

Striking a Balance

CORPORATE SOCIAL RESPONSIBILITY

Fiscal 2004 Annual Report



“Is Starbucks responsible? I don’t know.”

*– Jordan Hoyt, owner of Beartooth Coffee
Roasters in Billings, Montana*

COVER

José Manuel Barrientos Alfaro (right) farms coffee on the fertile slopes of the Poás Volcano in Costa Rica’s central valley. He’s built a strong working relationship with Carlos Mario Rodríguez (left), the director of agronomy at the Starbucks Farmer Support Center in nearby San José. Carlos has helped guide José on his way to becoming a Starbucks preferred supplier through C.A.F.E. Practices. To read more on this, please see page 20.

Dear Stakeholders,

The question posed by Jordan Hoyt – *Is Starbucks responsible?* – is an important one. While my immediate response is yes, I believe this deserves a more thoughtful explanation. I hope this report will help you determine for yourself whether Starbucks is a responsible company.

The theme of our Corporate Social Responsibility Fiscal 2004 Annual Report, “Striking a Balance,” underscores our approach to conducting business. During the early days of Starbucks, we were determined to create a company with a heart and conscience – one that would continually deliver shareholder value while touching people’s lives and enriching the human spirit. Our good intentions led us to establish Starbucks Mission Statement and Guiding Principles in 1990, the foundation we needed to help us balance our priorities and integrate social responsibility into everything we do.

The idealism we felt so strongly has not faded with time. The phenomenal success Starbucks has achieved confirms my belief that a company can do good and do well at the same time. For instance, Starbucks is taking the lead among major coffee companies through our approach to responsible coffee purchasing. We are continuing to introduce coffee farmers and suppliers to Coffee and Farmer Equity (C.A.F.E.) Practices, a set of socially responsible buying guidelines that have evolved from our two-year pilot project and were further refined by the feedback we received from coffee growers, sustainability experts and others.

We have also recognized that to ensure the sustainable production of high-quality coffee, more is needed. So, in January 2004, we opened our Farmer Support Center in Costa Rica, enabling our team of experts in coffee quality and sustainability practices to collaborate directly with coffee farmers on measures that will help them sustain their farms and surrounding communities.

From the very beginning, we have vowed to always treat our partners (employees) with the highest level of respect and dignity. One of the best examples is our ongoing commitment to provide healthcare benefits to eligible full-time and part-time partners, despite the escalating costs. We have shared our concern with policymakers that all Americans should have access to affordable healthcare and have supported a campaign to raise awareness of this important issue.

While we are proud of our accomplishments, we recognize our challenges. Our effort to revolutionize the coffee industry through C.A.F.E. Practices will not happen overnight and will remain an ongoing journey. Our rapid expansion challenges us to maintain – for our partners, customers and communities – the intimacy that is a hallmark of the *Starbucks Experience*. And occasionally, we have met resistance from neighborhood groups concerned that the presence of a Starbucks will impact the unique character of their communities and locally owned businesses.

We are committed to facing our challenges responsibly, openly and with sensitivity. We believe a responsible company is one that listens to its stakeholders and responds with honesty to their concerns. Throughout this report, we have included external comments and responded to questions from various stakeholders as a way of offering more candor and disclosure to our readers.

(continued on page 2)

This is a year of change for Starbucks. In March 2005, Orin Smith, Starbucks president and ceo, will retire. Orin has offered unfaltering leadership to the company and in the area of social responsibility. He has set an example for all of us. I can assure you that Jim Donald, our incoming president and ceo, will continue to lead Starbucks with the same commitment to social responsibility that has been demonstrated over the years.

So, is Starbucks responsible? There is no end to this journey, but I know this: our ongoing success will always be measured by how well we balance our fiscal responsibility with our goal to enhance the lives of those whom we serve and who serve us.

Sincerely,

A handwritten signature in black ink that reads "Howard Schultz". The signature is fluid and cursive, with the first name "Howard" and last name "Schultz" clearly legible.

Howard Schultz

chairman



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Global Reporting Initiative (GRI) Indicators

| |
|--|
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| 2.21 |
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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.*



**Starbucks Corporate Social Responsibility
Fiscal 2004 Annual Report
is dedicated to**

ORIN C. SMITH

Starbucks retiring president and CEO

In 1990, Starbucks leaders went on a retreat to map out the company's future. They returned with Starbucks Mission Statement and Guiding Principles, which reflect the personal values of Howard Schultz, Orin Smith and several others, and serve as the foundation of Starbucks culture. We thank Orin Smith, who is retiring in March 2005, for his uncompromising commitment to live these values every day and for inspiring all Starbucks partners to do the same.

STARBUCKS AND CORPORATE SOCIAL RESPONSIBILITY

Company Profile

Starbucks Corporation has grown from a single store in 1971 to become the leading retailer, roaster and brand of specialty coffee in the world, with retail locations in North America, Latin America, Europe, the Middle East and Asia Pacific. We believe our growth and success are the result of our unwavering commitment to offer the highest-quality coffee and an exceptional customer experience while conducting our business in ways that produce social, environmental and economic benefits for communities in which we do business.

In addition to coffee, Starbucks also produces and sells a wide variety of consumer products that includes Tazo's line of high-quality teas, CDs from Hear Music,[™] coffee-brewing equipment and other merchandise. Starbucks owns Seattle Coffee Company, which includes the Seattle's Best Coffee[®] and Torrefazione Italia[®] coffee brands, offering alternative varieties of coffee flavor profiles.

Starbucks Corporation is incorporated in Washington State, in the United States. The company is listed on the Nasdaq Stock Market under the symbol SBUX. As of December 2, 2004, there were approximately 434,000 beneficial shareholders of record.

Company Data

| FISCAL YEAR | 2002 | 2003 | 2004* |
|---|---------------|---------------|---------------|
| TOTAL NET REVENUES | \$3.3 billion | \$4.1 billion | \$5.3 billion |
| U.S. company-operated stores | \$2.4 billion | \$3.0 billion | \$3.8 billion |
| U.S. specialty (licensing, foodservice, other) | \$403 million | \$507 million | \$690 million |
| International company-operated stores | \$368 million | \$484 million | \$657 million |
| International specialty (licensing, foodservice, other) | \$93 million | \$119 million | \$146 million |
| NET EARNINGS | \$213 million | \$268 million | \$392 million |
| EARNINGS PER SHARE – DILUTED | \$0.54 | \$0.67 | \$0.95 |
| SHAREHOLDERS' EQUITY | \$1.7 billion | \$2.1 billion | \$2.5 billion |
| TOTAL INCOME TAXES | \$126 million | \$168 million | \$232 million |
| CASH PAID FOR INCOME TAXES | \$105 million | \$140 million | \$173 million |
| U.S. federal and state | \$100 million | \$134 million | \$163 million |
| International | \$5 million | \$6 million | \$10 million |
| EFFECTIVE TAX RATE | 37.3% | 38.5% | 37.2% |
| NUMBER OF COUNTRIES WHERE STARBUCKS STORES ARE LOCATED | 30 | 32 | 34 |
| TOTAL RETAIL STORES | 5,886 | 7,225 | 8,569 |
| U.S. company-operated stores | 3,209 | 3,779 | 4,293 |
| International company-operated stores | 703 | 802 | 922 |
| U.S. licensed stores | 1,033 | 1,422 | 1,839 |
| International licensed stores | 941 | 1,222 | 1,515 |
| NUMBER OF PARTNERS | 62,000 | 74,000 | 97,000 |

* Fiscal 2004 included 53 weeks. For further information about our financial performance, please see our Fiscal 2004 Annual Report to shareholders, available online at www.starbucks.com/aboutus/investor.asp.



About This Report

Scope

This report includes information on Starbucks U.S. and Canada company-operated retail and coffee supply-chain operations, the areas that represent the majority of Starbucks economic, environmental and social impacts.

Starbucks system for collecting and reporting reliable economic, environmental and social data does not encompass all Starbucks operations. Where available, anecdotal information is included in this report on international and licensed store operations. Information on our total coffee purchases is for both Starbucks Coffee Company and Seattle Coffee Company.

Reporting Year

This report covers activities that occurred during Starbucks fiscal year 2004 (September 29, 2003, through October 3, 2004), unless otherwise noted.

Currency

All references to currency are in U.S. dollars.

Previous Reports

Starbucks past three Corporate Social Responsibility (CSR) Annual Reports are available online at www.starbucks.com/csrannualreport.

Global Reporting Initiative

Starbucks was influenced by the Global Reporting Initiative (GRI) guidelines in determining relevant content and performance metrics to include in our report. Presently, we are not in full accordance with the GRI, but each year we strive to increase our use of its principles and indicators. The GRI indicators included in this report are referenced in the table of contents on page 3. In some cases we address only elements of specific indicators. More information about the GRI is available at www.globalreporting.org.

Information Integrity

Starbucks management is responsible for the preparation and integrity of the information presented in this report. Through a system of internal controls, including a comprehensive verification process involving internal subject matter experts, we believe this report fairly represents our CSR activities and results for the fiscal year ended October 3, 2004.

External verification is provided by Moss Adams LLP. The verification process includes testing the accuracy of specific data and content. (See the Moss Adams verification letter on page 72.)

Performance Summary – Starbucks Key Performance Indicators

To measure how well we are doing at upholding our commitment to social responsibility and to our Guiding Principles, Starbucks has identified the following key performance indicators as the most relevant metrics for our business. We will report our performance relative to these metrics in the future, and may add new metrics as our business continues to evolve.

| | INDICATOR | 2003 | 2004 | 2005 TARGET (WHERE AVAILABLE) | MORE INFORMATION |
|--|--|----------------------------------|------------------------------------|--|---------------------|
| COFFEE | | | | | |
| Coffee and Farmer Equity (C.A.F.E.) Practices | Pounds of coffee purchased from preferred suppliers | 13.5 million (goal: 3.5 million) | 43.5 million (goal: 30 million) | 75 million | Pages 20–24 |
| | Percentage of total coffee purchases | NA | 14.5% | NA | |
| Fair Trade Certified™ coffee | Pounds of coffee purchased from Fair Trade Certified™ cooperatives | 2.1 million | 4.8 million | 10 million | Pages 26, 28–29 |
| | Percentage of total coffee purchases | NA | 1.6% | NA | |
| COMMUNITY | | | | | |
| Charitable contributions | Total cash and in-kind contributions | \$11.3 million | \$14.6 million* | NA | Page 39 |
| | Percentage of pre-tax earnings | 2.6% | 2.3% | NA | |
| Volunteerism (Make Your Mark) | Percentage of U.S. Starbucks partners who volunteer in their communities | 21% | 14% | NA | Page 40 |
| CUSTOMERS | | | | | |
| Highly satisfied customers | | 52% | 55% | NA | Page 47 |
| Customers who think Starbucks contributes to local communities | | 46% | 49% | NA | Page 38 |
| ENVIRONMENT | | | | | |
| Greenhouse gas emissions | Metric tons of CO ₂ equivalents | 254,000 | NA | Set CO ₂ emissions reduction target; purchase 5% renewable energy | Pages 53–54 |
| Electricity | Kilowatt hours per square foot of retail space | 5.84 | 6.62 | NA | Pages 58–59 |
| Water | Gallons per square foot of retail space | 20.3 | 27.1 | NA | |
| Paper | Percentage of post-consumer fiber (not including hot cups) | 48.1% | 46.5% | 48% | |
| | Percentage of unbleached fiber (not including hot cups) | 88.9% | 86.3% | 90% | |
| WORKPLACE | | | | | |
| Partner satisfaction | Percentage of satisfied partners | 82% | NA | NA | Page 70 |
| Partner engagement | Percentage of engaged partners | 73% | NA | NA | |
| Health and safety | Injury rate per 200,000 hours worked – retail | 8.02** | 7.56 | 7.25 | Page 71 |
| DIVERSITY | | | | | |
| Women | U.S. workforce | 63% | 63% | NA | Pages 66–67 |
| People of color | U.S. workforce | 24% | 24% | NA | |
| Suppliers | Amount spent with certified minority- and women-owned businesses | \$80 million | \$114 million (goal: \$95 million) | \$140 million | Page 11 |

NA = Not Available

*Previously, we reported separately the amount invested by Starbucks in social projects in coffee-growing communities. We are now including these investments as part of our total global contributions.

