices, we also purchased from farmers with whom we had previously established long-term contracts and maintained the direct relationships we already had in place. (For information about outright, direct and long-term contracts, see graph above.)



*During the harvest season last February, this coffee farmer from a town near Chiapas, Mexico, tracked the amount of shade-grown coffee being delivered to the wet mill for processing.*

*In 2003, Starbucks paid an average price of \$1.20 per pound for our coffee.*



While in Mexico, Starbucks partner Peter Torrebiarte (right) met with Alfredo Gomez Velazco, a coffee farmer interested in learning more about Starbucks Coffee Sourcing Guidelines. Alfredo is a participating farmer in CI's Conservation Coffee™ project in Chiapas, Mexico.

## STARBUCKS COFFEE SOURCING GUIDELINES – PREFERRED SUPPLIER PROGRAM

The economic challenges facing farmers, environmental impacts of growing coffee, and poor social conditions in coffee communities have given rise to a world debate on sustainable solutions. In partnership with Conservation International (CI), Starbucks took a giant step two years ago by creating our Coffee Sourcing Guidelines, which encourage a sustainable approach to high-quality coffee production. The guidelines contain quality, economic, environmental and social criteria that farmers are asked to adopt. As they meet specific criteria and submit to independent verification, they can earn up to 100 points. The more points a farmer earns, the higher their status as a Starbucks Preferred Supplier. We buy from our preferred suppliers first, paying them higher prices and offering better contract terms. Our criteria are as follows:

- **Coffee Quality (prerequisite):** All coffee must meet our high quality standards in order to be considered for purchase.
- **Economic Accountability:** We expect suppliers to provide transparency on how much ultimately gets paid to farmers.
- **Environmental Impacts:** Farmers are rewarded for coffee growing and processing practices that contribute positively to the conservation of soil, water, energy and biological diversity, and have minimal impact on the environment.
- **Social Conditions:** Workers' wages should meet or exceed the minimum requirements under local and national laws. Effective measures should be taken to ensure workers' health and safety and to provide them with adequate living conditions.

## PREFERRED SUPPLIER PROGRAM PROGRESS REPORT

	<i>fiscal year</i>	2003
<b>NUMBER OF APPLICATIONS RECEIVED</b> <small>Includes applications from Guatemala, Mexico, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Colombia, Brazil, Indonesia, Kenya and Tanzania.</small>		166
<b>AMOUNT OF COFFEE PURCHASED THROUGH PREFERRED SUPPLIER PROGRAM</b> <small>This volume represents 60 conditionally approved applications covering an estimated 52,000 acres (21,043 hectares).</small>		13.5 million pounds (6 million kilograms)

During our second year of the program, we visited Guatemala and Costa Rica and met with producers, importers, nongovernmental organizations (NGOs) and government representatives to get feedback on the effectiveness of our Coffee Sourcing Guidelines. The dialogue helped us identify regional best practices in order to make needed adjustments. So far, we're making progress at getting producers to adopt our guidelines.

Others in the coffee industry are now developing sustainability models inspired by Starbucks Coffee Sourcing Guidelines. Unique to our program is that we require our coffee suppliers to verify how much farmers actually receive of the purchase price. This is extremely challenging because of the sheer number of farmers who contribute to Starbucks supply chain. Moreover, many small-holder farmers sell their crops to local mills or trade through cooperatives where formal records are not always kept. Nevertheless, we are determined to gain transparency to ensure that a significant portion of the purchase price ends up in the hands of those who grow our beans. (See Preferred Supplier Program progress report graph above.)

### Verifiers Ensure Compliance and Lend Credibility to Preferred Supplier Program

Starbucks Preferred Suppliers must have a third party verify that they are adhering to our Coffee Sourcing Guidelines. Dr. Robert Hrubes, senior vice president of Scientific Certification Systems, believes independent, third-party verification is the cornerstone of a credible Corporate Social Responsibility program. "By establishing a preferred coffee suppliers program that incorporates independent verification against rigorous standards, Starbucks is demonstrating to its stakeholders a commitment to social responsibility and transparency," he stated.

So far, our coffee suppliers have engaged the following organic certifiers, public agencies, and other certification entities to provide the verification we require to be assured Starbucks Coffee Sourcing Guidelines are being implemented:

- Rainforest Alliance
- MayaCert
- British Standards Institute
- Icafe/CICAFE (Costa Rica only)
- Eco-Logica
- Naturland



### Coming Together to Build a School

When one of Starbucks coffee suppliers, Mr. Marcos Chavarria, donated a parcel of land, the Nicaraguan community of La Reforma came together for a common purpose – to build a school. Cash was needed for the project, so Starbucks contributed nearly \$25,000. Parents offered their time to clean and prepare the lot for construction. And when the school was completed, the Nicaraguan Ministry of Education provided a full-time teacher. Today, the Las Marias School can accommodate 120 school-aged children and 100 adult students, serving the residents of this small community located 35 kilometers northwest of Jinotega. Approximately 2.3 million pounds (1.04 million kilograms) of excellent coffee are produced annually on small to medium-sized farms in La Reforma.

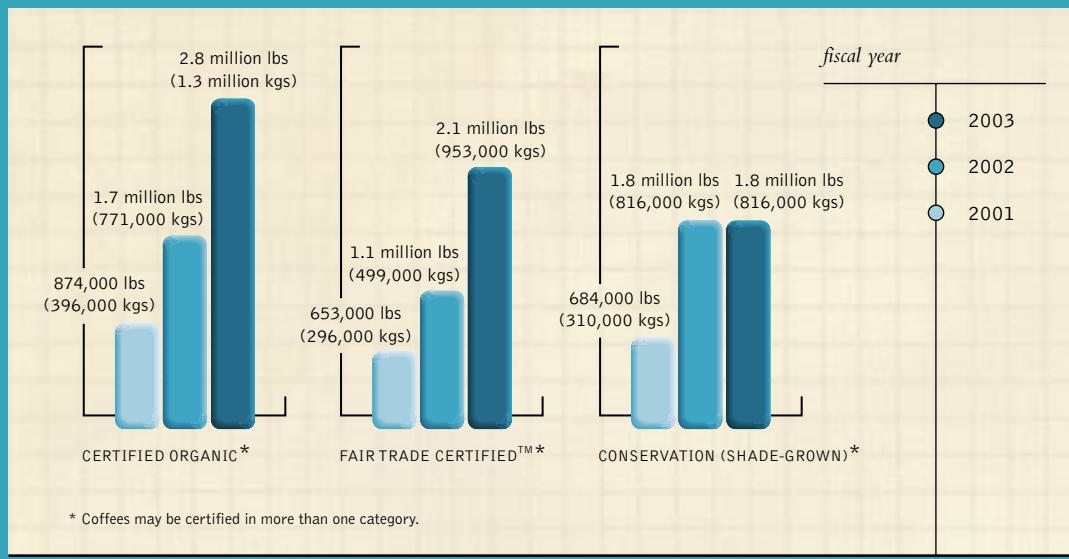
### INVESTING IN SOCIAL PROGRAMS IN COFFEE PRODUCING COMMUNITIES

It doesn't always take a large amount of money to make a significant difference in small coffee farming villages. When a few thousand dollars is invested by Starbucks, and a farm owner makes a contribution, it's amazing what happens. In fiscal 2003, Starbucks invested more than \$1 million in social programs that benefited farming communities in nine countries – from Colombia to Indonesia. Recognizing the challenges farmers and their families face, we focused our investments in two critical areas – health and education. More information about Starbucks support of coffee communities begins on page 60.

### PURCHASING CERTIFIED AND CONSERVATION COFFEES

Starbucks purchases some coffees that have been certified or verified by independent third parties. Included in this category – Commitment to Origins™ as it is known at Starbucks – are certified coffees (organic and Fair Trade), and Conservation (shade-grown) coffees. (See graph on next page for details about Starbucks purchases of these coffees.)

## CERTIFIED AND CONSERVATION COFFEES



### Certified Coffees

Certification by independent third parties assures consumers that the coffee they purchase meets certain criteria. For instance, certified organic coffee is grown without the use of synthetic pesticides, herbicides or chemical fertilizers, which helps maintain healthy ground water. The coffee beans must also be processed in organically certified mills and roasting facilities to be sold as certified organic. The certified organic coffees offered by Starbucks are Serena Organic Blend™ and Organic Shade Grown Mexico. Many of Starbucks other coffees are grown organically, but not certified as such.

Starbucks shares the interests of the Fair Trade movement in ensuring farmers receive fair prices for their crops, enabling farmers and their families to have a better quality of life. The Fair Trade system includes about 670,000 participating small-holder family farmers, out of an estimated 25 million coffee farmers around the world, who belong to democratic, farmer-owned cooperatives that are listed on the Fair Trade Registry. Buyers must pay producers a guaranteed minimum price, \$1.26 per pound (\$2.77 per kilogram) for non-organic green *arabica* coffee and \$1.41 per pound (\$3.10 per kilogram) for organic. These prices have been established by the Fairtrade Labelling Organizations International.

Since establishing an alliance in April 2000 with TransFair USA™, the sole licensor of Fair Trade products in the U.S., Starbucks has become one of the largest purchasers of Fair Trade Certified™ coffee in the U.S. Additionally, Starbucks is licensed to sell Fair Trade Certified™ coffee in 20 countries.



Jamie Hernandez (left) and Librado Pascual, both from CEPCO, visited Starbucks Support Center in Seattle to meet with Starbucks coffee experts, Oxfam and the Ford Foundation. Here, they are learning about our coffee quality standards through the process of cupping and tasting.

### Helping Fair Trade Farmers Improve Coffee Quality

Quality determines how much buyers are willing to pay for coffee, whether or not it's certified as Fair Trade. In order to increase the amount of high-quality Fair Trade coffee, Starbucks has invested in a program that provides Fair Trade farmers in Mexico the technical knowledge to improve the quality of their coffees, thus making their coffees more marketable.

In 2002, Starbucks launched a multi-year project in Oaxaca, Mexico, to help Fair Trade farmers produce higher-quality coffee. Four parties are collaborating on this project – Starbucks, the Ford Foundation, Oxfam America, and CEPCO, a 16,000-member Fair Trade coffee cooperative. Starbucks and the Ford Foundation each contributed \$250,000 over two years to the project, and Oxfam America is working directly with CEPCO farmers on post-harvest quality control techniques.

After one year, we are pleased that many of our objectives were accomplished, including the construction of two cupping labs, one in Oaxaca and the other in Ixtapac. Farmer representatives are being trained so they, in turn, can teach other farmers. Their training includes cupping – or tasting – as a means to discern quality. Starbucks also helped CEPCO purchase and install an electronic sorter that quickly sifts coffee beans before processing, removing defective beans and any extraneous elements.

According to Faustino Garcia, CEPCO's board president, "The sorting machine and tasting room equipment that Starbucks helped us purchase are improving the selection, preparation and quality of our exportable coffee. As a result, we are better able to satisfy the quality standards of our clients."

# CONSERVATION COFFEE™ PROGRAM REPORT

PROJECT SITE	FARMERS ACTIVELY PARTICIPATING IN PROJECT	NUMBER OF PEOPLE LIVING IN THESE FARMING COMMUNITIES	LAND USING CI'S CONSERVATION COFFEE™ BEST PRACTICES	WILDLIFE BENEFITING FROM PROJECT	AMOUNT OF COFFEE STARBUCKS PURCHASED IN FISCAL 2003	PREMIUM PAID TO FARMERS OVER LOCAL PRICES	STARBUCKS PRODUCTS AND MARKETS
<i>El Triunfo Biosphere Reserve Chiapas, Mexico Launched: 1997</i>	1,100	6,970	8,840 acres (3,579 hectares)	300 species of birds (including the endangered Quetzal) many of which are found only in this area, 45 types of reptiles and 30 species of mammals	1,671,521 pounds (758,202 kilograms)	76%	Starbucks® Organic Shade-Grown Mexico and Decaf Shade-Grown Mexico coffees are sold in our North American company-operated stores and were launched in Asia Pacific stores in 2003. The coffee is also sold through Starbucks foodservice accounts, including colleges, universities and hotels.
<i>Upper Tambopata Valley Peru Launched: 1998</i>	1,300	7,200	8,890 acres (3,600 hectares)	Endangered species including the giant otter and the Harpy eagle	76,070 pounds (34,505 kilograms)	200%	Starbucks® Conservation Peru coffee is exclusively available in Starbucks stores in Peru since August 2003.
<i>Paraguas-Tatama Conservation Corridor Colombia Launched: 2000</i>	168	750	2,500 acres (1,011 hectares)	More than 200 endemic species such as the Emerald Toucanet and the spectacled bear	77,160 pounds (35,000 kilograms)	59%	Starbucks launched Conservation Colombia, which is supplied exclusively by participating farmers, in our North American company-operated stores in March 2003.