**Fiscal 2003 information has been retroactively adjusted to reflect new claims that were filed after the fiscal year ended.

Governance at Starbucks

Eleven members serve on the Starbucks Board of Directors, including eight who meet the definition of independence according to the National Association of Securities Dealers (NASD). Individual board members are up for election every three years and are nominated based on specific criteria intended to strengthen the overall quality and depth of the board. For instance, each candidate should demonstrate integrity and ethics in his/her personal and professional life. In addition, each candidate should contribute to the board's overall diversity – in terms of background, gender, race, ethnicity or other differentiating characteristics – to add to the variety of opinions and perspectives.

There are three committees of the board: Audit and Compliance, Compensation and Management Development, and Nominating and Corporate Governance. All three are composed of independent directors.

Board Diversity

The members of Starbucks board have professional experiences in various industries, such as technology, financial investment, consumer products, retail, and the government and nonprofit sectors. Of the 11 members, one is female and one is African American.

Executive Compensation

To determine compensation for Starbucks chairman, president and ceo, and other certain executives, the Compensation and Management Development Committee first examines the compensation levels at peer group companies and strongly considers the company's short-term and long-term performances. All independent directors vote on the committee's specific recommendations for the executive compensation package, which consists of three components: annual base salary, incentive bonuses and stock option awards.

Corporate Social Responsibility (CSR)

At present, there is not a committee of the board dedicated to CSR. However, Starbucks senior vice president of CSR reports directly to the company's president and ceo, and has access to present CSR-related matters at the company's board meetings.

Starbucks Auditline

External stakeholders (non-partners) may call Starbucks Auditline with concerns regarding accounting controls or auditing matters and they may refer communications to the Board of Directors, to the committees of the board and to individual directors.

Emerging Issues Council

To assess potential risks and opportunities to the company, Starbucks created an Emerging Issues Council (EIC) in 2004. The EIC is a cross-functional team of Starbucks executives led by our vice president of CSR.

Two issues the EIC will address in fiscal 2005 pertain to cocoa purchasing and climate change:

- **Cocoa purchasing** – Starbucks purchases processed cocoa and chocolate through suppliers that source from several tropical countries, including the Ivory Coast, West Africa. In 2001, allegations arose about the use of forced child labor on cocoa farms in the Ivory Coast. Starbucks has shared our concerns about these allegations with our suppliers, who have assured us that they are taking measures to ensure that their purchasing practices promote sustainable and responsible cocoa farming. However, the EIC will continue to monitor this issue and, if necessary, adopt new policies and measures related to our cocoa purchases.
- **Climate change** – The potential threat that climate change poses to the environment and to coffee-growing communities has led the EIC to prioritize this issue. In 2004, Starbucks conducted a climate inventory of our greenhouse gas emissions. The EIC will evaluate an emissions reduction strategy and determine whether other measures are needed for Starbucks to proactively and responsibly address the issue of climate change in a leadership capacity.






More information, including our fiscal 2004 Proxy Statement that discusses executive compensation and our Corporate Governance Principles and Board Committee Charters, is available online at www.starbucks.com/aboutus/investor.asp.




Stakeholder Engagement

Our stakeholders include partners (employees), customers, coffee farmers, suppliers, community members, environmental groups, activists, shareholders and many others. Starbucks believes we have a responsibility to our stakeholders that begins by building relationships and fostering two-way communication. We're working on being good listeners to our supporters and to our critics. Below are several examples of how Starbucks listened to and engaged with our stakeholders in fiscal 2004. Throughout our report, we include comments and questions from various stakeholders and provide responses when appropriate.

| SUBJECT | STAKEHOLDER GROUPS | ISSUES AND OUTCOMES |
|---|---|---|
| C.A.F.E. Practices – coffee buying guidelines focused on the sustainability of high-quality coffee production | Coffee farmers, processors and suppliers; non-governmental organizations (NGOs); coffee industry representatives; academics; Starbucks partners | Starbucks hosted a feedback session on our preferred supplier program and coffee buying guidelines in February 2004. The input helped us improve the guidelines, which are the foundation of Coffee and Farmer Equity (C.A.F.E.) Practices. Details on the feedback session can be found online at www.scsccertified.com/csr/purchasing/starbucks.html . |
| Starbucks growth and store locations | Local neighborhood groups and small-business community | A small number of local neighborhood preservation groups have opposed Starbucks plans to open stores in their communities. These experiences have reminded us how important it is to build trusting relationships with our future neighbors and to gain a deep appreciation for what each individual community values. Prior to opening a store in the Fillmore district of San Francisco in 2004, we engaged with local residents and discovered how Starbucks could fit in with their community and make a positive contribution. |
| Skyrocketing healthcare costs in the United States | Government policymakers | Howard Schultz, Starbucks chairman, met with federal policymakers to share the company's concern about the impacts that rising healthcare costs are having on all Americans and many employers. Starbucks helped sponsor a Robert Wood Johnson Foundation campaign – Cover the Uninsured Week – to focus attention on this critical issue. |
| | Starbucks partners | Our partners have indicated their concerns related to higher healthcare costs. Starbucks responded to their needs by providing better resources to help them manage their personal health. |
| Sustainable dairy and food products | Starbucks dairy and bakery suppliers, socially responsible investors (SRI), shareholders and customers | In 2004, Starbucks surveyed our dairy and bakery suppliers to determine their current sustainability practices and the feasibility of having them adopt more stringent measures to produce sustainable products. Specifically, we are determining whether our suppliers could potentially deliver rBST-free dairy products and bakery ingredients grown under environmentally friendly conditions. We also met with representatives from SRI groups to gather and exchange information on possible alternatives to use in developing our sustainable dairy and food program. In 2005, Starbucks will review all the feedback previously received and develop our next steps and future strategies. |
| Responsible marketing of Starbucks™ Coffee Liqueur | Advocacy groups, university student organizations, elected officials, local businesses | Prior to announcing Starbucks™ Coffee Liqueur with Jim Beam Brands Co. in April 2004, Starbucks proactively engaged with several advocacy groups, including Mothers Against Drunk Driving, and other interested parties in Colorado and Texas – the test markets for the product. We assured them of our intent not to market our new product to underage consumers and of our commitment to promote responsible drinking through our product marketing and advertising. This product will not be sold in Starbucks stores. |
| Transparency and disclosure on Starbucks business practices | Socially responsible investors (SRI) | At the request of various SRI fund managers, Starbucks responded to extensive surveys that included detailed information on our social and environmental performance so each fund could determine whether Starbucks is worthy of inclusion on their specific index. In 2004, Starbucks was listed on the Dow Jones Sustainability Index, FTSE4Good Index Series, KLD's Domini Social Indices (DS 400, BMS, LCS, CV 400, SS), Calvert Social Index and Zürcher Kantonalbank. |
| | Starbucks partners and customers, business leaders, NGO representatives, academics, activists | Starbucks invited candid feedback from a wide array of stakeholders on the credibility and merit of our Corporate Social Responsibility Fiscal 2003 Annual Report. We incorporated stakeholders' feedback to address weaknesses in last year's report in an effort to improve the report for 2004. For example, stakeholders noted that last year's report lacked information about our challenges, especially with regard to our coffee buying practices and the impact of our growth on local communities. As a result, we have included a more in-depth look at these topics in this report. We invite feedback on this report through an online survey at www.starbucks.com/csrsurvey . |

Progress Report on 2004 Goals – Code of Conduct and Supplier Diversity

| GOALS | |
|--|---|
| To complete training for Starbucks global procurement team on the Supplier Code of Conduct and supplier social responsibility. |  |
| To select an independent third-party auditor and begin conducting Supplier Code of Conduct compliance audits. |  |
| To create a stronger business and communications strategy for the Supplier Diversity program. |  |
| To create a new position at Starbucks to oversee the Supplier Diversity program. |  |
| To increase the amount we spend with diverse suppliers to \$95 million. |  |

KEY:  ACHIEVED  MAKING PROGRESS  DID NOT ACHIEVE

Purchasing Responsibly from Suppliers

Code of Conduct

Starbucks published a Supplier Code of Conduct for product manufacturers in 2003 that outlines principles regarding worker rights and treatment, workplace health and safety, and environmental protection. As a company committed to treating all individuals with dignity and respect and contributing positively to the environment, we believe that incorporating these principles into our supply chain is part of our social responsibility. A description of our Supplier Code of Conduct can be viewed online at www.starbucks.com/aboutus/supplier_code.asp.

In fiscal 2004, we developed and delivered initial Code of Conduct training for most of our global procurement team. We interviewed potential third-party auditors for our program and began the selection process, but ultimately decided to hold off until we could develop a more effective compliance program. Now that we have internal staff resources dedicated to implementing our Code of Conduct, we are strengthening our program. In fiscal 2005, we will increase our training efforts to include ongoing training for Starbucks global procurement team as well as for our suppliers and factories.

Supplier Diversity

A Guiding Principle of Starbucks is to “embrace diversity as an essential component in the way we do business.” As the U.S. population becomes increasingly more diverse, it’s essential that the diversity of our suppliers reflects the communities in which we operate. Several years ago, Starbucks established a Supplier Diversity initiative to ensure that qualified and certified diverse businesses in the United States have access to equal opportunities to provide our goods and services.

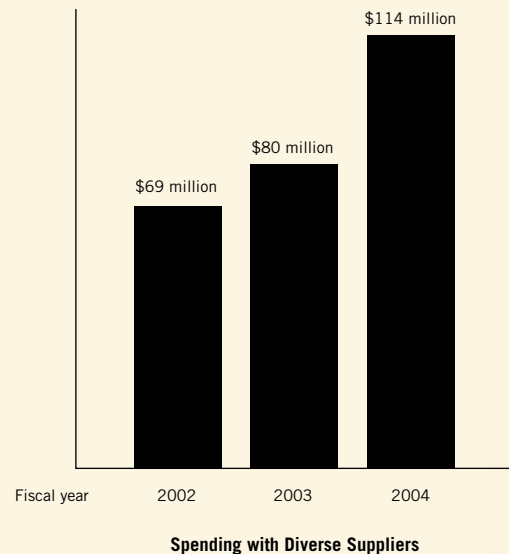
We define a diverse supplier as a business that is certified by an independent third party to be at least 51% owned, operated and managed by women, minorities, or socially or economically disadvantaged individuals.