## Conservation (Shade-Grown) Coffee

Imagine an area where a tropical forest once stood, now cleared to make way for tight rows of coffee trees that are grown in full sun. Once seen as an effective way to control crop pests, this transition has caused a ripple effect that left migratory birds and native wildlife without a habitat, and damaged local watersheds. Starbucks recognizes that serious conservation efforts are needed to protect biodiversity in the world's most sensitive areas – many of which are coffee-growing regions – and we are taking action.

In 1998, Starbucks aligned with CI, a nonprofit organization dedicated to protecting global biodiversity. One of our goals has been to establish project sites in environmentally sensitive coffee communities where biodiversity is severely threatened. We are specifically focused on two outcomes – environmental protection and helping local farmers earn more for their crops.

To date, we've initiated projects managed by CI's Conservation Coffee™ program in Mexico, Colombia and Peru. The project sites have been the source of several high-quality Starbucks® coffees. We are presently developing similar projects in Costa Rica and Panama. (See chart above for the performance record of our projects with CI, including the markets in which the coffees are sold.)

*"I consider the Conservation Coffee™ program to be a great benefit to the region, especially for coffee producers, as CI is teaching us the best practices for conservation coffee. Furthermore, Starbucks knows the effort we are making in our fields, and offers us a better price that directly benefits us."*

— Roberto Silvino Hernandez Lievano,  
Chiapas, Mexico



*Luis Ovidio Parra and Maria Eucaris Ramirez pick coffee cherries at CI's Conservation Coffee site in Colombia.*

#### **Colombian Coffee Growers Produce Conservation Coffee**

Colombian coffee growers are reviving traditional farming practices that will help protect a conservation corridor between the Serranía de Paraguas nature reserve and Tatama National Park, home to the Emerald Toucanet and many other endangered species. The joint project between Starbucks and CI was initiated in 2000 and resulted in Starbucks selling Conservation Colombia coffee produced by farmers participating in the conservation project, earning them almost 60% above local prices for their crops in 2003.

#### **STARBUCKS SUPPORT OF CONSERVATION INTERNATIONAL (CI)**

Over the past five years, the alliance between Starbucks and CI has grown stronger as we've accomplished many of our intended goals and witnessed the positive impact our efforts have had on local farmers, their communities and the environment. Starbucks has provided significant financial support to CI, including a contribution of \$200,000 in 2003.

Several Starbucks leaders are personally involved with CI, serving on various committees and councils. Starbucks president and ceo Orin Smith is an active member of CI's board of directors. He also chaired CI's annual fundraiser in November 2002, which raised \$1.8 million, the largest amount raised in CI's history at a fundraising event.



## PROVIDING FARMERS ACCESS TO CREDIT

During the growing cycle, farmers often need an infusion of capital to cover essential expenses so their crops can be prepared for harvest. Poor farmers may turn to local money-lenders who often charge exorbitant interest rates that put farmers further in debt. Recognizing the need farmers have for affordable credit, Starbucks has supported a number of loan programs since 2000.

In October 2003, Starbucks agreed to loan \$2.5 million to *Verde Ventures*, an investment fund managed by CI. These funds will help provide access to credit for coffee producers who are participating in the Starbucks-CI conservation projects, or to farmers striving to meet the criteria for our Preferred Supplier Program.

*Inside these freshly picked coffee cherries are the beans that are now ready to be processed and roasted to perfection.*

*“Since Starbucks and Conservation International began working together in 1998, our collaboration has produced significant benefits for habitat conservation in biodiversity hotspots as well as for farmer livelihoods.”*

— Peter Seligmann, chairman and ceo,  
Conservation International

## RECOGNITION



### About Mary Williams

As one of the few women in the green coffee business, and an exceptionally skilled coffee buyer and taster, Mary Williams' 30 years of experience has made her a legend. She spent the last ten years with Starbucks, first as vice president, Green Coffee, and then senior vice president, Coffee. In 2002, Williams was named chairwoman of Starbucks Coffee Trading Company, Lausanne, Switzerland. She retired as senior vice president in 2003 and remains an advisor to the company.

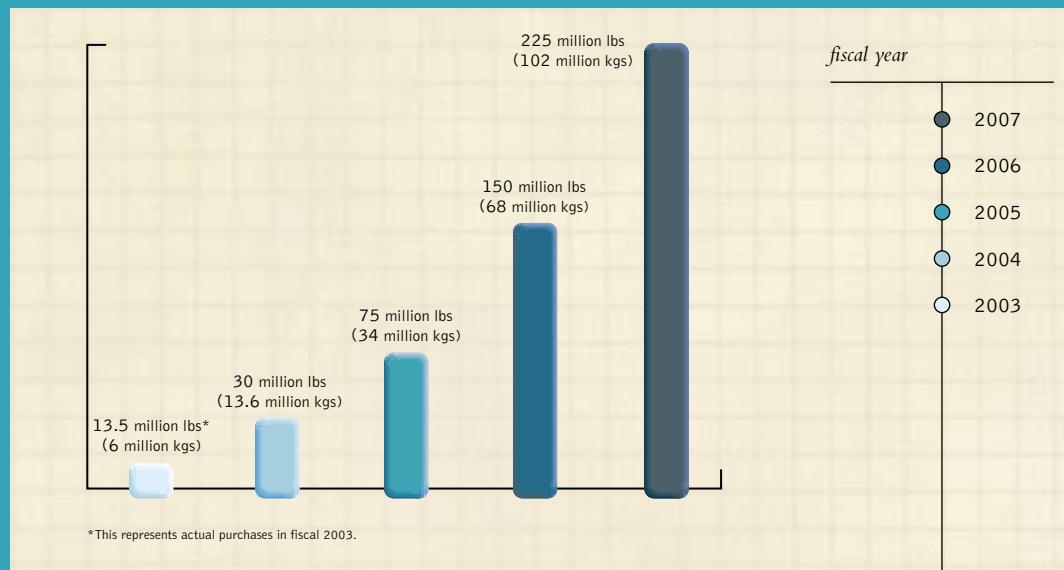
- Starbucks was awarded the **Colombian Order of The Grand Cross Medal**, the highest honor given by the State of Nariño. For years Starbucks has contributed to the economy of the State of Nariño through our purchases of high-quality coffee at premium prices. Starbucks also invested in a housing improvement project that benefits 500 farming families. It is the first time this honor has been given to a coffee company or a nonpolitical organization.
- The Rainforest Alliance presented its **2003 Individual Green Globe Award** to Mary Williams, Starbucks retired senior vice president of Coffee. The Individual Green Globe Award celebrates people who demonstrate dedication, innovation and a commitment to the global environment. The Rainforest Alliance honored Mary for her lifelong commitment to merging the definitions of quality and sustainability in the specialty coffee industry.
- Mary Williams received the **2003 Lifetime Achievement Award** from the Specialty Coffee Association of America (SCAA). This award recognized Mary for a career of excellence in providing inspiration, direction and leadership.
- The National Coffee Congress presented the **Costa Rica Coffee Merit Medal** to Mary Williams. The award recognized her instrumental role in developing and supporting the Costa Rica specialty coffee industry. The recognition marks the first time a non–Costa Rican resident and woman received the honorable distinction.

## GOING FORWARD

**S**tarbucks is wholeheartedly committed to making a positive difference in the lives of farmers and their communities by promoting the sustainability of coffee production. In pursuing this goal, our focus in 2004 will be on the following:

- Increase the amount of independently verified sustainable coffee we purchase from suppliers who successfully adopt Starbucks Coffee Sourcing Guidelines by 100% over fiscal year 2003 (see chart below) including a 15% increase in conservation (shade-grown) and certified organic coffees that meet the guidelines.
- Open a field office in Costa Rica that enables us to reach out and work directly with farmers, helping them improve their production of high-quality, sustainable coffee.
- Invest in more social development projects that benefit coffee-growing communities around the world, including projects in Latin America, Africa and Indonesia.
- Provide \$1.5 million over three years, including \$300,000 in fiscal 2004, to support the expansion of the Conservation International coffee program in Central America, Peru and Colombia. Demonstrate leadership of the Conservation Coffee Alliance by signing a three-way memorandum of understanding between Starbucks, CI and USAID for a \$1.2 million project to expand the Conservation Coffee™ program in Mexico, Costa Rica and Panama.
- Maintain our commitment to purchasing Fair Trade Certified™ coffee, and increase the number of places where Fair Trade Certified™ coffee is available and the countries where we have licensing agreements in order to meet consumer demand.

### COFFEE SOURCING GUIDELINES FIVE-YEAR TARGETS





**Shata Stephenson**  
**Starbucks customer**

Tucked away in the corner, Shata Stephenson sinks into his favorite comfy chair, sips his coffee and hits the books. This is his ritual – something he's been doing for months. Shata is a Seattle firefighter and is studying hard in hopes of becoming a lieutenant. The relaxing, quiet atmosphere at Starbucks is exactly what Shata seeks – a refuge away from distractions that can interfere with his concentration. Shata's favorite Starbucks is an Urban Coffee Opportunities (UCO) store on Seattle's Rainier Avenue – a result of

the joint venture between Starbucks and Earvin "Magic" Johnson's company, Johnson Development Corporation, which brings Starbucks stores to diverse communities. At this particular Starbucks, Shata feels completely at home. "This store has lots of regular customers and a very friendly staff. The baristas are from the local neighborhood and they relate well to their customers," Shata says. "There's a choice in coffee shops around here, but I choose Starbucks."



## Develop enthusiastically satisfied customers all of the time.

**I**t's not just the coffee that brings more than 25 million customers through our doors every week. It's the coffeehouse experience – a third place between work and home – that connects customers to coffee in an inviting, enriching environment that is comfortable and accessible. We call it the *Starbucks Experience*.

From the beginning, we have upheld our principle of developing enthusiastically satisfied customers by assuming that *everything matters*, especially the quality of our coffee and customer service. After every visit, our customers depart with a memory of their experience. Our most loyal customers visit Starbucks 18 times a month on average. Therefore, our success depends on consistently providing our customers the optimal *Starbucks Experience* every time they visit.

But it takes more to gain the trust of consumers these days. Most prefer to do business with companies that demonstrate strong values and act responsibly. In this regard, we want our customers to know what Starbucks stands for and to hold us accountable if our actions appear out of line with our Guiding Principles.



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## MEETING OUR CUSTOMERS' EXPECTATIONS

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Starbucks customers are discerning. They want high-quality products and excellent service. We know this from conducting ongoing consumer research and getting feedback from our customers. We believe the reasons we appeal to millions of customers are because of our great products, our focus on customer service, and the pleasing ambiance and convenience of our locations.

What we have learned from our customers is that Starbucks greatest strength is also our biggest challenge – providing a consistent *Starbucks Experience* and high-quality products everywhere Starbucks is served and sold around the globe. Our customers expect every *Starbucks Experience* to be of the same quality that they receive in their “home store.”

When we miss the mark, our customers let us know. We take their feedback seriously, and dedicate ourselves to improve in the areas in which we have fallen short of our customers’ expectations. At all times, we are focused on being and offering the best, and empowering our partners so they can provide each customer with a personalized, uplifting and consistent *Starbucks Experience*. These are our goals, day in and day out.



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## BRINGING STARBUCKS TO OUR CUSTOMERS

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Convenience is very important to our customers. For this reason, Starbucks stores are typically located in areas where our customers live and work, and are designed for great service and convenience. This also explains why, in some cases, a Starbucks store may be situated near another Starbucks.

### STARBUCKS IN NORTH AMERICA

Competition in the marketplace offers consumers choices. Instead of lessening competition, Starbucks has been credited with increasing the overall market for specialty coffee. Nationwide, more than half of all coffeehouses are independently owned, according to research conducted in 2003 by Mintel Consumer Intelligence, a Chicago market-research firm. Moreover, industry experts indicate that the majority of independents opened within the last decade have survived.

Occasionally, a community group will oppose our plans to expand in their neighborhood. Locally owned businesses, independent coffeehouses, or activist groups are often those who voice their concerns about the addition of a new Starbucks store. Experience has taught us that open dialogue and community outreach can help to reduce tensions and promote understanding.

*"When I heard Starbucks was opening a new store across the street from my hometown coffee shop, I immediately bristled with anger. I was 100% determined not to give Starbucks my business. But Jodi Jaccund (store manager) won me over with her passionate commitment to her customers. Now I visit this Starbucks and buy products every single day."*

— Nick Ford, Ohio



In the Insa-dong district of Seoul, South Korea, Starbucks displays a non-English, Korean-alphabet signboard. The store's interior is decorated with traditional Korean masks and fans.

## STARBUCKS AROUND THE WORLD

In seven short years, Starbucks has introduced our brand around the world, and operates in 32 countries. The enthusiasm for our brand among international consumers, as well as the interest expressed by our joint-venture partners to expand into more territories, validates the significant opportunities for Starbucks in the international marketplace. As we realize our potential for future growth, we are also committed to making a positive contribution wherever we go.

In fiscal 2003, Starbucks opened stores in three new countries:

- The first Starbucks store in Turkey, a country recognized for its rich history of coffee, opened in April 2003. We offer traditional Turkish coffee along with our other Starbucks® beverages.
- Starbucks opened in Peru last summer, a country where some of the world's finest coffee is grown. Exclusive to this market, Starbucks offers a single-origin Peruvian coffee that is sourced from a local Conservation International Conservation Coffee™ project site. This coffee is grown using methods that protect local biodiversity and provide economic and social benefits for local coffee farmers.
- Last August we brought the *Starbucks Experience* to Chile, a marketplace that is quickly becoming recognized for its excellent economic and social climate and its increasingly cosmopolitan and educated consumer base.

We respect the customs and culture of every country and region in which we operate. While we strive for consistency at every Starbucks location, we also reflect the unique characteristics of a specific market.

- When Starbucks built a new store in Thailand, we incorporated an existing 100-year-old teak home, maintaining the traditional Thai "gothic" style.
- Starbucks caters to local tastes in China, Taiwan, Malaysia and Singapore by serving specialties such as moon cakes.



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## IMPROVING OUR COMMUNITIES WITH OUR CUSTOMERS

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*Customers who enjoy their Starbucks® beverages in their own mugs receive a \$0.10 discount and help keep unnecessary waste from going to landfills.*

**S**tarbucks strives to make a positive impact in our communities and on the environment through a variety of ways. Some of our efforts extend beyond us at Starbucks, and present opportunities for our customers to get involved as well. For instance:

- Starbucks Make Your Mark program was designed to support the volunteer efforts of our partners. When a partner volunteers in the community, Starbucks matches their efforts with a cash donation to the designated nonprofit, based on the number of hours volunteered. Often, a partner will organize a team of volunteers that may include their fellow partners, family members, friends and Starbucks customers. Starbucks matches the volunteer hours of everyone on the team, including customers.
- Reducing waste is a priority for us. Our customers help in this effort through *Grounds for Your Garden*, a program that offers spent coffee grounds to our customers who garden. This is especially popular during the spring when gardens are being prepared for planting.

These initiatives and Starbucks other community programs are discussed in more detail beginning on page 48.

*“Your store in Bowie is one of the best representatives of what Starbucks is all about. When I ordered large carafes of coffee for an early morning community event, your store partners came in early to get my order ready. When I arrived, the coffee and all the extras were ready to go. Your partners even carried my order out to my car. I call this good customer service.”*

— Patricia M. Clunies, Maryland



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## LISTENING TO OUR CUSTOMERS AND STAKEHOLDERS

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**S**tarbucks invites our customers and other stakeholders – including investors, media, suppliers and activists – to contact us with their questions, concerns or compliments through a variety of channels. If their needs cannot be addressed at the store, our customers can complete and mail in a comment card, which can be found in all stores. Or stakeholders can call our toll-free Customer Relations line (1-800-23-LATTE), which is open for calls daily. Feedback can also be submitted in writing or through our website at Starbucks.com. Regardless of how it is received, Starbucks Customer Relations team reviews and responds to every inquiry, often within 24 hours for calls and emails, when appropriate contact information has been provided.

### CUSTOMER CONTACTS

In fiscal 2003, Starbucks received nearly one million customer and stakeholder contacts. Starbucks tracks customer comments to identify areas needing attention and to keep abreast of emerging issues. On a monthly basis, Starbucks sends customer comment reports to key internal contacts and senior managers. Most contacts pertain to customer service in our stores, rather than broader issues. Last year, however, we received numerous requests from customers for nutrition information about our products as well as a few questions regarding genetically modified ingredients in foods and rBST milk. We were also asked about Starbucks cocoa sourcing practices.



## NUTRITION INFORMATION

Starbucks offers a range of beverage and food options that cater to our customers' individual preferences. To assist our customers in their selections, Starbucks provides nutrition information for our beverages and some fresh food items on our website at Starbucks.com. The nutrition information presented for beverages is based on the standard preparation for the size of beverage selected. Calories can be reduced in some beverages by requesting nonfat milk or eliminating the whipped cream.

Our suppliers have provided the nutrition information for those bakery products that fall under our national bakery product program. Although not all of our stores stock these products, many of them do, and they are representative of the products found in most of our markets.

*The nutrition information for a tall Starbucks® Latte, like the one pictured above, is available online at Starbucks.com.*

## GENETICALLY MODIFIED INGREDIENTS

Crops that have been genetically modified (GM) are ones that utilize biotechnology to speed up the process of traditional plant breeding. Biotechnology has become a very prevalent practice in U.S. agriculture, used widely to produce corn and soy crops, which are converted to ingredients used in many products.

Two years ago, Starbucks received a number of inquiries regarding GM ingredients in our products. At that time, Starbucks determined and has consistently reaffirmed that our coffees and teas are not genetically modified. Moreover, the majority of our beverage and food products are also free of ingredients from GM sources. Currently, the U.S. does not require specific labeling of GM ingredients, making identification difficult for businesses that sell ready-made foods.

In 2001, Starbucks adopted the stringent Food Standards Australia/New Zealand (FSANZ) regulations as an internal guideline to evaluate and monitor our products in the U.S. According to the FSANZ definition, which requires labeling for all genetically engineered material, except for highly refined minor ingredients, we estimate that less than 1% of Starbucks food and beverage products would require labeling as containing GM ingredients. When highly refined minor ingredients are used in our products, we verify that they are free of GM protein.

The European Union took action in 2003 requiring the traceability of GM organisms throughout the food chain – from farm to table – and the labeling of all food and feed consisting of, containing, or produced from a GM organism. For our European stores, Starbucks plans to source GM-free products from local suppliers.

## DAIRY

According to U.S. labeling requirements, dairy producers do not need to disclose whether their supply has been produced by cows injected with the growth hormone, rBST (recombinant bovine somatotropin). Starbucks appreciates the concerns some of our customers have about rBST. Therefore, in all of our U.S. company-operated stores, organic milk and soy alternatives, which are guaranteed to be rBST-free, are available upon request.



*Unprocessed cocoa beans.*

## COCOA SOURCING

The processed cocoa and chocolate Starbucks uses in our products is sourced from several tropical countries, including Côte d'Ivoire, West Africa. In 2001, reports appeared in the media that have raised concerns over the alleged use of forced child labor associated with cocoa production in Côte d'Ivoire.

We have relayed these concerns to our cocoa suppliers and asked them to address these issues in West Africa through the Joint Protocol, which was signed by chocolate manufacturers and related organizations in the cocoa industry, and witnessed by members of the U.S. Congress, International Labor Organization (ILO), and several nongovernmental organizations.

What we've learned from a comprehensive survey, conducted by the International Institute of Tropical Agriculture, of labor and other practices on 3,000 West African cocoa farms is that 96.7% of the children working on farms in Côte d'Ivoire were related to the farmers. This is a typical occurrence on small family farms where everyone in the family helps during the harvest season.

To help ensure economic sustainability of cocoa farming, our suppliers are committed to paying a fair price to farmers for their cocoa. According to the International Cocoa Organization (ICCO), commodity prices for cocoa are currently at their highest level in years.

Beyond what we've asked of our suppliers, Starbucks actively supports the World Cocoa Foundation (WCF), an organization that includes leaders in the cocoa industry and non-industry partners. Through its targeted educational and scientific programs, the WCF is successfully encouraging sustainable and responsible cocoa farming in Africa, Asia and Latin America.

## GOING FORWARD

As we increase the number of Starbucks stores and hire more partners, we recognize the challenge of consistently meeting the expectations of our customers for the ultimate *Starbucks Experience*, as well as the expectations of our communities. But challenges always present opportunities for improvement. So to ensure we maintain our commitment to develop enthusiastically satisfied customers all of the time, we will focus on the following initiatives in 2004:

- Improve our interviewing techniques used during the hiring process to help us select new partners who demonstrate customer-focused attributes and behaviors.
- Enhance partner training to emphasize Starbucks customer-focused culture, and highlight the behaviors and actions that will make a positive difference to our customers.
- Continue to monitor developments in the debate about genetic modification and be guided by regulatory authorities and concerns expressed by our consumers.
- Continue to provide support to the World Cocoa Foundation.



Beth Jamison

Starbucks partner and Green Team action leader

For the past seven years, Starbucks partners have taken a special interest in Morningside Park, a 29-acre parcel of nature that connects the Morningside Heights and Harlem neighborhoods in New York City. They have created an Earth Day tradition that involves gathering as many New York partners, friends, families and customers as possible and heading to the park for a day of clean-up

and spruce-up. On one particular day in April 2003, 730 volunteers showed up, including Beth Jamison and more than 300 of her fellow Starbucks partners – a record! With all of these volunteers on hand, 7,000 shrubs, trees and ground covers were planted, leaves were raked, wood chips were spread and the park's handball courts were repainted.



## Contribute positively to our communities and our environment.

When Starbucks first opened, customers came in search of great coffee. As their visits became more frequent, many became regulars, dropping in for a cup of coffee or just a hello. Relationships formed and, more notably, our coffeehouses evolved into community gathering places.

As Starbucks started to expand, we hoped the neighborhood atmosphere that invigorated our first coffeehouses would flourish in our new locations. Fortunately, it has. Today, our coffeehouses are places where friends and neighbors routinely gather and catch up, relax and enjoy a delicious beverage.

People are passionate about their communities. As a neighbor, Starbucks is dedicated to making a positive difference. Our community investments are focused on engaging our partners to be active participants; addressing literacy; contributing to the local communities where we operate, including coffee-growing communities; and minimizing our environmental impact.