In 2004:

- Starbucks spent more than \$114 million with certified minority- and women-owned businesses, as well as socially or economically disadvantaged businesses, exceeding our goal of \$95 million.
- We hired a manager to oversee the continued growth of our Supplier Diversity initiative.
- We actively participated in the Northwest Minority Business Council (NMBC) by having a Starbucks representative serve on its board. Our representative received NMBC’s 2003 Leadership Award.

- We made progress toward our goal of developing a business and communications strategy by enabling a Supplier Diversity link on our website and creating a Supplier Diversity registration form.

Our goal in fiscal 2005 is to spend \$140 million on purchases from diverse suppliers. We also plan to expand our efforts by offering enhanced tools and training for our buyers and business unit managers, and joining national supplier diversity organizations.



What's the relationship between the price of a cup of Starbucks coffee and what Starbucks pays for coffee beans?



COFFEE FARMERS



The day when a cup of coffee went for a quarter is long past.

Indeed, Starbucks customers are paying more, but they are getting the highest-quality coffee and an exceptional customer experience in return. This allows Starbucks to pay top prices for the finest coffees grown around the world. In the end, the price of a cup of Starbucks coffee and the cost of freshly harvested coffee beans are determined by the same measure – quality.

Progress Report on 2004 Goals – Coffee Farmers

| GOALS | |
|--|---|
| To purchase 30 million pounds (13.6 million kilograms) of coffee from preferred suppliers who have successfully complied with our coffee buying guidelines and met our requirement for independent verification. | ● |
| To continue to purchase Fair Trade Certified™ coffee and increase the number of locations where it's available. | ● |
| To open a Farmer Support Center (agronomy field office) in Costa Rica. | ● |
| To invest more than in previous years in social development projects that benefit coffee-growing communities. | ● |
| To provide \$1.5 million over three years to the Conservation International (CI) coffee program and form a three-way alliance with CI and the U.S. Agency for International Development (USAID) that enables CI's program to expand. | ● |

KEY: ● ACHIEVED ● MAKING PROGRESS ○ DID NOT ACHIEVE



SUSTAINING OUR HALLMARK OF HIGH-QUALITY COFFEE

The overall decline of coffee consumption in the United States may concern some farmers, especially those growing coffee beans at lower elevations in tropical regions. It's a different situation for farmers producing high-quality *arabica* coffee at tropical altitudes above 3,000 feet (914 meters). The demand for premium-quality coffee has steadily increased in recent years, while demand for lower-grade *arabica* or *robusta* beans has not.

Starbucks buys only the finest *arabica* coffee that meets our rigorous standards for high quality. We uphold a Guiding Principle of Starbucks by applying the highest standards of excellence to our coffee. Our customers' willingness to pay high prices for our coffee is largely based on Starbucks promise to deliver exceptional quality. Compromising on quality could erode the trust our customers have in Starbucks and undermine our business in the long run.

We recognize that high-quality coffee is more expensive to produce than lower-grade coffee. In fiscal 2004, Starbucks paid \$1.20* per pound on average in an effort to ensure that coffee farmers can cover their production costs and earn a profit. This approach is not only the right thing to do for farmers, it's also essential to the long-term sustainability of high-quality coffee production and a critical component of Starbucks success.



The hills of Guatemala provide superb conditions for growing some of the world's finest coffees. A large portion of Starbucks coffee is grown here.

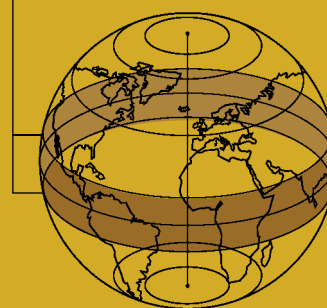
***On average, Starbucks paid \$1.20 per pound (\$2.64 per kilogram) in fiscal year 2004 for purchases of green (unroasted) coffee. The average price we paid was 74% higher than coffee purchased at New York "C" market prices during fiscal 2004.**



Quick Facts about Coffee

- There are two commercial species of coffee: *arabica* and *robusta*.
- Caffeine content in *arabica* beans is 0.8%–1.4%, compared to 1.7%–4.0% for *robusta* beans.*
- Total world coffee exports were 11.6 billion pounds (5.3 billion kilograms) in the 2003–2004 coffee year (October–September), down slightly from the previous year.*

- Coffee provides a livelihood for an estimated 25 million people* (coffee farmers and their families) living within the “bean belt” – the area between the Tropics of Cancer and Capricorn.



The World of Coffee

The first coffee plants are believed to have come from the Horn of Africa, where East African tribes consumed coffee berries as a food rather than a beverage. Around the year A.D. 1000, Ethiopians made a type of wine from the fruit, but coffee wasn't brewed and developed into a hot drink until later in the 11th century.

Today, coffee is one of the most popular beverages worldwide. More than 70 tropical coffee-producing countries export this commodity.

Coffee beans are the seeds inside the small fruit of the coffee tree, called cherries. The plants are larger than typical shrubs but smaller than most trees. One plant usually produces enough fruit every season for one pound (453 grams) of roasted coffee beans. More than half the world's *arabica* coffee is grown on small family farms, often located in remote, hilly areas where the fruit is harvested by hand. The annual crop yield on a small coffee farm is about 1,000 to 2,000 pounds (454 to 907 kilograms). A large portion of Starbucks® coffee is grown on such farms.

Arabica coffee is also grown on estates, which are mid- to large-scale farms. Generally speaking, the more care that's

*Source: International Coffee Organization

☉ COUNTRIES WHERE STARBUCKS CURRENTLY PURCHASES COFFEE



Quick Facts about Starbucks

- Starbucks purchased 299 million pounds (136 million kilograms) of high-quality green (unroasted) *arabica* coffee in fiscal 2004, approximately 2.2% of world coffee production.
- Starbucks paid \$358 million for green (unroasted) coffee in fiscal 2004, at an average price of \$1.20 per pound (\$2.64 per kilogram).
- In fiscal 2004, Starbucks purchased coffee in 25 countries, the majority coming from Guatemala, Costa Rica and Colombia.
- Starbucks coffee buyers and executives spent an estimated 400 days in the coffee-producing countries where we purchased 90% of our coffee in 2004.

taken in growing, harvesting and processing the beans, the higher the quality of coffee. Starbucks purchases high-quality coffee from many estates and, in some cases, we have established long-term, exclusive and/or direct buying relationships.

Arabica coffee is traded in two ways:

- The majority of *arabica* coffee is traded as a commodity on the highly competitive New York “C” market (the worldwide reference used by coffee traders). Over the past few years, “C” market prices were suppressed due to an oversupply of lower-grade coffee that exceeded

demand. Recently, this imbalance has begun to even out, causing “C” prices to start rising in response.

- Higher-quality *arabica* beans, sold as specialty coffee, represent 10%** of total worldwide coffee purchases. Prices for specialty coffee are often negotiated independent of the “C” prices and set higher to compensate farmers for quality. Coffee can be purchased from exporters, brokers, cooperatives and in some cases farms. In 2004, Starbucks purchased 94% of our coffee at prices independent of the “C” market.

**Source: Specialty Coffee Association of America

STARBUCKS COFFEE SUPPLY CHAIN

The value chain that extends from farmer to customer includes coffee growers, pickers, mill workers, exporters and roasters. At every stage our quality standards must be met,

FARMERS/PRODUCERS



Estates are medium- to large-scale farms that typically employ workers to help harvest and process the coffee crops. Estates usually have their own processing facilities.

Small farms are usually family-run farms that grow coffee on 5–12 acres (2–5 hectares) along with other crops of fruits and vegetables. Small-holder farmers deliver their harvested crops to a collection point, where they are sold to an intermediary or a processor. They are typically self-employed and might hire one or more workers, and probably rely on their families to help during the harvest season.

COOPERATIVES



Small-holder farmers often form cooperatives to achieve economies of scale, obtain bargaining power and collaborate on production methods. **Cooperatives** also serve as processors and sometimes as exporters. Fair Trade Certified™ coffee is produced exclusively by cooperatives.

WET MILL PROCESSORS



Wet mills buy or receive coffee cherries from farmers and process them by removing the fruit and drying the beans. They are stand-alone operations or integrated facilities on large farms or cooperatives. Some wet mills can handle the dry mill processing on-site. If not, they send the coffee beans to a dry mill for further processing.

ECONOMIC TRANSPARENCY

In fiscal 2004, Starbucks began requiring detailed and verifiable documentation for financial transactions along the supply chain.

Farmers/producers – We ask to see the invoice or receipt for the coffee that the farmer delivered to the processor or exporter. If the farmer represents a large

estate, wage and salary transparency is also requested to determine whether farm workers are receiving fair compensation for their labor.

Processors – Evidence must be furnished indicating payments up and down the supply chain, including payments made to farmers and receipts from exporters

Our Approach to Sustainable Coffee Production

Many measures are needed to sustain the farms that produce high-quality coffee, as well as their surrounding communities. Starbucks has adopted an integrated approach to sustainable coffee purchasing, which includes six fundamental measures:

- Paying premium prices to help farmers make profits and support their families.
- Encouraging farmers to participate in Coffee and Farmer Equity (C.A.F.E.) Practices.
- Operating our own Farmer Support Center (agronomy field office) in Costa Rica that enables us to collaborate with farmers and provide them the technical support and training needed to ensure the sustainable production of high-quality coffee.

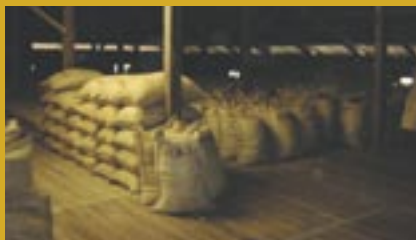
and we have begun to require economic transparency in an effort to ensure that farmers are receiving equitable prices for their crops.

DRY MILL PROCESSORS



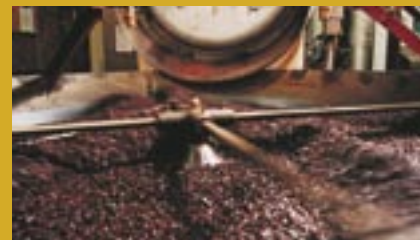
Dry mills buy or receive processed coffee beans directly from farmers or wet mills. Dry mills conduct the final stage when coffee beans are checked for quality, sorted and graded. Green coffee is then sold to local buyers or exporters. A dry mill might be integrated into an export operation, or included on a large farm or cooperative.

EXPORTERS



Exporters receive or buy green coffee beans from mills and cooperatives. They contract and arrange for shipment of the green coffee and sell the coffee to importers or roasters. Exporters are either independent agents in the supply chain or, in some cases, have their own dry mill facilities. And some farms do it all – grow and process the coffee and serve as exporters. The exporter can be a local company or part of a large holding company with importing offices around the world. Starbucks uses exporters because they provide valuable services and reduce risk for both Starbucks and farmers.