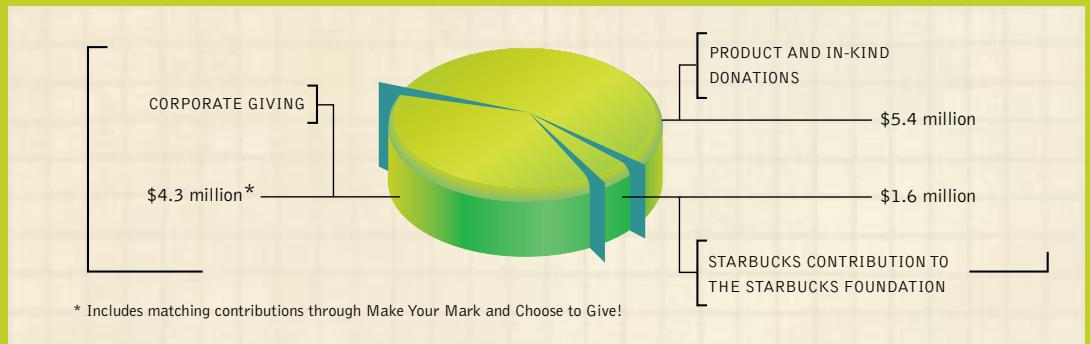
More than 30 Starbucks partners joined president and ceo Orin Smith, (center) to volunteer for a Palo Alto, California, literacy organization, YES Reading. Volunteers cleaned the garden, planted flowers, painted flower boxes and read to the children enrolled in the YES Reading program.

## ENGAGING OUR PARTNERS

Our partners are at the heart of Starbucks community and giving programs. Better yet, we follow their hearts. Our partners help determine how Starbucks can make the greatest impact in their local areas. Some partners volunteer, and others make charitable donations to nonprofit organizations. Many do both. In any case, Starbucks supports their efforts along the way through our Make Your Mark and Choose to Give! programs. (The chart below reflects Starbucks community support in 2003.)

### STARBUCKS COMMUNITY SUPPORT IN 2003

Total contributions in fiscal 2003 were \$11.3 million.



## MAKE YOUR MARK



### MAKE YOUR MARK

Since its inception, Make Your Mark (MYM) has been a favorite program of our partners, including Starbucks president and ceo Orin Smith. It's a matching program that rewards our partners' gifts of time with charitable donations from Starbucks. When our partners volunteer, they apply to Starbucks for a MYM grant, and we make contributions to community organizations on behalf of their volunteer efforts. Whether it's a team or individual project, Starbucks matches our partners' volunteerism with \$10 for every hour, up to \$1,000 per project. More important, MYM is not limited to just partners. The match is extended to customers, friends and family who participate in partner-driven MYM projects. It's obvious that our partners like this program because every year we see dramatically higher levels of involvement. (See results in the graph above.)

### SEPTEMBER MAKE YOUR MARK

For the past two years, Starbucks has highlighted Make Your Mark (MYM) during the month of September. We went all-out to promote volunteerism in September 2002, and one year later we enthusiastically appealed to our partners again. A goal of 50,000 volunteer hours was established, which is equivalent to one person working full-time for more than 24 years. Amazingly, September MYM inspired 27,000 Starbucks partners and customers to contribute more than 110,000 volunteer hours, exceeding all expectations. In support of the volunteers, Starbucks donated more than \$697,000 in financial contributions to nonprofit organizations across North America.

### EXECUTIVE COMMUNITY LEADERSHIP PROGRAM

The importance of community involvement is felt strongly by our partners, including our executives. Our partners take notice when an executive lends their leadership to a community organization, through board involvement or hands-on efforts. During

#### Making Our Mark in September

Here are examples of what went on in communities across North America for September Make Your Mark:

In Kittery, Maine, 91 volunteers joined together to make improvements at Saco Bay Trails. The project supervisor at the park noted that it would have taken a year to accomplish what the Starbucks volunteer team completed in one day. The volunteers constructed a boardwalk and bridge that day, which undoubtedly will have a lasting impact.

On the West Coast, partners and customers volunteered 170 hours and raised \$1,700 for Northwest Harvest. They packaged nearly 30,000 pounds of fresh vegetables that were distributed at local food banks throughout the state of Washington.

As long-time supporters of the fight against HIV/AIDS, our Canadian partners once again demonstrated how much they care. Teams of partners, friends, family and customers participated in 11 AIDS Walks across the country during September 2003, raising \$31,000 for the cause. At the Toronto AIDS Walk, more than 700 walkers formed Team Starbucks.

*Christine Day (right), Starbucks senior vice president, celebrates the opening of the new school with Josie Howell, a member of the First Place advisory board.*

### **Christine Day Makes First Place a Priority**

The demands of being a Starbucks executive haven't deterred Christine Day from assuming another role in her busy life. For the past six years, Christine was a board member of First Place, a Seattle school created for the children of families in crisis. "What I loved most about being involved were the kids, and seeing how the school made such a positive difference in their lives," Christine noted.

During her tenure on the board, Christine served as president and helped First Place complete its \$6 million capital campaign used to build a new school. "The opening ceremony for the new school was clearly a highlight for me," Christine said. "One loyal teacher couldn't believe her own eyes that 'everything, just everything the teachers dreamed of was here.' In that one moment, all the long hours of planning and fundraising had been worth it."



fiscal 2003, more than 35 Starbucks leaders (vice presidents and above) were actively engaged as board members of nonprofits. And in the spirit of Make Your Mark, Starbucks often contributes to these organizations as a way to support our executives' involvement.

### **CHOOSE TO GIVE!**

Community organizations thrive on volunteer support as well as financial contributions. Because giving is such a personal decision, Starbucks designed a flexible workplace-giving program that provides a dollar-for-dollar match of our partners' donations to the charities of their choice, up to \$1,000 annually. As a result, our North American partners have steadily increased their giving over time. Starbucks believes our Choose to Give! program is an important community investment because it provides financial support to local nonprofits, and it also reinforces the importance of philanthropy to our partners. (The chart below shows Choose to Give! results for 2001–2003.)

### **CHOOSE TO GIVE!**

	<i>fiscal year</i>	2001	2002*	2003
NUMBER OF PARTNERS PARTICIPATING		515	637	1,260
STARBUCKS CONTRIBUTION		\$170,000	\$132,000	\$252,000

\* Choose to Give! was suspended for several months at the beginning of 2002 so improvements could be made to the program. These figures reflect giving from March to September 2002.



## EARTH DAY

Celebrating Earth Day each April is a Starbucks tradition that has grown significantly over the years. For many Starbucks partners, Earth Day is an opportunity to volunteer in our communities. But it also serves as a platform for building awareness among our partners and customers about the responsibility we all share for the environment.

For the second year, Starbucks supported the Earth Day Network (EDN), a resource for people wanting to participate locally and/or learn more about the impacts their daily actions have on the environment. In 2003, Starbucks provided funding to support EDN's outreach efforts to Hispanic and other minority communities. For a month last spring, EDN was featured on Starbucks hot cup sleeves, which drove more than one million people to visit [www.earthday.net](http://www.earthday.net).

Here are a couple of highlights of our efforts to support Earth Day in 2003:

- Hewlett-Packard, Best Buy and Starbucks "Teamed Up to Clean Up" in Seattle and New York City. Together, we provided an opportunity for consumers to recycle used computer hardware and other electronics in an environmentally safe and responsible manner, free of charge. The events recycled 120,000 pounds of materials that might have otherwise ended up in landfills.
- In Japan, more than 2,000 partners volunteered at clean-up events throughout the country as part of Earth Day.

*Starbucks partners from Peru came to Seattle for their immersion training. During their stay, they took time to volunteer on Earth Day, teaming with local store partners and the Seattle Parks Department to clean up Volunteer Park.*

*"Starbucks support has helped the Earth Day Network to deliver environmental information and capacity-building tools to the communities that need it most – low income, urban communities."*

— Kathleen Rogers, president,  
Earth Day Network



(photo above, left) In Amsterdam, Starbucks partners in our regional office and at our roasting plant have supported Emma Children's Hospital by donating computer hardware and making financial contributions through special fundraising initiatives. Four-year-old Zoe, pictured here, is a patient at Emma Children's Hospital.

(photo above, right) On National Tree Day in Australia, an estimated 170 Starbucks partners planted 10,000 trees as part of Starbucks Australia's Giving Back Program. Starbucks supported this event by purchasing seedlings, printing brochures and posters, providing coffee to volunteers at tree-planting sites and paying wages to store partners while they planted trees.



## MAKING A DIFFERENCE IN COMMUNITIES AROUND THE WORLD

Our international partners have shared their accounts of how Starbucks is contributing to local communities. Here are a few examples:

- Make Your Mark was unveiled outside of North America in 2003, introducing Starbucks popular volunteer program to partners in 14 Asia Pacific markets. Immediately after the debut, partners volunteered to clean up a beach and walk 100 km for Oxfam Hong Kong.
- Our joint-venture partner in the Philippines, Rustan Coffee Corporation, recently launched their own volunteer program – Hours to Give. Local Starbucks stores offer their partners at least two paid hours a month to volunteer in the community to help educate school-age children.
- A workplace-giving program was recently introduced in Starbucks UK – Give As You Earn. Partners have the option of payroll deduction for making their charitable donations.
- Autistic children in Bahrain have found some new friends at the local Starbucks. The children enrolled in the Bahrain Rehabilitation Institute of Autism's daycare program often visit Starbucks during their field trips. Our partners take joy in spending quality time with the kids and giving them personalized tours of the store.
- Starbucks and Conservation International recently teamed up in Indonesia to collaborate on an education program aimed at teaching school children about the importance of biodiversity conservation.



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## THE STARBUCKS FOUNDATION SUPPORTS LITERACY

In 1997, Starbucks chairman Howard Schultz founded The Starbucks Foundation for the purpose of creating hope, discovery and opportunity in our communities. Determined to have an impact, we chose to focus on literacy because studies have shown that children who read for fun, or are read to, do better in school. Most important, knowing how to read is an essential prerequisite for success in today's world.

The Starbucks Foundation has supported literacy programs in North America ever since. We have partnerships with two national nonprofits, Jumpstart and America SCORES, which both receive significant grants. And we make Foundation grants to literacy programs that emphasize youth leadership and foster an appreciation for diversity. Outside the U.S. and Canada, The Starbucks Foundation has provided some seed grants to initiate community projects.

The Starbucks Foundation is a registered 501(c) (3) private foundation and a separate entity from Starbucks Coffee Company.

*Shunsuke Baba, who had his dream of swimming with dolphins fulfilled by the Make-A-Wish Foundation of Japan, created special artwork for this commemorative mug.*

### Starbucks and Make-A-Wish Foundation of Japan

Starbucks Coffee Japan wanted to make dreams come true for children suffering from life-threatening illnesses. In 2003, they formed a partnership with Make-A-Wish Foundation of Japan and set out to raise money from the sales of a limited edition Starbucks Card and a commemorative mug.

Our customers in Japan responded by purchasing Starbucks cards and mugs, which enabled 2% of the proceeds to be donated to Make-A-Wish Foundation of Japan. Seattle Mariners baseball great Ichiro Suzuki, who had granted wishes to children from Make-A-Wish Foundation of Japan in the past, participated, too. He and his wife added \$25,000. The Tateuchi Foundation, which has funded many philanthropic initiatives in Seattle and Japan, and The Starbucks Foundation added more. The total raised was \$120,000.



*Joe Read, a NY SCORES participant, reads his poem to an audience gathered at Starbucks.*

#### **In Manhattan, Starbucks Showcases Work of Young Poets**

Rising above the ambient sounds of a bustling coffeehouse were the voices of 12 slightly nervous students who wanted to share something special with the crowd at Starbucks – their poems. Taking turns, each approached the microphone, as the audience hushed, and read a piece they had written as part of their involvement with NY SCORES, an America SCORES affiliate. For most of the students, this performance was probably a first. But the experience undoubtedly gave all the students some newfound confidence as their poems were enthusiastically received.

#### **NATIONAL PARTNERSHIPS**

Jumpstart currently reaches more than 6,000 preschool children from low-income families and pairs them with highly trained college students for intensive one-to-one attention. As a result, children gain language, literacy, social and initiative skills, providing a foundation for future academic and social success. In 2001, The Starbucks Foundation pledged \$1 million over four years to help Jumpstart expand to new cities, and provide more children with the skills they need to succeed.

America SCORES provides children a safe, structured after-school environment by combining soccer programs with creative writing workshops to inspire teamwork and bring out the best in each student. The Starbucks Foundation made an initial grant in 1997, and since then the relationship between America SCORES and The Starbucks Foundation has grown. The program has steadily expanded over the years to serve more students in a variety of U.S. cities. In 2003, The Foundation contributed \$210,000 to America SCORES.

#### **REGIONAL FOUNDATION GRANTS**

The Starbucks Foundation makes grants through its Youth Leadership Grant Program, supporting organizations that are aligned with our literacy mission and are those in which Starbucks partners are involved as volunteers. Emphasis is given to programs that serve low-income, at-risk youth, embrace cultural diversity and involve families, schools and/or neighborhood organizations. Grants typically range from \$5,000 to \$20,000. In fiscal 2003, The Starbucks Foundation expanded the focus of our grants program, which includes the following:

**Power of Literacy** – The Foundation favors programs that stimulate personal development and encourage commitment to social equity, justice and environmental awareness through writing, literacy and the promotion of the voices of youth in public forums. Here are two examples of grants made in fiscal 2003:

- The Community~Word Project in New York City received a \$15,000 grant from The Starbucks Foundation to support a growing arts-in-education program. The arts are used to develop the reading and writing skills of youth, while building community among at-risk students from New York City public schools.
- Environmental Education Alliance of Georgia in Gainesville was granted \$20,000 for the "River of Words" project, an environment-based education program that combines experiential activities in natural habitats with creative writing and poetry to encourage students to express their commitment to environmental issues.

**Leaders in Diversity** – The Foundation supports programs that teach the value of societal diversity, with an emphasis on the development of leadership skills to build bridges of understanding between individuals, groups and communities. Below are two examples of grants made in fiscal 2003:

- City at Peace in Los Angeles received \$7,500 from The Starbucks Foundation to support its performing arts program. The project's goal is to engage diverse groups of youth, through theatre and music, so they are empowered to transform their lives and communities through understanding of peaceful conflict resolution.
- National Conference for Community and Justice in Nashville was awarded a \$10,000 grant for its "Building Bridges" program. Participating youth are empowered to produce multicultural appreciation and anti-prejudice and anti-violence programs in schools, helping other students to overcome prejudices, discrimination and violence.

## CONTRIBUTING TO LOCAL COMMUNITIES

With locations spread throughout 32 countries, we are part of a lot of communities. And in all of them, we try to have a positive impact. The best approach we've come up with to share Starbucks charitable contributions with our local communities is to support our partners' community involvement. Thus, our focus on our volunteer program, Make Your Mark, and our workplace giving program, Choose to Give!

Beyond our focus on partners, Starbucks finds other ways to support local communities. Some are large-scale efforts in all North American communities where Starbucks stores are located, while other initiatives are unique to a specific community.

### HOLIDAY ANGELS

During the past several holiday seasons, the Starbucks Holiday Angels Toy Drive has brought joy to children suffering from serious illness. In fiscal 2003, Starbucks customers and partners donated more than 276,000 toys to be given to sick children through the Starlight Children's Foundation, an international nonprofit organization.



*This artwork was designed for Starbucks and captures our spirit of community and environment.*

### ALL BOOKS FOR CHILDREN

Last spring, Starbucks customers and partners continued a six-year tradition by donating more than 490,000 new or slightly used children's books through a Starbucks-sponsored book drive – All Books for Children. Nearly 300 Safeway licensed Starbucks stores participated for the first time, adding 2,800 books to our collection efforts. The books were distributed to more than 140 local literacy organizations.

In the UK, Starbucks supports All Books for Children with a different approach. Rather than an actual book drive, Starbucks UK has contributed funds to the National Literacy Trust for three years. The funds have been used to purchase more than 12,000 books, which have been given to more than 4,000 children in library events across the UK. Starbucks UK partners regularly volunteer at these events.

### PRODUCT AND IN-KIND DONATIONS

Starbucks stores are frequently approached by local organizations seeking donated coffee for community events, or products that can be sold at charity auctions. While requests of this nature are often very worthy, only some can be fulfilled. Our local stores and regional markets determine these donations.

Most of our stores and roasting plants have established ties with local charities – such as shelters or food banks – to receive in-kind donations of the store's unsold pastries and coffee.

In fiscal 2003, the value of our product and in-kind donations was \$5.3 million.

Tazo Tea Company also donated products in fiscal 2003 to support community organizations. These donations were valued at \$83,500.



## LOCAL ACTION

Starbucks supports some larger initiatives in local communities. For example, we contribute \$75,000 annually to the Starbucks Memorial Fund, a special program that honors the memory of three young Starbucks partners who, in 1997, tragically lost their lives in our Georgetown store in Washington, D.C. The Fund provides support to local area organizations working to prevent violence and assist victims.

Here are examples of what Starbucks is doing in other communities:

- Organizations in the San Francisco Bay Area and Sacramento have received contributions from Starbucks through our local program, Grants for Giving. Since introducing the program three years ago, Starbucks has donated more than \$1 million, funding a variety of local projects. In 2003, Starbucks Grants for Giving made contributions to 10 organizations, including the North Bay Children's Center for its Health and Nutrition Program, and San Francisco's Holy Family Day Home for its Family Literacy Project.
- In the Seattle area, Starbucks contributes \$100,000 annually through our Neighborhood Park Grants Program to grassroots volunteer organizations that work to create safe and welcoming gathering places for all members of the community. In fiscal 2003, Starbucks made 10 Neighborhood Park Grants of \$10,000 each.

New York State Senator Owen Johnson (left) and Marty Annese, Starbucks senior vice president, read with children at the opening of the library at Wyandanch Daycare Center on Long Island.

## Starbucks Helps Build New Libraries

Starbucks joined forces with the literacy group, Books for Kids Foundation, to help create 10 new libraries for children in the New York metro area. The libraries are being established within existing community-based organizations and schools. The first library opened in March 2003, at Yonkers Children's Place. A second library was built in the Wyandanch Daycare Center on Long Island. A team of architects, designers, store developers and community liaisons – all Starbucks partners – helped renovate and create an inviting space where kids would feel comfortable.



*This small tea-growing village in the Darjeeling region of India is one of the communities benefiting from Tazo's CHAI project.*

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## COFFEE - AND TEA - GROWING COMMUNITIES

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Starbucks has a deep commitment to the people and places where our coffees and teas are produced. Much of this is shared in the coffee quality section of this report (pages 22-37), including the social projects we support and our partnership with Conservation International.

### CARE

Starbucks has maintained a 12-year relationship with CARE International, a nonprofit organization dedicated to fighting global poverty. CARE has provided many opportunities over the years for Starbucks to help meet the needs of developing communities for basic health and education services. From fiscal 2002 to 2003, Starbucks contributed a total of \$300,000 to CARE for a special emergency response fund to be used for coffee communities. Starbucks and CARE are working together to determine how these funds should best be deployed to meet the most pressing needs in developing countries.



## TAZO AND MERCY CORPS

Tazo Tea Company, a wholly owned subsidiary of Starbucks, forged a partnership in 2002 with Mercy Corps, an international humanitarian aid organization. Together, they created a project called CHAI – Collaboration for Hope and Advancement in India. The project supports community development in the tea-growing district of Darjeeling, India, the origin of some of the finest teas available in the world and home to many of Tazo's suppliers.

Under Mercy Corps' direction, CHAI is focused on three areas: health (access to water and improved waste management), youth development and vocational training, and local community development through self-governing bodies. In fiscal 2003, the project established a field office in the region, hired and trained local staff, conducted needs assessments and launched health and vocational projects in 12 remote communities. Constructing latrines and other water infrastructure, building roads and footpaths, and reforestation activities will begin next year in 24 villages.

A total minimum pledge of \$600,000, payable over three years, was made by Tazo, its suppliers (including tea growers, traders and brokers) and Starbucks. In fiscal 2003, the amount contributed to CHAI by all the parties totaled \$240,000, which included \$100,000 from Starbucks.

## COFFEE KIDS

For the third consecutive year, Starbucks supported Coffee Kids, an international nonprofit organization dedicated to improving the quality of life of coffee-farming families, with a contribution of \$25,000. These funds helped provide micro-credit loans to 4,460 women and their families in Veracruz, Mexico, and Matagalpa, Nicaragua.

*A Mercy Corps staff member (center) meets with local villagers in the Darjeeling region of India to discuss the goals of Tazo's CHAI project.*

*"The generous and committed support of Starbucks has helped thousands of families help themselves."*

— Bill Fishbein, founder and executive director, Coffee Kids

## **Starbucks Environmental Mission Statement**

Starbucks is committed to a role of environmental leadership in all facets of our business. We will 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.

## **MINIMIZING OUR ENVIRONMENTAL IMPACT**

**C**onsider how fundamental fresh water and clean air are to our quality of life. A commitment to effective environmental management is necessary to protect these and the earth's other natural resources. Starbucks believes environmental stewardship is an essential component of our community responsibility. Our mantra has become to minimize our environmental footprint on the planet and help to ensure a healthy environment for future generations.

In the following pages, we provide a performance report on Starbucks environmental initiatives. In some areas, we are making good progress. And in others, there are opportunities for improvement. In either case, we realize that reducing the size of our footprint requires a steadfast commitment and the acknowledgement that it's an ongoing process – a journey with no end point.

### **ENVIRONMENTAL FOOTPRINT**

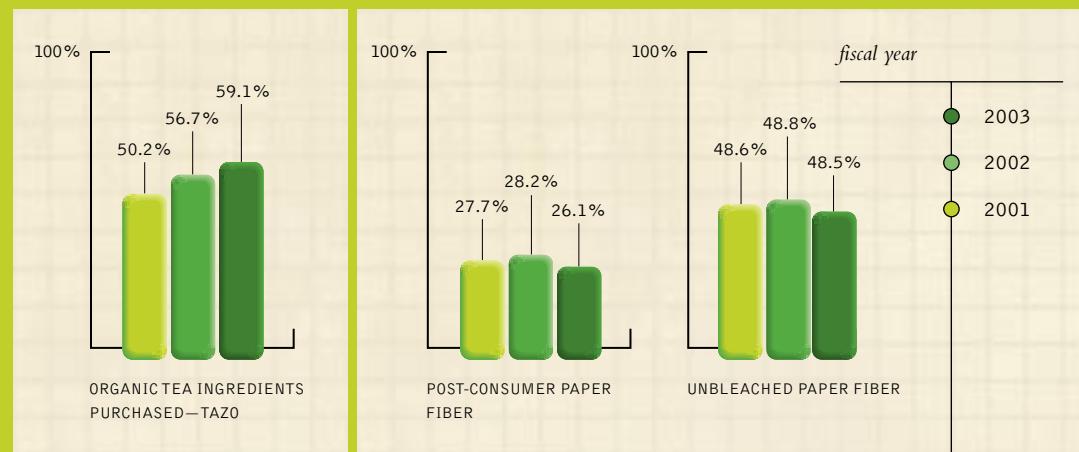
Our environmental mission statement is the foundation of Starbucks commitment to environmental responsibility. We took this to heart in 2000 when we evaluated Starbucks impacts using The Natural Step's sustainability framework, and embarked on a course to reduce our footprint on the planet. This involved adopting specific measures to decrease waste and our use of energy and water, among others. We involved a strong cross-functional team of partners to determine the best approach.

Starbucks Environmental Footprint Team identified three high-impact areas that we are now addressing:

- Sourcing: coffee, tea and paper.
- Transportation: people and products.
- Store design and operations: energy, water, waste reduction and recycling.

We have established environmental performance metrics in all three areas, enabling us to measure our progress.