STARBUCKS



Importer – Starbucks buys green (unroasted) coffee from exporters, farmers and cooperatives, and occasionally from other importers.

Roaster – Green coffee is then transported to one of our company-operated plants and roasted to Starbucks standards.

Distributor – Roasted coffee is packaged and distributed to Starbucks stores, grocery stores and wholesale accounts, such as universities, hotels and restaurants.

Retailer – Starbucks sells coffee in more than 8,500 stores worldwide.

Achieving economic transparency is difficult and will take time. However, we're encouraged by the progress made thus far.

that show the amount paid for the coffee. Documentation is also required on the costs associated with processing, as well as yields obtained from processing.

Exporters – Prices paid to processors and prices charged to importers must be disclosed.

- Purchasing conservation (shade-grown) and certified coffees, including organic and Fair Trade Certified.™
- Investing in social programs that benefit coffee-growing communities.
- Providing farmers access to affordable credit.

DEFINING “SUSTAINABILITY”:
Conducting business in ways that meet the needs of the present without compromising the ability of future generations to meet their own needs.

Source: The Brundtland Report

C.A.F.E. PRACTICES TIMELINE

1998–2000



- World coffee prices were declining to historic lows.
- To ensure that farmers were fairly compensated for their high-quality coffee, we began to modify our coffee buying practices.
- Starbucks aligned with Conservation International (CI) to begin addressing environmental concerns in coffee-growing regions.
- Through multi-stakeholder collaboration between CI, the Consumer's Choice Council, the Rainforest Alliance, and the Smithsonian Migratory Bird Center, the Conservation Principles for Coffee Production were developed, which influenced Starbucks coffee buying practices.

2001



- CI helped Starbucks build on the Conservation Principles and develop broader quality, social, environmental and economic guidelines for the sustainable production of high-quality coffee.
- The first phase of Starbucks Preferred Supplier Program (PSP) was created to encourage coffee farmers and suppliers to adopt new coffee buying guidelines.
- Starbucks launched a two-year pilot of PSP.

2002



- We began to pay incentive premiums for coffee from our approved preferred suppliers after an independent third party verified that the coffee was produced in a manner consistent with our guidelines.
- Initial feedback from the pilot phase shed light on the strengths and weaknesses of the guidelines.
- 50 applications from coffee farmers and suppliers were submitted to Starbucks by those hoping to become preferred suppliers.

Coffee and Farmer Equity (C.A.F.E.) Practices

To create a sustainable future for coffee farmers and their surrounding communities, Starbucks recognized that a far-reaching approach was needed, beyond what anyone in the coffee industry had attempted. We began by conducting a two-year pilot project, then applied our own experience and stakeholder feedback to pioneer coffee buying practices that strive to improve the lives of farmers and increase the amount of high-quality coffee that is grown, processed and traded in a sustainable manner. At the foundation of C.A.F.E. Practices is a set of environmentally, socially and

economically responsible coffee buying guidelines that have evolved to reflect more than three years of work and the contributions of many people, particularly coffee farmers, sustainability experts and our colleagues at Conservation International (CI). We have chosen the name C.A.F.E. Practices to emphasize the importance of farmer equity in relation to Starbucks coffee.

We have introduced coffee farmers, processors and suppliers to C.A.F.E. Practices and explained how the guidelines work. Farmers and suppliers who demonstrate the use of best practices according to the guidelines, and obtain independent verification of their performance, may become Starbucks preferred and strategic suppliers. We hope to

2003



- Starbucks established an audit process for independent third parties to verify farmers' practices. However, one of the challenges was finding enough reliable third parties to do the inspections.
- Feedback from the pilot phase indicated the need for more flexible and specific guidelines to account for local conditions, altitude, climate and laws.
- 166 coffee farmers and suppliers from 16 countries had applied to become Starbucks preferred suppliers; 60 were approved.
- Starbucks purchased 13.5 million pounds (6 million kilograms) of coffee from preferred suppliers.

2004



- Starbucks hosted a feedback session in Seattle attended by coffee farmers, processors, suppliers, NGOs and activists.
- PSP was enhanced and renamed C.A.F.E. Practices, which stands for Coffee and Farmer Equity Practices.
- We made economic transparency a requirement of C.A.F.E. Practices and tied social indicators to international laws, customs and conventions.
- We opened our Farmer Support Center in Costa Rica to work more closely with farmers.
- 248 coffee farmers and suppliers from 22 countries had applied to become Starbucks preferred suppliers; 139 were approved.
- Starbucks purchased 43.5 million pounds (19.7 kilograms) of coffee from preferred suppliers.

2005 AND BEYOND



- C.A.F.E. Practices was officially implemented at the beginning of fiscal 2005.
- We will continue to provide extensive training for inspectors, farmers and Starbucks partners on C.A.F.E. Practices.
- Ongoing feedback will be sought from farmers and NGOs, so we can further refine and improve C.A.F.E. Practices.
- We will work with CI and other third parties to develop regional indicator supplements and small-holder farmer guidelines.
- We will make additional efforts to implement C.A.F.E. Practices in Africa and Asia.
- Tools and systems will be developed to measure the financial impacts and the benefits of the program.

expand our list of preferred suppliers by encouraging others to use these guidelines. We also hope that C.A.F.E. Practices will become a model for other coffee buying companies to adapt and integrate into their own businesses.

C.A.F.E. Practices – How the Guidelines Work

The guidelines define what we believe to be the critical social, environmental, economic and quality aspects of growing, processing and selling coffee for Starbucks. To become a C.A.F.E. Practices supplier, coffee farmers, processors and exporters must meet minimum requirements and demonstrate best practices, which are subject to independent verification under the guidelines. High-scoring suppliers

receive preferential buying status, higher prices and better contract terms.

The guidelines contain 28 specific indicators that fall under five focus areas: product quality, economic accountability (transparency), social responsibility, environmental leadership in coffee growing and environmental leadership in coffee processing.

Each indicator is assigned a maximum number of points that can be earned, except for our prerequisites of product quality and economic accountability. A total score is tabulated to determine preferred supplier status. (See page 22 for a sample scorecard.)

C.A.F.E. Practices – Guidelines for Coffee Farmers and Processors*

| FOCUS AREA | INDICATORS | MAXIMUM POINTS |
|--|---|----------------|
| PRODUCT QUALITY | | |
| General conditions | Green preparation |Required |
| | Cup quality |Required |
| ECONOMIC ACCOUNTABILITY | | |
| Incentives for sustainability | Demonstration of economic transparency |Required |
| | Equity of financial reward |Required |
| SOCIAL RESPONSIBILITY | | |
| Hiring practices and employment policies | Minimum/living wage, overtime regulation | 5 |
| | Freedom of association | 5 |
| | Regulation of child labor/forced labor and discrimination. | 5 |
| Worker conditions | Access to housing, water and sanitary facilities | 5 |
| | Access to education | 5 |
| | Access to medical care | 5 |
| ENVIRONMENTAL LEADERSHIP, COFFEE GROWING | | |
| Protecting water resources | Water-quality protection | 5 |
| Conserving biodiversity | Maintenance of shade canopy and natural vegetation | 5 |
| Environmental management and monitoring | Ecological pest and disease management and reducing agrochemical use..... | 5 |
| ENVIRONMENTAL LEADERSHIP, COFFEE PROCESSING | | |
| Water conservation | Minimizing water consumption | 4 |
| Waste management | Waste-management operations | 4 |
| Energy use | Energy conservation | 4 |

*This sample scorecard lists only 16 of 28 indicators. The maximum point total is 105. The full scorecard is available online at www.scscofirmed.com/csrpurchasing/starbucks.html. We have also developed individual scorecards for farmers, processors and suppliers.

“The most fundamental corporate responsibility challenge faced by Starbucks, or any other coffee company, is to secure concrete progress in improved working conditions and respect for the basic rights of coffee workers; in many instances, simply ensuring suppliers’ adherence to local labor laws would provide significant advances in wages and benefits.”

– Stephen Coats, U.S./Labor Education in the Americas Project

C.A.F.E. Practices – Progress to Date

During the course of the pilot phase, we solicited feedback from a variety of stakeholders, from coffee farmers to some of our most vocal critics. They told us what worked and what didn’t. This input helped shape a more comprehensive program. However, the program is still relatively new and will continue to evolve. Many challenges remain that must be addressed. For instance:

- Although we have trained approximately 85 independent inspectors/verifiers on C.A.F.E. Practices guidelines, coffee farmers report a lack of third-party verification organizations that are capable of undertaking our comprehensive inspection requirements on remote farms or among large networks of producers.



INVESTMENTS PAY OFF

For years, the Santa Teresa farm did well enough by producing regular extra-prime coffee rather than higher-quality specialty grade. But that changed when world coffee prices hit rock bottom several years ago. Ervin Pohlenz Cordova, the son of the farm's owner, wasn't earning enough for his crops to cover the farm's expenses. The farm nearly went bankrupt.

Cordova was introduced to Starbucks through his exporter and discovered he could earn more by producing higher-quality coffee. Santa Teresa is located in Chiapas, Mexico, an area known for its optimal altitude, fertile soil and shade trees – perfect coffee-growing conditions. Some investments were needed to improve quality and implement sustainable farming practices, a commitment Cordova was willing to make, despite initial resistance from his elderly father.

It took three years before the coffee grown on Santa Teresa reached Starbucks quality standards. Along the way, the exporter worked with Cordova on implementing quality improvements. In 2003, we signed a three-year contract to buy all of Santa Teresa's high-quality coffee at premium prices and added a provision that earmarks funds for social improvement and environmental protection projects to benefit the farm. Cordova's accomplishment is now the pride of his father.

The Starbucks contract gives Cordova security in knowing he has a buyer for his future crops and one that contributes to the quality of life on Santa Teresa. "Now I feel that I will work my entire life as a coffee producer because my farm is sustainable," he said. Clearly, Cordova's investment is paying off. And for Starbucks, we gain a wonderful source of high-quality coffee grown under sustainable conditions.

Cordova is a firm believer in C.A.F.E. Practices, and his goal is to become a Starbucks preferred supplier in 2005.

- Achieving economic transparency is very difficult because we're relying on parties that have traditionally lacked reliable information systems for tracking payments throughout the supply chain.
- As we continually refine and improve elements of C.A.F.E. Practices, information will also need to be regularly updated and effectively communicated to farmers, suppliers, our industry and the public.
- To comply with C.A.F.E. Practices, farmers and suppliers may need to adopt new measures that could prove costly for them.
- We will continue to define and measure what constitutes financial equity for farmers.

Starbucks currently measures the success of C.A.F.E.

Practices by tracking the number of applications we receive, the number of our preferred suppliers and the amount of coffee Starbucks purchases from preferred suppliers. (See C.A.F.E. Practices timeline on pages 20–21.)

In the future, we hope to provide more transparency on various aspects of C.A.F.E. Practices, including levels of performance among preferred suppliers or within specific coffee regions.