## TEA AND PAPER SOURCING



## COFFEE, TEA AND PAPER

One of our greatest environmental impacts includes coffee growing, which is addressed in an earlier section of this report, beginning on page 22. As we have reported, Starbucks is taking significant measures to encourage the sustainable production of coffee.

### Tea

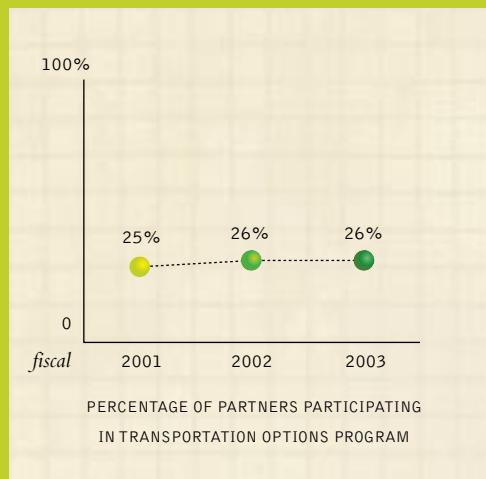
Like coffee, tea is an agricultural product. Tazo Tea Company, a wholly owned subsidiary of Starbucks, sources a variety of raw materials used in Tazo's tea blends, including tea leaves, botanicals and spices. Tazo is committed to purchasing certified organic materials for its tea blends whenever feasible, appreciating that organic farming practices have environmental benefits because of the limited reliance on chemical fertilizers, herbicides and pesticides. (See tea sourcing graph, above left.)

### Paper

Starbucks uses large quantities of paper – from the cups, napkins and shopping bags used in our stores, to the shipping cartons used in our operations. In an effort to reduce our environmental footprint, Starbucks strives to purchase paper with high levels of post-consumer fiber (PCF) and unbleached fiber. We believe our efforts will contribute to forest conservation and help to reduce waste.

We measure our performance in this area as the percentage of PCF content and, separately, unbleached fiber that is contained in all the paper we purchase. In fiscal 2003, the overall percentage of PCF content exceeded our goal of 20%, but compared to fiscal 2002, our performance wasn't as strong. Over half of the paper we purchase is used in our hot cups. We are researching ways to incorporate PCF in our cups. Additionally, we are confident in our ability to raise the PCF content in future non-cup purchases, and have targeted 30% PCF content. (See paper sourcing graphs, above right.)

## TRANSPORTATION



*Our partners at Starbucks Support Center in Seattle have access to a Flexcar™ for work-related travel during the day, which allows them to leave their cars at home.*

### TRANSPORTATION

A growing concern about global warming has led to more scrutiny of the causes, including the impacts of transportation. Most vehicles burn fossil fuels, which contribute to rising levels of carbon dioxide ( $\text{CO}_2$ ), a greenhouse gas. We accept the opinion of most scientists that the increased accumulation of greenhouse gas emissions in the atmosphere is influencing changes in the planet's temperature. These changes could lead to harmful effects, such as rising sea levels and shifts in weather and global hydrological patterns.

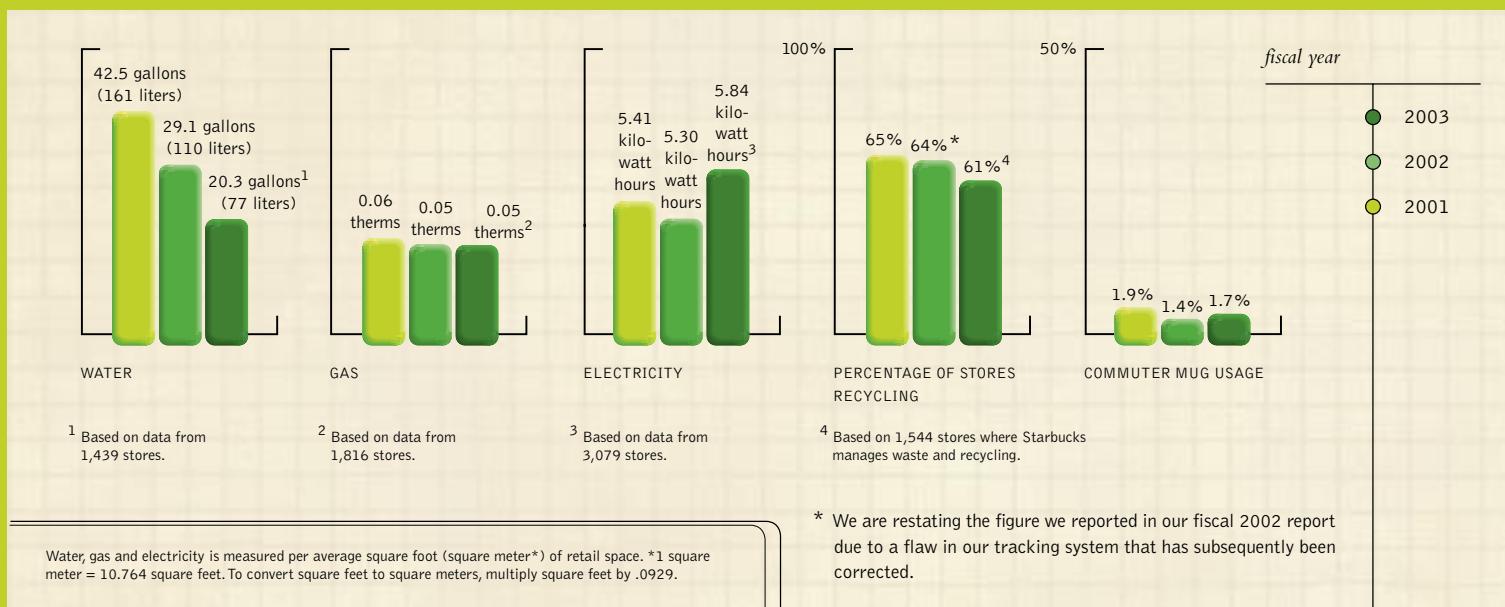
Our Footprint Team determined that our initial efforts should focus on our partners' commute to and from Starbucks Support Center, our global headquarters in Seattle. This is Starbucks largest workplace facility and the site where, on average, 2,320 partners worked in fiscal 2003.

Starbucks "Transportation Options Program," or TOP, offers commuting alternatives to partners. The program includes subsidized transit passes; free shuttle buses for local commutes; and perks for carpoolers, walkers and bike riders. Our Partner Fleet Car Program is operated in conjunction with Flexcar™ providing vehicles to partners to use for business trips during the day so they can leave their vehicles at home. And when needed, Starbucks will provide our commuting partners a ride home. (See graph above.)

Our transportation impacts also include the distribution of our products around the world. Starbucks is working with transport providers to reduce this impact by:

- Piloting a measure to consolidate store deliveries and reduce the number of daily trips supply trucks are making to our stores. It's too early for results, but we are hopeful this measure will reduce Starbucks fuel consumption as well as costs.
- Participating in the Business for Social Responsibility (BSR) Clean Cargo Group, a worldwide committee of multinational corporations, to develop environmental guidelines for ocean transportation geared for shippers and freight carriers.

## STORE DESIGN AND OPERATIONS



## STORE DESIGN AND OPERATIONS

Collectively, Starbucks stores in North America use considerable amounts of energy and water, and generate a great deal of waste. Our environmental retail initiatives are focused on reducing energy and water consumption, and minimizing waste by reusing and recycling. We also examine ways to improve the environmental performance of our stores through better design specifications and equipment purchases.

### Energy Conservation

There are easy and cost-effective measures that can reduce energy usage and decrease greenhouse gas emissions, Starbucks has found. For example, our stores use a best practice Energy Checklist that includes practical conservation measures. Moreover, last year Starbucks undertook a number of conservation projects in our North American stores. These included replacing inefficient bulbs and fixtures in more than 2,700 existing stores, and resetting thermostats to increase heating and cooling efficiency.

Despite these initiatives, our energy usage in fiscal 2003 increased, based on data we collected from a sample of stores. In an effort to improve our performance in this area, in 2004 we will launch an "Energy Test Bed," over two years in a sample of our stores, to monitor all energy usage, including equipment, and test new energy conservation initiatives.

### Water Conservation

Sometimes simple solutions can have a big impact. This was true of our water conservation measures last year. Starbucks installed low flow toilets in some of our locations. We also adjusted the flow on a specialized faucet located in our espresso bars. More than 3,000 stores were installed with water-efficient rinsers which clean the pitchers used to mix our Frappuccino® blended beverages. (See store design and operations graphs above.)



### International Grounds

Outside the U.S., some Starbucks stores have discovered how to reuse coffee grounds. In Japan, a team of Starbucks partners realized that coffee grounds could be used as an ingredient to make paper. A local printing company used this paper to print "Starbucks Press," the official Starbucks Japan newsletter.

Starbucks partnered with the Composting Council of Canada to promote recycling, waste reduction and environmental awareness. Our Canadian stores offered complimentary spent coffee grounds, hosted in-store composting seminars with master gardeners, and distributed useful information on composting.

In Bahrain, the local Starbucks dries coffee grounds in the sun, packages them, and gives the grounds to customers as fertilizer for house plants.

And on Environmental Day in South Korea, our stores gave their customers flower pots that contained a bag of reused coffee grounds for fertilizer, topped with some planting seeds. (See photo above, left.)

### Waste Reduction and Reuse

Our store partners are very innovative when it comes to reducing waste. An example of this happened eight years ago when a team of store partners discovered how Starbucks could reuse coffee grounds, the heaviest portion of our waste stream. It evolved into a program, *Grounds for Your Garden*, which involves packaging up five-pound bags of coffee grounds and offering them to our customers, local parks, schools and nurseries as a soil amendment for gardens.

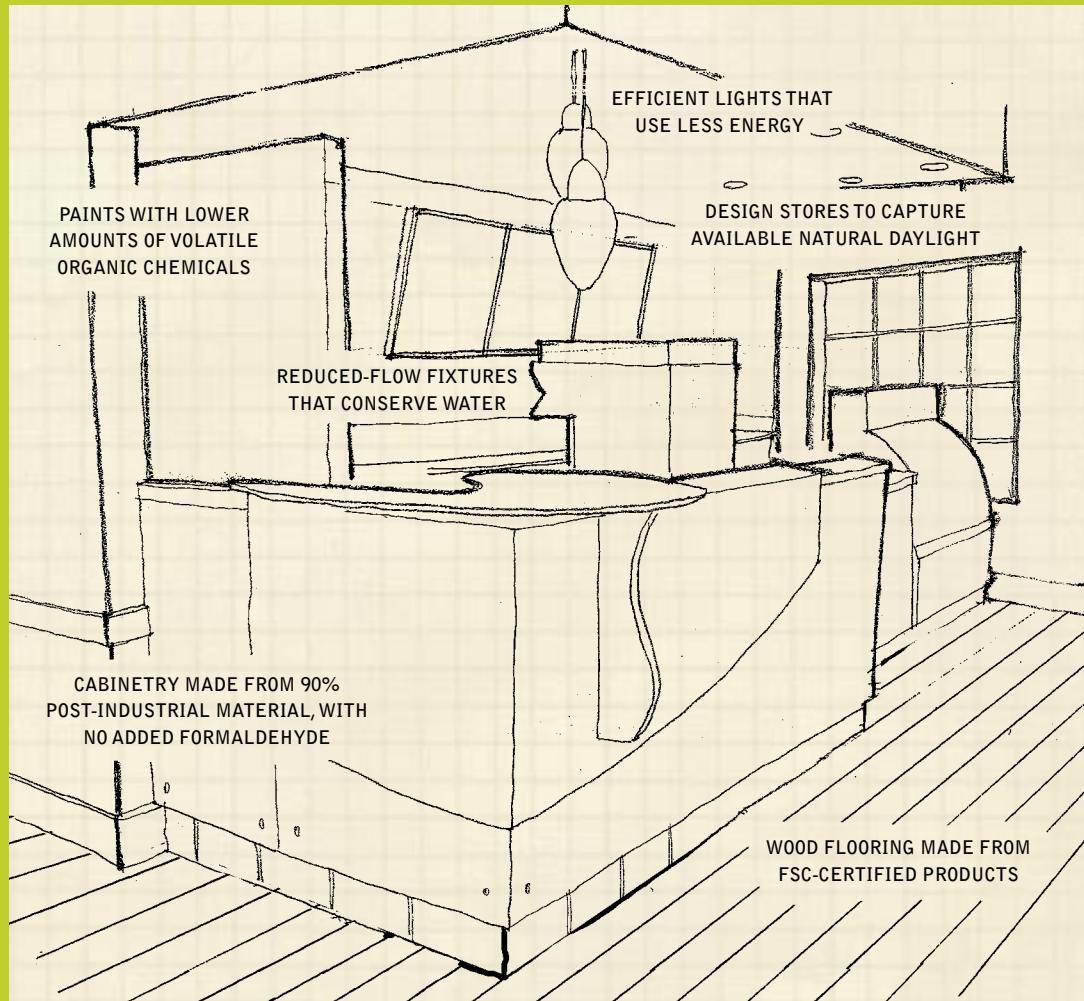
We also reduce waste in our stores by encouraging our customers to use their own commuter mugs when purchasing a beverage. Customers receive a discount of \$0.10 if they do. The good news is that customers used commuter mugs more than 13.5 million times in fiscal 2003, keeping 586,800 pounds of paper and plastic waste from landfills. Although the overall percentage of commuter mug usage is higher this year compared to 2002, it is still below usage levels from 2001. (See graph on previous page.)

Starbucks also reduces paper waste by serving beverages, upon request, in reusable ceramic coffee mugs to our customers who plan to enjoy their beverages in our stores. In addition, Starbucks adopted a policy in 2002 stating that all Starbucks partners should use reusable mugs for the beverages they consume while at work.

### Recycling

There are so many compelling reasons to recycle, from saving natural resources and energy to reducing the need for new landfills and incinerators. Starbucks is committed to increasing the amount of recycling in all our company-operated stores, but it comes with certain challenges. For one, we don't oversee waste management in all of our company-operated stores and must rely on our various landlords to place a high priority on recycling, as well as track their efforts. In addition, some of our stores are located in communities where commercial recycling facilities are not available.

Our performance for recycling is reported as the number of company-operated stores where waste management is controlled by Starbucks, and that have recycling programs. (See graph on previous page.)



## Environmental Measures in Our Store Design

Starbucks is modifying our construction specifications to improve the environmental performance in our new stores. While it's a work in progress, some specifications have already been altered, including standards for purchasing wood products that are certified through the Forest Stewardship Council (FSC). In fiscal 2003, we purchased:

- Certified wood fiber, with no added formaldehyde, to build the display cases in 535 new stores. This material accounted for 99.5% of our casework.
- FSC-certified hardwood for flooring in 133 new stores. This material accounted for 95% of the hardwood flooring used by Starbucks.

For the last two years, Starbucks has played a leading role on the Retail Development Committee of the U.S. Green Building Council (USGBC). Our involvement has been focused on developing a scorecard for retailers, based on USGBC's Leadership in Energy and Environmental Design (LEED) standards. Originally intended to pilot in 2003, the project is now expected to be introduced in 2004.

*The above illustration identifies some measures we are incorporating in the design and construction of our stores. These measures are aimed at conserving resources and improving our environmental performance.*



(photo above, left) Paula Boggs, Starbucks executive vice president, general counsel and secretary, encourages her team to be active contributors in the community through pro bono work and other activities.

(photo above, right) Attendees at Starbucks Green Team Action Leaders Conference in Seattle.



### GETTING PARTNERS INVOLVED

Since 1994, a group of store managers across North America have served on Starbucks Green Team. Over the years, they have identified some worthy environmental measures for our stores, many of which have had a lasting impact. Their enthusiasm is infectious, inspiring our store partners to do their part to conserve energy and water, and reduce waste.

In 2003, Starbucks hosted 39 Green Team action leaders, including partners from North America, Japan and Australia, in Seattle for a three-day conference to brainstorm solutions on improving the environmental performance in our stores.

### RECOGNITION

- The King County Bar Association selected Starbucks in-house legal team as the **Pro Bono Firm of the Year**. The award recognizes the legal services Starbucks partners have provided to the Housing Justice Project, which represents low-income tenants in the Seattle area.
- The Washington Chapter of the Association of Fundraising Professionals named Starbucks the **2003 Outstanding Philanthropic Corporation**. Starbucks was nominated by the Seattle Public Library Foundation.
- Seattle's King County Library Association honored The Starbucks Foundation with its **2003 Literary Lions Award** for excellence in promoting literacy.
- Starbucks received the **2003 Energy Conservation Award** from the Business and Industry Resource Venture, a division of Seattle Chamber of Commerce.

## GOING FORWARD

**S**tarbucks went from 272 retail stores in 1993, to more than 7,000 locations ten years later. Our expansion to new parts of the world has elevated our need to develop a global philanthropic strategy and to assess our environmental stewardship around the globe.

As proud as we are of our accomplishments in 2003, Starbucks recognizes that we can reach further, try harder and make improvements. Here's what we plan to achieve in 2004 and beyond:

- Increase the percentage of partners participating in Make Your Mark and Choose to Give!
- Increase the percentage of Starbucks senior executives who serve on the boards of community organizations.
- Loan a Starbucks executive to CARE for one year to assist CARE in developing best practices for corporate alliances.
- Renew The Starbucks Foundation's national partnerships with Jumpstart and America SCORES and continue to increase Starbucks partner involvement with both organizations.
- Increase Tazo's commitment to Mercy Corps for the CHAI project to \$800,000, payable over three years. With the additional funds, provide health care to critically ill villagers.
- Use the World Business Council on Sustainable Development/World Resource Institute Greenhouse Gas Protocol to conduct a climate inventory to better understand our greenhouse gas emissions.
- Increase the number of Starbucks stores in the U.S. that participate in a recycling program by 10%.
- Increase our purchases of in-store furniture made from wood certified by the Forest Stewardship Council.
- Participate with the Paper Working Group, led by Metafore, to encourage the increased use of environmentally preferable paper. Metafore is a nonprofit organization that collaborates with leaders in business and society to create innovative, market-based approaches that support thriving forests and communities.
- Together with other industry leaders, pursue economically and environmentally sustainable packaging solutions through participation in the Sustainable Packaging Coalition, a project of GreenBlue, that Starbucks helped establish.

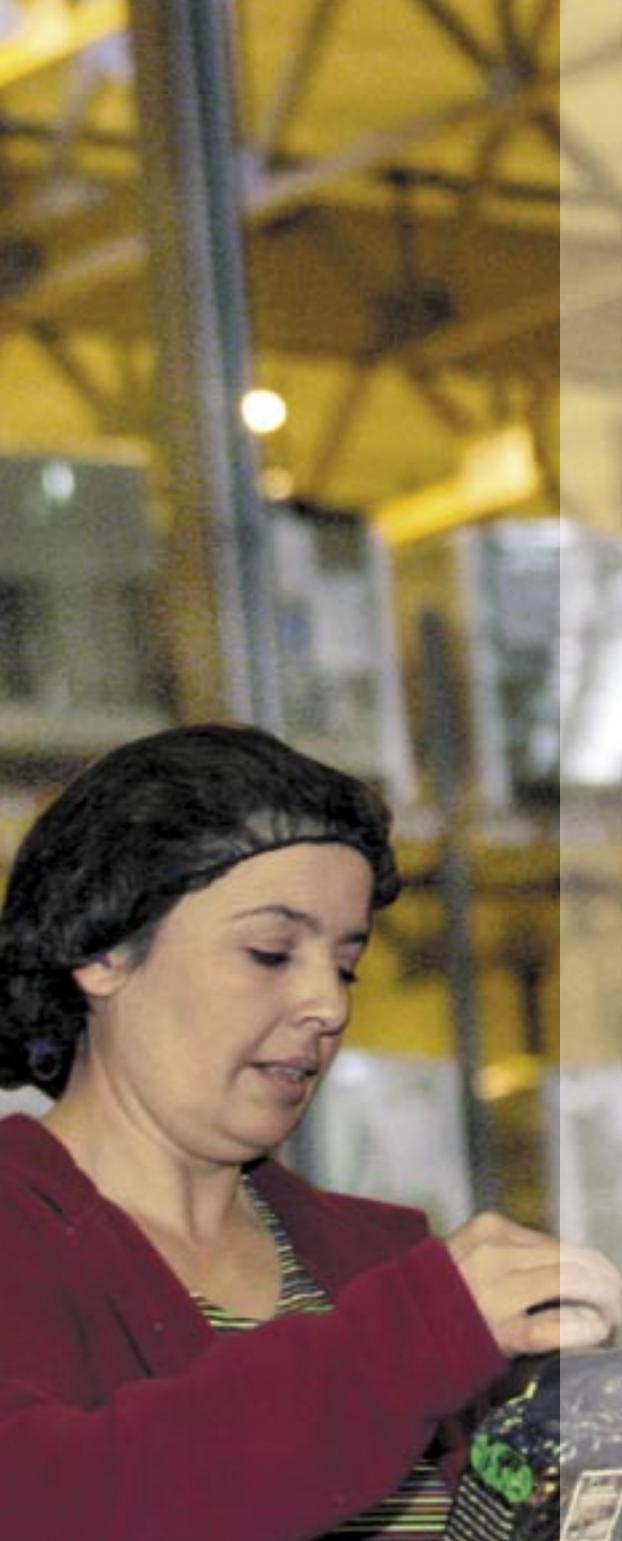


Domingo and Mariana Olvera  
Starbucks partners

Domingo Olvera never imagined that one day he'd own 75 acres of agricultural land and have a three-bedroom house built in his homeland of Jalisco, Mexico. But that's exactly what he and his wife, Mariana, managed to do after cashing in some of Domingo's *Bean Stock* grants that he accrued by packaging coffee at Starbucks roasting plant in Kent, Washington. The house is "a nice place; not so big, but nice," describes Domingo of the home where his family stays when they return to Jalisco for vacations. "Next, I'll use my *Bean Stock* to expand the house," Domingo explains. "This has been real

good for me. I value all the benefits that Starbucks provides for me – the stock options, the 401(k) and S.I.P. (stock investment plan)."

Domingo isn't the only Starbucks partner in the family. Mariana also works at the roasting plant and so does Domingo's brother, Juan. In fact, Mariana has used her *Bean Stock* to create her own retirement nest egg, and Juan used his to purchase a parcel of land that neighbors Domingo's property in Jalisco.



## Recognize that profitability is essential to our future success.

When Starbucks Guiding Principles were conceived, profitability was included as a core value, but intentionally placed last on the list. This was done not because profitability is least important. Instead, we believed that adhering to our strong values, and our commitment to good sustainability performance, would ultimately lead to good financial performance.

As we reflect on the reasons for Starbucks financial success, we believe our responsible business conduct has been a strong factor. But it comes down to the commitment our partners make to operate in a manner consistent with our values. So it's fitting that the rewards of Starbucks performance benefit all shareholders, including our partners.

The concluding section of this report provides a brief history of Starbucks, a company profile, a description of the corporate governance changes Starbucks adopted in 2003, and information about our newly launched Starbucks Supplier Code of Conduct.



*Our very first store in Seattle's Pike Place Market.*

## STARBUCKS HISTORY AND COMPANY PROFILE

**S**tarbucks opened for business in 1971 with a small shop in Seattle's Pike Place Market. Sixteen years later, two events occurred that signaled things to come. A group of investors, led by Starbucks chairman and chief global strategist, Howard Schultz, acquired the company in August 1987, at a time when there were six Starbucks stores. And Starbucks expanded for the first time outside the Seattle area, opening stores in Vancouver, B.C., and Chicago.