For complete information on C.A.F.E. Practices, visit Scientific Certification Systems (SCS) at www.scs-certified.com/csr/purchasing/starbucks.html. SCS is a third-party evaluation and certification firm retained by Starbucks for the development, training and auditing of C.A.F.E. Practices.



Q: “How would C.A.F.E. Practices help to solve the economic and social problems of coffee-growing families?”

– Manuel Antonio Barrantes, Herbazu Farm in Costa Rica

A: Starbucks established C.A.F.E. Practices as a way to provide incentives to farmers based on the quality of their coffee and on comprehensive measures that support the long-term sustainability of coffee farms and the surrounding communities.

When buying high-quality coffee, Starbucks often pays considerably more than conventional or commodity market prices. C.A.F.E. Practices suppliers who achieve scores above 60% receive preferred supplier status and are eligible for premium prices and preferred contracts. Those who score above 80% receive the same benefits and are paid additional premiums of \$0.05 per pound (453 grams). All scores are independently verified.

By producing high-quality coffee, farmers are better positioned to earn more and have greater security, which enables them to invest in their farms and communities for a sustainable future. Through our agronomy office in Costa Rica, Starbucks Farmer Support Center, we are providing on-the-ground resources and support to farmers who want to improve their coffee quality and implement sustainable farming practices so that they can become Starbucks preferred suppliers.



Three of Starbucks Costa Rica–based partners from our Farmer Support Center discuss C.A.F.E. Practices with members of Coopronaranjo R.L., a coffee cooperative located in Naranjo.

Starbucks Farmer Support Center

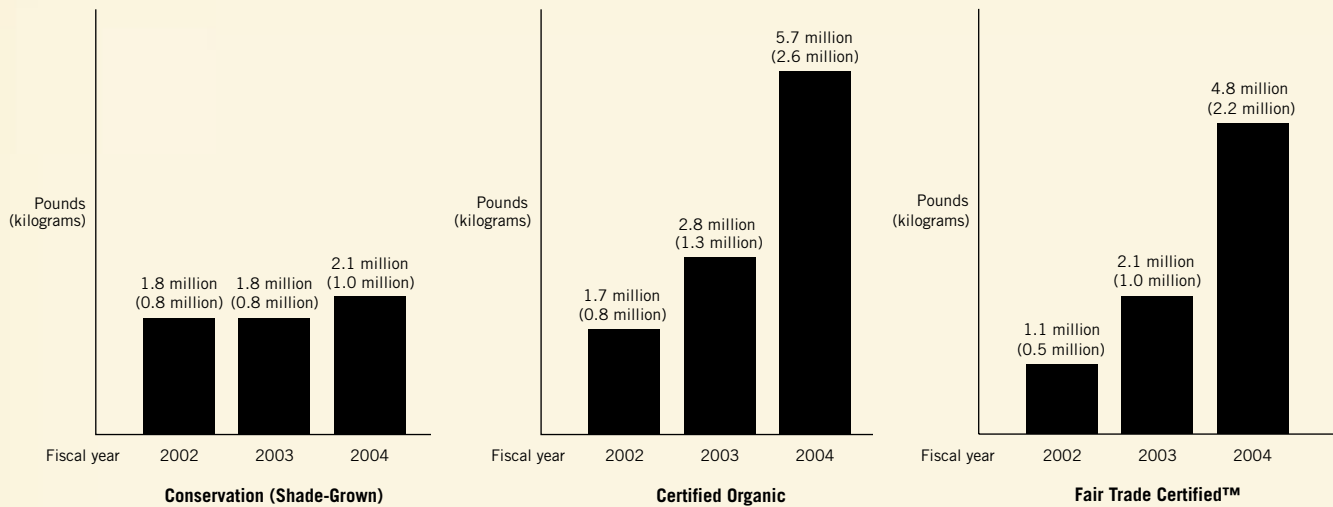
In January 2004, Starbucks opened an agronomy field office in Costa Rica to house our team of experts in soil management and field-crop production (agronomists), and in coffee quality and sustainability practices. They collaborate directly with farmers and suppliers in Central America and provide services to farmers and suppliers

in Mexico and South America, which helps build long-term and strategic relationships with those who share our commitment to the sustainable production of high-quality coffee. Our Costa Rica partners also help implement C.A.F.E. Practices, oversee regional social programs and engage with local governments on sustainability issues.

“Being introduced to C.A.F.E. Practices has been valuable for farmers because now we understand Starbucks better. We know that Starbucks puts quality first, so quality is top of mind for us.”

– Carlos Rivera, Coope Tarrazú, a coffee cooperative in Costa Rica

Conservation and Certified Coffees



Note: Coffees may be certified in more than one category. Starbucks purchased a total of 299 million pounds (136 million kilograms) of coffee in fiscal 2004.

Purchasing Conservation and Certified Coffees

An important component of our sustainability model is buying certified or eco-labeled coffees that have been grown or sold in ways that help to preserve the natural environment and/or promote economic stability. These include conservation (shade-grown), certified organic and Fair Trade Certified™ coffees. (See graphs above for amounts purchased.)

Certified Organic Coffee

Certified organic coffee is grown without the use of synthetic pesticides, herbicides or chemical fertilizers to help maintain healthy soil and groundwater. Organic coffee beans must be processed in certified organic mills and roasting facilities. Two of our certified offerings are the Serena Organic Blend® and Organic Shade Grown Mexico coffees.



Starbucks and the U.S. Agency for International Development (USAID) have been longtime supporters of the work of Conservation International (CI). In September 2004, a signing ceremony was held in Mexico City to launch the Conservation Coffee Alliance, a program involving Starbucks, CI and USAID. This new program will support the development of Conservation Coffee™ projects in Mexico, Panama and Costa Rica that are being partially supported by USAID with a \$1.2 million grant to CI, payable over three years. From left: Adolfo A. Franco, assistant administrator for Latin America and the Caribbean, USAID; Glenn Prickett, CI's senior vice president; Orin Smith, Starbucks president and ceo; and Antonio O. Garza Jr., U.S. ambassador to Mexico.

Q: “Will Starbucks commit to not using GMO coffee or tea products (once they come to market) unless independent long-term testing proves they are not harmful to humans, animals and the environment?”

– *Michael Passoff, As You Sow Foundation*

A: Yes. In addition, Starbucks has consistently reaffirmed that our coffees and teas do not come from crops that have been genetically modified.

| Conservation Coffee™ Program Update | | | |
|--|---|---|--|
| PROJECT SITE | MEXICO El Triunfo Biosphere Reserve Launched: 1997 | PERU Upper Tambopata Valley Launched: 1998 | COLOMBIA Paraguas-Tatama Conservation Corridor Launched: 2000 |
| Number of farmers actively participating in project | 694 | 1,534 | 340 |
| Number of people living in farming community | 6,970 | 8,640 | 1,360 |
| Land managed under CI's Conservation Coffee™ best practices | 5,436 acres (2,200 hectares) | 9,340 acres (3,780 hectares) | 5,100 acres (2,064 hectares) |
| Wildlife benefiting from project | An estimated 300 species of birds (including the near-threatened quetzal), many of which are found only in this area, 45 types of reptiles, and 30 species of mammals | Endangered species, including the giant otter and the harpy eagle | More than 200 endemic species such as the emerald toucanet and the bespectacled bear |
| Amount of coffee purchased by Starbucks in fiscal 2004 | 1.5 million pounds (0.7 million kilograms) | 343,000 pounds (155,000 kilograms) | 194,000 pounds (88,000 kilograms) |
| Average price per pound (kilogram) of coffee paid by Starbucks | \$1.25 per pound (\$2.75 per kilogram) | \$1.32 per pound (\$2.90 per kilogram) | \$1.19 per pound (\$2.62 per kilogram) |
| Premium paid to farmers over local prices | 44% | 159% | 80% |
| Starbucks products | Starbucks® Organic Shade Grown Mexico and Decaf Shade Grown Mexico | Starbucks® Conservation Peru | Starbucks® Conservation Colombia |

Conservation Coffee (Shade-Grown)

On large coffee plantations, shade trees are often stripped away and replaced with tight rows of coffee trees that are exposed to the bright sun. The crop yields may be higher, but the quality is often lower than coffee grown in a more natural, shaded setting. Moreover, when tree canopies are removed, the habitats of numerous species of birds, wildlife and plants are also lost. Starbucks believes biodiversity must be protected, especially in coffee-growing regions located in some of the world's most sensitive areas. Our environmental commitment led us to align with Conservation International (CI) in 1998. CI is a nonprofit organization dedicated to protecting global biodiversity.

Our partnership initially focused on protecting the El Triunfo Biosphere Reserve in Chiapas, Mexico, by

encouraging small-scale coffee farmers to use traditional cultivation methods. Over time, the results have been positive for local farmers because they began producing higher-quality coffee that sold at premium prices through CI's Conservation Coffee™ program. In 2004, Starbucks and CI introduced a measure to increase transparency in the program's purchasing and contract processes. This is helping participating farmers – those working with our established exporter – achieve greater financial transparency in their transactions and has led to increased sales to Starbucks, as well as an increase in the farmers' earnings.

Building on the success of our initial project, Starbucks and CI applied the same model to similar situations in Colombia, Peru and, most recently, Costa Rica. (See Conservation Coffee™ Program Update above.)

Fair Trade Certified™ Coffee

In 2000, Starbucks established a licensing agreement with TransFair USA, the sole U.S. licensor of Fair Trade products, including Fair Trade Certified™ coffee. In subsequent years, in order to increase our global Fair Trade offerings, we have entered into additional licensing agreements with Fair Trade initiatives around the world. Starbucks shares common interests with the Fair Trade movement in ensuring coffee farmers are fairly compensated for their crops and in working together for the benefit of farmers, their communities and the industry.

Today, the International Fair Trade registry includes more than 680,000 small-holder farmers who belong to democratic, farmer-owned cooperatives – approximately 3% of the world's coffee farmers. When Starbucks purchases Fair Trade Certified™ coffee, we pay a guaranteed minimum price that typically is \$1.26 per pound (\$2.77 per kilogram) for non-organic green *arabica* beans and \$1.41 per pound

(\$3.10 per kilogram) for organic beans. These established prices, which are set by Fairtrade Labelling Organizations International, include \$1.19–\$1.21 for the coffee (depending on region), \$0.05 for a social premium and \$0.15 for an organic premium.

Consumer demand for Fair Trade Certified™ coffee in our stores has varied, from a low level in the United States to a somewhat higher level in Canada, Europe and elsewhere. We continue to work with several of the national Fair Trade licensing initiatives to promote Fair Trade Certified™ coffee at Starbucks.

Starbucks has expanded its collaboration with Fair Trade initiatives worldwide. In fiscal 2004, we purchased 4.8 million pounds of Fair Trade Certified™ coffee, which represents 1.6% of our total coffee purchases and is more than double the amount we bought in 2003. We are also licensed to sell Fair Trade Certified™ coffee in 23 countries, up from 20 countries the previous year.

Q: “When will Starbucks live up to its promises to the Fair Trade community, become a true industry leader and buy at least 5% (of its total volume) Fair Trade Certified™ coffee to guarantee a fair price for farmers? It is shameful that the same company that netted revenues of \$5 billion in fiscal 2004 refuses to ensure that the producers of its coffee can feed, clothe and provide decent shelter for their families. Currently, less than 1% of Starbucks coffee is Fair Trade Certified.™”

– Valerie Orth, Global Exchange

A: To answer Valerie Orth's question, Starbucks has never promised to buy Fair Trade Certified™ coffee in quantities expressed as a percentage of our total coffee purchases. Since 2000, Starbucks has demonstrated a very strong commitment to purchase large quantities of Fair Trade Certified™ coffee, including our most recent decision to purchase 10 million pounds (4.5 million kilograms) in fiscal 2005. All of our previous commitments related to Fair Trade Certified™ coffee were stated either in terms of the number of pounds we planned to purchase or our distribution plans. These various commitments were published in our fiscal 2001 and 2003 Corporate Social Responsibility Reports, which are available online at www.starbucks.com/csr. We have met all of these commitments.

Starbucks shares the interests of the Fair Trade movement in making sure farmers receive fair prices. But we view Fair Trade Certified™ coffee as one option among others to ensure farmers' economic sustainability. Starbucks believes the more sustainable approach is to encourage farmers to focus on improving the quality of their coffee so they are consistently paid premium prices, which enables them to feed, clothe and provide shelter to their families.

We are working on-the-ground with farmers to help them improve their coffee quality and implement sustainable farming practices, measures that are already producing long-term social, economic and environmental benefits for them and their communities.



José Andrade and Gonzalo Apaza, two Peruvian coffee farmers, shown with their families, are members of the Fair Trade cooperative CECOVASA. The cooperative is part of Conservation International's Conservation Coffee™ program and provides coffee for Starbucks and our stores in Peru.

Although Starbucks is one of the main purchasers of Fair Trade Certified™ coffee, we have been sharply criticized in the past for not buying larger volumes. While we are striving to buy more, several factors have impacted how much Fair Trade Certified™ coffee we have purchased:

- Fair Trade Certified™ coffee is produced only by small-holder farmers organized into cooperatives, so the overall supply is limited and consistency of supply can be an issue.
- All the coffee we buy, including Fair Trade Certified™ coffee, must meet Starbucks standards for quality. We are pleased to see that increasing volumes of Fair Trade coffees that suit our flavor profiles are becoming more available.
- Starbucks purchases coffee from many sources that are not included in the Fair Trade system. While we are committed to increasing our Fair Trade purchases, we will also continue to buy coffee from small, medium and large coffee producers and other cooperatives with whom we have developed long-term relationships.

We work with our coffee suppliers to improve quality, secure a consistent, scalable supply, and develop long-term ethical trading partnerships that encompass premium prices, environmental and social aspects of sustainability and supply chain transparency. For Starbucks, purchasing Fair Trade Certified™ coffee is one important element of a larger, comprehensive approach we take to help sustain coffee farmers and their farms. It is within this context that

Starbucks maintains a strong commitment to Fair Trade. Specifically, Starbucks will seek out Fair Trade Certified™ producers of high-quality coffee to fulfill our target of purchasing 10 million pounds (4.5 million kilograms) of Fair Trade Certified™ coffee in fiscal 2005, which we believe will make Starbucks the largest purchaser of Fair Trade Certified™ coffee in North America.

In addition, a very productive relationship has been developed with TransFair USA during fiscal 2004. Some new goals have been established to foster better collaboration, including the following:

- Starbucks will increase our channels of distribution and product offerings of Fair Trade Certified™ coffee in North America.
- TransFair USA and Starbucks will contribute our collective marketing expertise to help promote Fair Trade branded products to our customers.
- Starbucks and TransFair USA will continue to work cooperatively on the issue of economic transparency by providing evidence on how much of the guaranteed Fair Trade price actually goes to farmers.
- TransFair USA will provide feedback to Starbucks on the strengths and weaknesses of C.A.F.E. Practices and will explore opportunities for Fair Trade coffee cooperatives to participate in C.A.F.E. Practices.



Residents of Ayarza, a coffee-growing village in Guatemala, attend the grand opening of a health clinic and kindergarten facility that Starbucks co-funded with Exportcafé, one of our coffee suppliers.

Investing in Social Programs

The rural communities surrounding coffee-growing areas often lack basic necessities such as adequate housing, health clinics, schools, good roads and fresh drinking water. Starbucks has a history of helping to improve local conditions, particularly in areas where we buy large volumes of coffee. We work with local farmers to understand the greatest needs in their communities, then together we develop projects that can help meet those needs.

In fiscal 2004, Starbucks contributed nearly \$1.8 million for 35 social projects, up from an estimated \$1 million the previous year. Two projects we supported in 2004 focused on improving housing in Colombia and building a health clinic and kindergarten in Guatemala. (More information on our social investments in coffee communities is available on page 43.)

Housing Improvement Project, Colombia

Starbucks contributed more than \$1 million to improve housing for coffee-growing families in the Colombian state of Nariño, an area of extreme poverty and political unrest. This multiyear project will also introduce sustainable

farming practices to local coffee farmers that we hope will offer them a better option than migrating to big cities and abandoning their crops. Since the housing project's inception in 1999, approximately 2,300 people have benefited, including 700 in 2004.

Ayarza Clinic and Kindergarten, Guatemala

Starbucks contributed \$79,000 to help build and equip a health clinic and kindergarten facility in Ayarza, a remote coffee-growing village in the highlands of eastern Guatemala. Our supplier, a coffee exporter, matched our contribution. Today, the village has its first doctor and a kindergarten facility. Approximately 50 people visit the clinic daily and 80 children attend the kindergarten annually.

Providing Access to Affordable Credit

One problem farmers face is having access to affordable loans at the local level. Without enough capital, small-scale farmers may be forced to sell their crops prior to harvest at lower prices. If they turn to local moneylenders, they are often charged high interest rates that put them further in debt.

Since 2000, Starbucks has provided loan funds to several organizations that assist farmers in obtaining affordable loans and helping them improve their agricultural techniques so their coffee is of higher quality. In fiscal 2004, Starbucks committed \$6 million to several loan programs.

| Farmer Loan Programs | | | | |
|---|--|--|---|----------------------------------|
| LOAN PROGRAM | STARBUCKS TOTAL COMMITMENT | LENGTH OF COMMITMENT | PARTICIPATING FARMERS | LOCATION OF PROGRAMS |
| Calvert Foundation | \$1 million to be repaid at 2% interest | Three years (Feb. 2004–2007) | Approximately 10,000 small-scale Fair Trade farmers | Costa Rica, Mexico and Nicaragua |
| Verde Ventures, managed by Conservation International | \$2.5 million to be repaid at 3% interest: <ul style="list-style-type: none">• \$1.25 million• \$1.25 million | Seven years (Dec. 2003–2010): Dec. 2003–2008 Dec. 2005–2010 | Small-scale farmers participating in CI's Conservation Coffee™ program sites and applicants to C.A.F.E. Practices | Latin America and Asia |
| EcoLogic Finance | \$2.5 million to be repaid at 2% interest | Three years (July 2004–2007) | Approximately 15,000 small-scale Fair Trade farmers | Latin America and Africa |

“Starbucks has taken a leadership position by aligning its investment capital with the company’s mission and products to create more sustainable coffee-growing communities.”

– Shari Berenbach, Calvert Foundation

Why does Starbucks keep opening more stores when they are seemingly everywhere?



SOCIETY



It's not a secret. We plan to keep growing by opening more stores in the United States and around the world.

Some may view this as a negative, but we want to point out the positive. Each time we open a new store, an average of 16 new jobs are created; additional local tax revenue is generated; neighbors get a comfortable place to gather; and we have the opportunity to give back to the community. Plus, we think our customers like having us around.

Progress Report on 2004 Goals – Society

| GOALS | |
|--|---|
| To increase the percentage of partners volunteering in the community. | ○ |
| To increase the percentage of partners making their own charitable gifts. | ● |
| To increase the number of Starbucks leaders who serve on the boards of community organizations. | ● |
| To loan a Starbucks executive to CARE for one year to assist in developing best practices for corporate alliances. | ● |
| To renew The Starbucks Foundation's national partnerships with Jumpstart and America SCORES and continue to increase partner involvement. | ● |
| To increase Tazo's support of Mercy Corps in order to serve tea communities in India. | ● |
| To continue to monitor the debate on genetic modification and be guided by regulatory authorities and concerns expressed by our customers. | ● |
| To continue to support the World Cocoa Foundation. | ● |
| To develop strategic alliances with organizations that serve diverse communities, such as NAACP and National Council of La Raza. | ● |
| To increase the number of Urban Coffee Opportunities, LLC (UCO) stores in diverse communities. | ● |

KEY: ● ACHIEVED ● MAKING PROGRESS ○ DID NOT ACHIEVE



BUILDING STRONG COMMUNITY TIES

Starbucks is located in thousands of neighborhoods, and we consider each neighborhood our home. Starbucks believes we have a responsibility to contribute positively to our communities in ways that benefit everyone.

Understanding our impact in local communities and openly sharing this information with our stakeholders are also our responsibilities. In this section we:

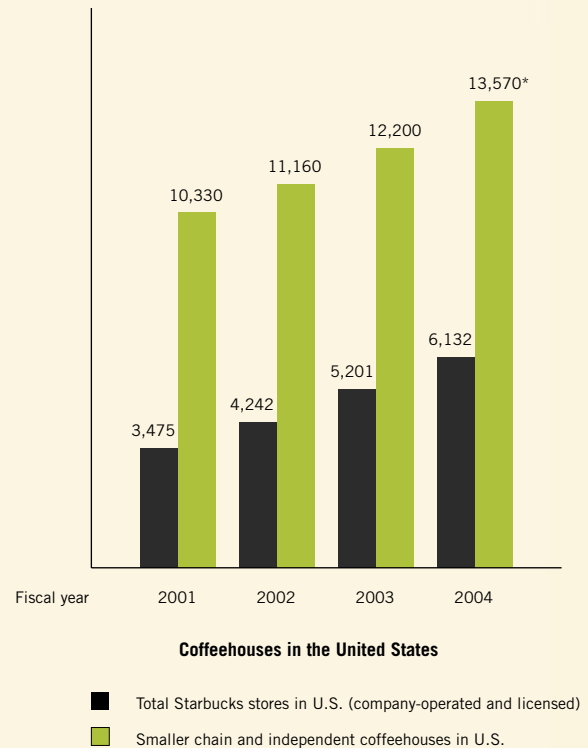
- Discuss the implications of our growth.
- Provide information on our community investments.
- Describe our relationship with customers.
- Explain our public policy activities.

Starbucks Growth

Starbucks has a solid strategy in place to support continued growth well into the future. In fiscal 2004, we opened 634 company-operated and 710 licensed stores, bringing the total number of Starbucks stores around the world to 8,569 as of October 3, 2004. Over the next fiscal year, Starbucks plans to open an estimated 1,500 new locations worldwide.