In 1992, Starbucks became a publicly traded company, with common stock being traded on the Nasdaq National Market under the trading symbol, SBUX. Stores were opened in San Francisco, Southern California and Denver, bringing the total of Starbucks stores to 165 at the end of fiscal 1992.

Four years later, Starbucks expanded to Japan and Singapore, our first international ventures outside North America. That same year we introduced the bottled version of Starbucks Frappuccino® coffee drink in North America.

Over the next seven years, Starbucks steadily added locations, introduced new products, launched ventures and formed strategic partnerships. Starbucks ended fiscal 2003 with 7,225 company-operated and licensed operations in 32 countries, including all 50 U.S. states plus the District of Columbia. This year, retail operations accounted for 85% of Starbucks revenues, while remaining revenues were from specialty operations.\* (See Company Profile chart on the next page.)

\* Sales of coffee and tea products that occur through other channels of distribution outside the company-operated retail store environment are collectively referred to as "specialty operations."

## COMPANY PROFILE

	<i>fiscal year</i>	2001	2002	2003
TOTAL NET REVENUES		\$2.6 billion	\$3.3 billion	\$4.1 billion
NET EARNINGS		\$180.3 million*	\$212.7 million*	\$268.3 million
EARNINGS PER SHARE		\$0.46	\$0.54	\$0.67
TOTAL INCOME TAXES		\$107.7 million	\$126.3 million	\$168.0 million
SHAREHOLDERS' EQUITY		\$1.4 billion*	\$1.7 billion*	\$2.1 billion*
NUMBER OF COMPANY-OPERATED LOCATIONS	NORTH AMERICA INTERNATIONAL	2,971 295	3,496 384	4,095 451
NUMBER OF LICENSED LOCATIONS	NORTH AMERICA INTERNATIONAL	809 634	1,078 928	1,475 1,204
NUMBER OF PARTNERS		54,000	62,000	74,000

\* Fiscal 2001 and 2002 net earnings and shareholders' equity have been retroactively adjusted due to changes in Starbucks equity interests for our Switzerland, Austria, Taiwan, Spain and Shanghai markets. For further information on these changes and a report on Starbucks financial performance in fiscal 2003, please see our Annual Report to Shareholders, available online at [www.starbucks.com/aboutus/investor.asp](http://www.starbucks.com/aboutus/investor.asp).

*"One of the reasons I joined the board of Starbucks was because of the social conscience the company demonstrates."*

— Senator Bill Bradley,  
Starbucks director



Photo: Tom Reese, *The Seattle Times*

*A meeting of Starbucks board of directors.*

## CORPORATE GOVERNANCE

The avalanche of recent corporate accounting scandals has cast a shadow of distrust over publicly held corporations. Out of this climate came the Sarbanes-Oxley Act, sweeping legislation that requires improved internal controls and procedures for corporate financial reporting. Companies have also been called upon to help restore investor confidence by voluntarily shoring up their practices, especially within their boardrooms.

In 2003, Starbucks undertook numerous corporate governance initiatives designed to make the board stronger, more independent and better informed.

Here are a few examples of the changes Starbucks adopted last year:

- Appointed Senator Bill Bradley, Olden Lee and Mike Ullman as new board members, which improved board diversity and ensured 3/4ths of the directors met the Securities and Exchange Commission and Nasdaq definition of independence.
- Updated charters for the board's three independent committees – Audit and Compliance, Compensation and Management Development, and Nominating and Corporate Governance.
- Ensured all Audit and Compliance Committee members met stringent independence tests.
- Enhanced whistle-blower procedures to protect those who raise concerns.
- Limited the number of boards on which Starbucks directors may serve, so their attention will be more focused on Starbucks business.

More information, including our Corporate Governance Principles and Board Committee Charters, is available online at [www.starbucks.com/aboutus/investor.asp](http://www.starbucks.com/aboutus/investor.asp).

## EXPECTATIONS OF OUR SUPPLIERS

**S**tarbucks is committed to treating all individuals with respect and dignity, and protecting the environment. As part of Starbucks corporate social responsibility, we believe these principles should be reflected throughout our supply chain, and embraced by Starbucks suppliers. This was the motivation for creating Starbucks Supplier Code of Conduct.

Already in place were specific standards for Starbucks coffee suppliers as part of Starbucks Coffee Sourcing Guidelines. Our coffee suppliers are required to adopt these standards to become a Starbucks preferred supplier. More information about our Coffee Sourcing Guidelines is available on page 28 of this report.

### SUPPLIER CODE OF CONDUCT

Starbucks Supplier Code of Conduct expands on our purchasing philosophy and expectations previously communicated to suppliers in our Supplier Handbook. In addition, Starbucks Social Responsibility Standards: Manufactured Goods and Services supports the overarching Code and was specifically developed for suppliers in this category.

The Code was introduced in September 2003. Suppliers are required to have an officer or owner of the company sign an acknowledgement that they agree to comply with our Code and standards, which include:

- Demonstrating a commitment to the welfare, economic improvement and sustainability of the people and places that produce our products and services.
- Adherence to local laws and international standards regarding human rights, workplace safety, and worker compensation and treatment.
- Meeting or exceeding national laws and international standards for environmental protection, and minimizing negative environmental impacts of suppliers' operations.
- Commitment to measuring, monitoring, reporting and verifying of compliance to this Code.
- Pursuing continuous improvement of these social and environmental principles.

New suppliers will receive the Code as part of our revised Supplier Handbook and are required to comply as a condition of doing business with Starbucks. Starbucks may choose to verify a supplier's compliance, utilizing an independent auditor in some cases. In addition, random audits will be conducted throughout our supply base.

The Supplier Code of Conduct was just recently implemented, making it too early to report on performance. We will provide an assessment of our suppliers' performance in subsequent issues of our Corporate Social Responsibility Annual Report. Information about our Code of Conduct is available online at [Starbucks.com](http://Starbucks.com).

## RECOGNITION



- Starbucks was added to *FORTUNE*'s 2003 list of the "Ten Most Admired Companies in America."
- *Business Ethics* magazine ranked Starbucks 21st on its list of the 100 Best Corporate Citizens in 2003.
- For the first time, Starbucks became a **Fortune 500** company in 2003.

### SOCIAL INDEX FUNDS

Starbucks appreciates the many invitations we receive for inclusion on various social index funds throughout the year. To be included, companies are asked to complete extensive applications that are unique to each fund. Inclusion is based on meeting the fund's specific social, environmental and financial criteria. Starbucks completed applications for several social index funds in 2003, all of which were accepted. Starbucks is included in the following:

- Calvert Social Index
- Dow Jones Sustainability Index
- KLD's Domini Social Index (DS 400)

#### Green Bean Award

Maybe it was Ron Weber's ingenuity, or simply great common sense. Whichever, Ron's decision to purchase thinner and lighter plastic garbage bags for Starbucks stores was the right move. Not only did the bags cost less, saving Starbucks an estimated \$500,000 a year, but the new bags eliminated close to 750,000 pounds of solid waste on an annual basis. It was definitely a win-win for the company and the environment. Starbucks respectfully honored Ron Weber with the company's Green Bean Award.

Ron is a partner in Starbucks procurement department. He was one of six recipients of the 2003 Green Bean Award, which recognized their positive contributions to the environment. Recipients receive cash awards, plus Starbucks makes donations to the environmental organizations of the recipients' choice.

## GOING FORWARD

As a publicly traded company, Starbucks is accountable to its shareholders. Investors measure a company by its ability to deliver strong financial results both short- and long-term, as well as by its commitment to a sustainable business strategy. So far, Starbucks has managed to do both. In doing so, we carefully balance our financial goals with our Guiding Principles and commitment to sustainability to ensure Starbucks has lasting value.

While Starbucks accomplishments in recent years have created a great deal of optimism about the company's future, we don't rest on our laurels. Improvements can and will always be made. Here are a couple of initiatives Starbucks will tackle in the year ahead:

- Complete training for Starbucks global procurement team on the Supplier Code of Conduct and Supplier Social Responsibility.
- Select an independent third-party auditor and begin conducting Supplier Code of Conduct compliance audits.

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## INDEPENDENT VERIFICATION LETTER

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To the Stakeholders of Starbucks Coffee Company:

Starbucks Coffee Company (Starbucks) engaged Moss Adams, LLP, a certified public accounting firm, to provide external assurance and verify the contents of its Corporate Social Responsibility Annual Report (Report) for the fiscal year ended September 28, 2003. As the independent verifier, we have maintained objectivity in our review of the Report in accordance with the Code of Professional Conduct of the American Institute of Certified Public Accountants. Those standards require us to maintain an independent position; one that is not affected by influences and is free from conflicts of interest.

Starbucks' management and personnel prepared the Report, compiled the underlying data and is responsible for its content. Our responsibility was to review the Report and obtain reasonable assurance about whether Starbucks corporate social responsibility policies as stated therein have been implemented; and that statements, assertions and the data reported is supported by documentation, internal processes or information provided by third parties.

Currently, there are no statutory requirements or generally accepted verification standards in the United States of America or internationally that relate to the preparation, presentation and verification of corporate social responsibility reports. Therefore, we developed an approach to verify the contents based on emerging practices, the guidelines of the Global Reporting Initiative, and our own professional expertise and experience. Our approach included conducting interviews with Starbucks executives and managers; performing on-site reviews to determine how the corporate social responsibility policies have been implemented and reported upon; selecting internally prepared documents for review; testing select data to support assertions; and confirming with external parties certain statements, assertions and data disclosed in the Report. We planned and carried out our work to obtain reasonable rather than absolute assurance on the reliability of the information stated in the Report. We believe our methodology provides a reasonable basis for our conclusion.

Based on the external verification process performed, we verify the following:

- The corporate social responsibility policies and activities of Starbucks as described in the Report are fairly presented and are consistent with the actual policies implemented and acted upon by Starbucks management and personnel during the fiscal year ended September 28, 2003.
- Statements, assertions and data disclosed in the Report are supported by documentation, internal processes and activities, and information provided by external parties.

*Moss Adams LLP*

Moss Adams LLP  
Seattle, Washington  
January 20, 2004

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## ABOUT THIS REPORT

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**S**tarbucks 2003 Corporate Social Responsibility Annual Report contains highlights of company initiatives, programs and activities that demonstrate how Starbucks provides social, environmental and economic benefits to the communities in which we operate.

Information presented in this Report is for fiscal 2003 (September 30, 2002, to September 28, 2003), and focuses mostly on Starbucks North American and coffee supply chain operations. This Report also includes some information pertaining to Starbucks international operations, licensed stores, Tazo Tea Company and Seattle Coffee Company. All references to currency are expressed in U.S. dollars.

Starbucks values the efforts of the Global Reporting Initiative (GRI) to develop globally applicable guidelines for sustainability reporting. When preparing our 2003 Report, Starbucks was mindful of the GRI guidelines in determining relevant content and performance metrics to include. More information about GRI is available online at [www.globalreporting.org](http://www.globalreporting.org).

This publication is Starbucks third annual Corporate Social Responsibility Report.

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## FEEDBACK AND FURTHER INFORMATION

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Your feedback is very important to us. Please complete our online survey at [www.starbucks.com/csrsurvey](http://www.starbucks.com/csrsurvey).

For questions about this report or to obtain a copy, contact us at:  
Starbucks Coffee Company  
Customer Relations  
P.O. Box 3717  
Seattle, WA 98124-8891  
Phone: 1-800-23-LATTE (1-800-235-2883)  
Fax: 1-800-782-7286  
Email: [info@starbucks.com](mailto:info@starbucks.com)

The report is available online at [www.starbucks.com/csr](http://www.starbucks.com/csr).

This report was prepared by Starbucks Corporate Social Responsibility department, with much input from many partners throughout the company, and designed by Starbucks Creative Group.

Sandra Taylor, senior vice president, Corporate Social Responsibility

For additional information about Starbucks, please visit [Starbucks.com](http://Starbucks.com).



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