Starbucks has been instrumental in introducing many consumers to specialty coffee and helping to create a coffeehouse culture in North America. As Starbucks has opened stores over the years, a growing number of independently owned coffeehouses have also sprung up across the United States, stimulating competition (see graph, above right). As a result, consumers are offered more choices, new jobs have been created and neighborhoods have been enriched with the addition of local gathering places.

In most cases, Starbucks receives a warm welcome when opening a new store. Less typical was our experience last May when we opened a store on Division Street in Portland, Oregon. Someone attempted to smash through the window



Source: Mintel Consumer Intelligence 2003 Report and Starbucks Coffee Company

*Starbucks estimated 2004 figure, assuming a flat growth rate of 13% over 2003.

of the store and plant a Molotov cocktail to display their anti-Starbucks sentiment.

To gain a better understanding of attitudes, we asked people in a recent survey about their overall feeling of having a Starbucks near their home. Only 5% expressed extremely negative feelings, while 95% conveyed more neutral to extremely positive feelings.** Still, we're mindful of the negative perceptions, especially ones that suggest Starbucks hurts independently owned coffee shops and erodes the unique character of local neighborhoods. On the following pages, we share our recent experiences in two very different places – the Fillmore district in San Francisco and Harlem in New York City.

**Source: Starbucks Brand Strength Monitor Study, June 2004

Case Study: Our Experience in San Francisco

Starbucks ambitious growth strategy may sometimes appear at odds with our strong desire to contribute positively to our communities. Consider San Francisco, a market we first entered in 1992, and one where we've gradually added more locations to keep pace with increased customer demand. At the end of fiscal 2004, there were 70 Starbucks stores in San Francisco, including a few licensed operations. Our San Francisco customers have been enthusiastically loyal and have helped make this a profitable market for us.

Our growth has also stirred sentiments from some passionate residents who are striving to retain the charm and flavor of their wonderful neighborhoods. A group of residents took issue with formula retailers that have more than 11 locations and a standardized look. They launched a campaign and successfully lobbied for a citywide ordinance that bans or restricts chain stores from certain neighborhoods. The impact of the legislation that passed in March 2004 restricts Starbucks growth in the Hayes Valley and Cole Valley neighborhoods. The situation in San Francisco is remarkably similar to what has occurred in other places – from Coronado, California, to Bristol, Rhode Island.

Starbucks respects the will of local citizens to preserve their neighborhoods. However, we don't believe that Starbucks is detrimental to local businesses, especially other coffeehouses. According to an article in the *Wall Street Journal*, the battle between independent coffeehouses and Starbucks may be one of the most misunderstood rivalries in retailing. Most independent coffeehouses are doing fine – and have found proximity to Starbucks to be a benefit.*

We believe there's plenty of room in the market for Starbucks to expand alongside the growing number of independent coffeehouses. As we grow, we must focus on engaging with local groups, listening to our neighbors about what's important to them and determining how Starbucks can best contribute to their neighborhoods. If we take this approach, we believe Starbucks will be welcome in most communities.



Starbucks partner Juan Michel manages the Fillmore district Starbucks store in San Francisco, which opened in 2004. This store is one of 73 Urban Coffee Opportunities, LLC (UCO)** locations in the United States. Residents of the Fillmore district were receptive to having a Starbucks open in their neighborhood.

Despite the challenges we've encountered in San Francisco, Starbucks continues to directly and indirectly contribute to the city. In fiscal 2004 we:

- Employed more than 1,000 partners locally and provided an estimated \$19.1 million in salaries/wages and benefits.
- Paid an estimated \$16.3 million in local and California State taxes.
- Offered healthcare benefits to all eligible part-time and full-time partners, including their spouses, domestic partners and eligible dependent children.
- Contributed \$98,000 in grants and product donations to local nonprofit organizations, including the Every Child Can Learn Foundation and Urban Solutions.
- Inspired our partners and customers to volunteer nearly 400 hours in the community, which is equivalent to one person working full-time for 10 weeks.

*Source: "Counting Beans – Despite Starbucks Jitters, Most Coffeehouses Thrive," the Wall Street Journal, September 24, 2002

**For information about UCO, see page 38.



Located on the corner of 125th and Lenox in Harlem, this is one of the first UCO stores Starbucks and Johnson Development Corporation opened together.

Case Study: Our Experience in Harlem

In April 1999, Starbucks established a presence in the Harlem neighborhood of New York City with the opening of an Urban Coffee Opportunities, LLC (UCO) store on the corner of 125th and Lenox, down the street from the legendary Apollo Theater. Our decision may have seemed bold at the time, but we listened to our instincts that this culturally rich community would be an ideal place to operate a successful business. Other national retailers soon followed, as did new residents who took to refurbishing some of Harlem's historic and lovely brownstones.

In July 2001, Starbucks opened in a second Harlem location, in the Hamilton Heights community on 138th and Broadway. Maybe it was poor timing or a less than optimal site, but after three years the store's lackluster performance eventually forced us to close it. Hearing of our impending closure, residents expressed extreme disappointment and launched a concerted effort to get us to stay. They worried that when Starbucks pulled out of their community, it would have negative implications for the economic future of Hamilton Heights.

Four Starbucks partners and representatives from Johnson Development Corporation visited the homes of several members of the Hamilton Heights Homeowners

Association and reassured them of our commitment to their neighborhood. We shared our intent to find a more suitable location where we could serve their community and run an economically sustainable store. Since then, we've scouted several new sites in this part of Harlem but haven't yet found the perfect location; this process can sometimes take months or years. In the meantime, Starbucks has continued to support Harlem and the Hamilton Heights neighborhood in a number of ways:

- In April 2004, a team of 85 Starbucks partners and community members volunteered 425 hours at St. Nicholas Park, spreading compost, dirt and grass seed, planting perennials and clearing brush. Starbucks matched \$10 for every hour volunteered and pledged \$4,250 to the City Parks Foundation.
- We provided park grants of \$2,000 to the St. James Project Park Committee and the Friends of St. Nicholas Park, and \$5,000 to the West Harlem Community Preservation Organization for restoration efforts at St. Nicholas Park.
- In July 2004, we supported the Historic Harlem Parks Coalition's Third Annual Film Festival – Through African Eyes – with an \$8,000 grant.

Last May, an independent survey was conducted to measure the perception of Starbucks as contributing to local communities. Of those surveyed who are aware of Starbucks, 49% agreed that Starbucks contributes to local communities, while 16% did not agree.* These results are consistent with other similar surveys of leading foodservice companies.

**Source: Starbucks Brand Strength Monitor Study, June 2004*

Urban Coffee Opportunities

The result of a joint venture between Starbucks and Johnson Development Corporation, owned by Earvin “Magic” Johnson, was the 1998 creation of Urban Coffee Opportunities, LLC (UCO), which brings Starbucks stores to diverse communities. At the end of fiscal 2004, 73 UCO stores were in operation around the United States. When Starbucks locates in ethnically diverse neighborhoods, the typical reception from the local community is overwhelmingly positive. People recognize that a Starbucks store injects economic life into communities because local employees and contractors are hired, and Starbucks presence can help attract other businesses to the area.

Some of the ways UCO contributed to the economic well-being of communities in fiscal 2004:

- Employing more than 1,000 partners at 73 UCO locations.
- Paying an estimated \$17.5 million in salaries/wages and benefits to UCO store partners.
- Providing healthcare benefits to eligible part-time and full-time store partners, their spouses, domestic partners and eligible dependent children.

A listing of all UCO locations in the United States can be found online at www.starbucks.com/aboutus/magic.asp.

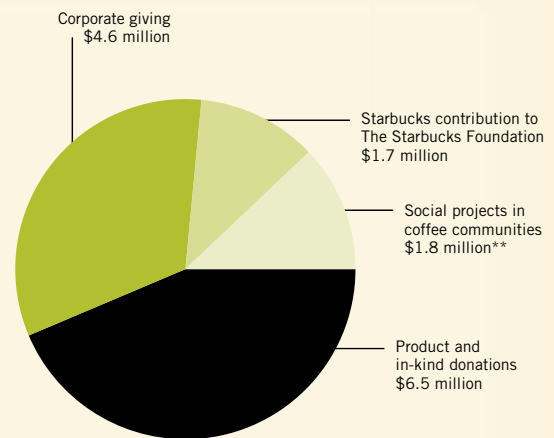


Earvin “Magic” Johnson with kids from Project Chance at the opening of Starbucks UCO store in Brooklyn, New York, in August 2004.

Investing in Communities

As a company, Starbucks supports nonprofit organizations in our communities with cash contributions and product donations. We do this through our corporate giving and regional grant programs, local store efforts, our contributions to The Starbucks Foundation and our newly created Starbucks Card Duetto™ Visa® program. In fiscal 2004, Starbucks cash and in-kind contributions were valued at \$14.6 million, which represents 2.3% of the company's earnings before income tax (see pie chart at right). The majority of our giving was directed in four ways:

- To local nonprofit organizations that our partners personally support with their contributions of time and money.
- To youth education programs that benefit diverse and underserved communities.
- To environmental initiatives that help preserve biodiversity and build awareness in our communities.
- To projects that support coffee- and tea-growing communities.



Starbucks Community Support in 2004*

*Total contributions in fiscal 2004 were \$14.6 million.

**Represents the total amount Starbucks paid through some coffee contracts to fund various social development projects.

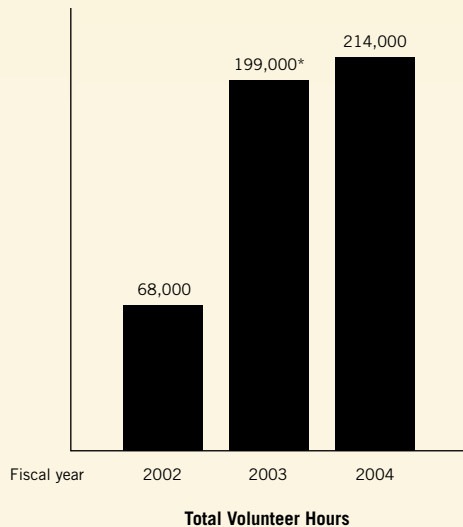
Q: “I heard that when a U.S. marine stationed in Iraq asked Starbucks for a donation of coffee, your company refused because it doesn’t support the war or the troops. Is this true?”

– Louis Hampton, Clovis, California

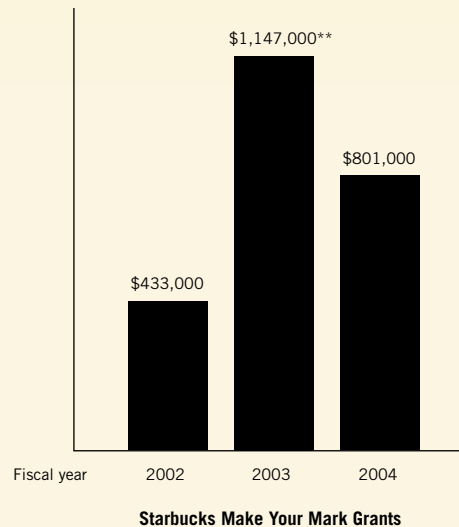
A: Starbucks donates to nonprofit organizations that are designated as public charities under Section 501(c)(3) of the IRS code. The U.S. military and individual military personnel do not qualify as a public charity, and therefore we do not make corporate donations to them. However, in times of major conflict, as we are now experiencing in Iraq and Afghanistan, we are proud to give coffee to U.S. troops through our partnership with the American Red Cross. In November 2004, we announced a donation of 50,000 pounds (22,680 kilograms) of coffee to

the American Red Cross for distribution to troops serving in Afghanistan, Iraq and Kuwait. We believe it is important to support those who are willing to risk their lives and preserve our freedoms and security. Moreover, on an individual, grassroots level, many of our partners have made personal donations to military personnel or military units, including their weekly pound of free coffee they receive as an employee benefit. We are very proud of the many donations our partners have made.

Make Your Mark



**Includes 110,000 hours for September Make Your Mark.*



***Includes \$697,000 for September Make Your Mark.*

Make Your Mark – Our Volunteer Program

Four years ago Starbucks launched Make Your Mark (MYM), a program that encourages partners to volunteer in their neighborhoods and rewards their efforts by providing cash contributions from Starbucks to the nonprofit organizations where they volunteer. Starbucks matches \$10 for every hour volunteered, up to \$1,000 per project. It gets even better – our partners can enlist their friends, families and customers to participate on a team project, and Starbucks will match all the hours volunteered.



More than 100 Starbucks partners and customers, wearing red T-shirts, formed a human red ribbon near Philadelphia City Hall as a way to raise awareness for the 2004 Philadelphia AIDS Walk. Many of them also participated in the AIDS Walk, which Starbucks supported through our Make Your Mark program.

Choose to Give! – Our Charitable Gift Matching Program

Most nonprofit organizations depend on the generous support of individuals to fund their programs and services. Our partners have steadily shown their desire to contribute over the years. When our partners make their own charitable gifts, Starbucks provides a dollar-for-dollar match, up to \$1,000 annually. In fiscal 2004, more than 1,500 of our partners' charitable contributions were matched with \$314,000 from Starbucks.

Executive Community Leadership Program

Dedicated and talented leaders are always in demand, especially among community organizations. Many Starbucks leaders are involved with such organizations, serving on boards and making personal contributions of their time and money. In recognition of their efforts, Starbucks also provides support to these organizations. In fiscal 2004, 37 Starbucks leaders (vice presidents and above) were involved with a community organization.

Starbucks Holiday Angels Toy Drive – A Local Stores Initiative

When the holiday season arrives, it heightens the community spirit in our partners and customers. For the past four holiday seasons, Starbucks has held a toy drive in our stores to bring much-needed joy to children who are seriously ill. Our U.S. partners and customers donated more than 440,000 toys in fiscal 2004, and our stores contributed more than \$40,000 to the Starlight Children's Foundation, an international nonprofit organization.

The Starbucks Foundation – Supporting Youth Education

Since 1997, The Starbucks Foundation has provided financial support to nonprofit organizations across North America for the purposes of creating hope, discovery and opportunity in our communities. The Foundation has primarily focused its resources on youth education programs in underserved communities. In fiscal 2004, The Foundation's Board of Directors began a process to review its current mission and determine the future direction of its focus and initiatives.

The Starbucks Foundation, a 501(c)(3) charitable organization, contributed \$1.8 million in the form of 159 grants to local community organizations in fiscal 2004. On the national level, The Foundation continued its support of two organizations serving youth: Jumpstart and America SCORES. (More information about the partnership with Jumpstart is available on page 42.)

The Foundation receives funding from Starbucks Coffee Company, as well as from private donations. Additional funding is provided through the recently established Duetto™ program, the result of a relationship between Starbucks Coffee Company, Chase and Visa. Starbucks Card Duetto™ Visa® rewards Starbucks customers for their loyalty and provides funding to nonprofit organizations. After each new Card holder's first purchase, Starbucks makes a \$5 contribution to The Starbucks Foundation. Each year, The Foundation's Board of Directors will determine the recipients of the Duetto™ program funding. In fiscal 2004, recipients included Jumpstart, Conservation International, Earth Day Network and the African Wildlife Foundation.

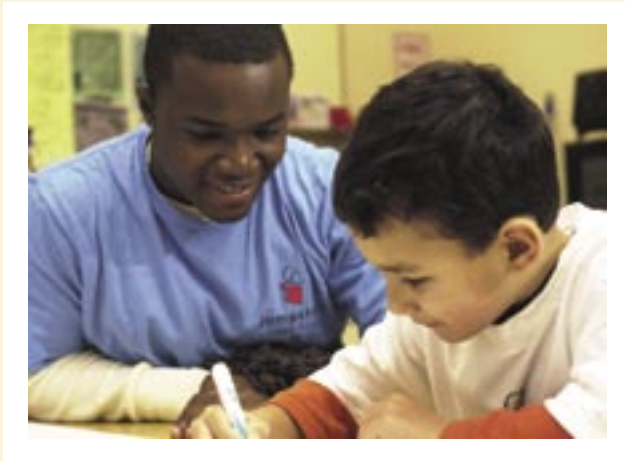
A listing of The Foundation's grants can be found online at www.starbucks.com/foundation.



Alex Mack (left) and Diana Montero practice interviewing techniques during a pre-apprenticeship workshop at Spy Hop Productions, a nonprofit organization in Salt Lake City, Utah. The Starbucks Foundation gave a \$10,000 grant to Spy Hop in fiscal 2004 in support of its Media Studio Youth Apprenticeship Program, which is dedicated to providing underserved youth with hands-on, real-world career experience in the multimedia field.

“The entire Jumpstart network thanks The Starbucks Foundation for the extensive support over the past four years, which has had immeasurable impact on preschool children, college students and our communities around the country.”

— Rob Waldron, Jumpstart



Walter Baddoo (left), a Jumpstart Boston Corps member from Tufts University, encourages David Rosa during one of their tutoring sessions.

A Partnership with Jumpstart

What started as a college project in 1993 today serves nearly 8,000 low-income preschoolers in 57 Jumpstart sites across the United States. Jumpstart's program pairs highly trained college students for intensive one-to-one interaction with preschoolers who lack the skills they will need to succeed in kindergarten. The Starbucks Foundation pledged \$1 million to Jumpstart in 2001 to be paid over four years. In fiscal 2004, The Foundation contributed \$350,000, which included part of its previously pledged amount plus additional funds from the company's Duetto™ program. The Foundation renewed its partnership with a \$1.2 million pledge over the next three years. Starbucks also pledged \$300,000 in in-kind support over three years.

The funding provided to Jumpstart from The Starbucks Foundation has enabled it to add more program sites across the United States. As Jumpstart has expanded, it has recognized the need to clearly communicate its mission to its stakeholders. In 2004, several Starbucks partners took a personal interest in Jumpstart and offered their creative talents pro bono to develop a new brand identity and message guide. The Starbucks team devoted almost a year to the project, collaborating with Jumpstart staff to create a new Jumpstart logo and other marketing materials (see below). The expertise provided by Starbucks partners is already helping Jumpstart raise its visibility and increase its exposure to other supporters.



Investing in Coffee- and Tea-Growing Communities

As our business becomes more global, Starbucks strives to maintain a local touch. This can be seen in some of our international initiatives that are broad in scope but geared to help individual communities. Below are some examples of what we are doing to help create more sustainable communities in coffee- and tea-growing regions. (More information on our sustainability efforts can be found on pages 15–31.)

Conservation International (CI)

In the six years since Starbucks and CI formed a partnership, we've worked together to preserve tens of thousands of acres of sensitive habitat areas, helped thousands of farmers earn more for their coffee and established a sustainable model for growing coffee. Beyond our collaborative relationship, Starbucks also provides financial support to CI as a nonprofit organization. This funding is essential for CI to strengthen and expand its conservation efforts around the globe, particularly in areas where biodiversity is under severe threat. In fiscal 2004, Starbucks contributed \$454,000 to CI, a portion of which was from the Duetto™ program. (More about our partnership is found on page 27.)

CARE International

Starbucks and CARE International, a global humanitarian organization, have been working together since 1992 to help alleviate poverty and create long-term solutions in coffee-growing communities. Our partnership was strengthened in fiscal 2004 when Deidra Wager, Starbucks executive vice president, spent the year as an “executive on loan” to CARE. With 25 years of corporate leadership experience, Deidra worked with CARE to help improve collaboration between CARE and its corporate partners and to launch a two-year pilot project in the remote Guatemalan municipality of San Pedro Jocopilas. The CARE team is developing integrated and sustainable community health services, primary education programs and village banking networks. The combination of CARE's experience in this region plus funding from Starbucks is expected to benefit 4,600 local residents – many of whom migrate seasonally to pick coffee. Additional information is available at www.careusa.org.



Deidra Wager (left), Starbucks executive vice president, and the CARE team met with Juana and Mateo, village volunteers and leaders in San Pedro Jocopilas, Guatemala, in their home last summer. The village leaders, local municipal officials and government representatives all attended the meeting.

Coffee Kids

Starbucks continued its four-year support of Coffee Kids, a nonprofit organization established to help improve the lives of women and their families in coffee-growing communities around the world. Starbucks provided \$25,000 in fiscal 2004 for micro-credit projects that benefited more than 3,500 women and their families in Veracruz, Mexico, and Matagalpa, Nicaragua.



Part of the support provided to Mercy Corps by Starbucks, Tazo and Tazo's suppliers has been used for healthcare initiatives that benefit village residents in the Darjeeling region of India, a tea-growing area.

African Wildlife Foundation

In 2004, Starbucks and the African Wildlife Foundation (AWF) teamed up to build awareness for conservation of the wildlands and wildlife of Africa. For more than 40 years, AWF has been in coffee-growing countries such as Kenya and Tanzania, working with local communities to protect wildlife and make optimal use of their natural resources. Starting with a \$20,000 donation in fiscal 2004, and a \$200,000 commitment for support in fiscal 2005, Starbucks and AWF are exploring new ways to bring sustainable coffee-growing practices to these regions.

Mercy Corps

Since 2002, Tazo has been collaborating with Mercy Corps, an international humanitarian aid organization, on a project called CHAI (Collaboration for Hope and Advancement in India). This three-year project aims to improve the quality of life for 11,000 people living in 24 rural communities in and around Darjeeling, a region of India where some of the finest teas are grown.

Mercy Corps engages local residents in a process to determine the most critical issues facing their communities. From this, projects are developed with Mercy Corps' oversight, including ones to improve water quality and access, create vocational training opportunities for youth and support regional self-governing administrative bodies.

Starbucks, Tazo and Tazo's suppliers made an initial pledge of \$600,000, based on Tazo's projected tea purchases from this region. Tazo's purchases exceeded expectations, so the three-year commitment was increased to \$880,000. In fiscal 2004, Starbucks provided \$100,000 while Tazo and its suppliers contributed \$229,000, for a total of \$329,000. These funds will enable CHAI to expand to 24 villages and help build roads, community halls, a food-processing unit, footpaths, and irrigation and water-supply systems; sponsor community events to cultivate youth leadership; and provide healthcare to villagers.

Contributing to Communities Around the World

Starbucks entry into Japan in 1996 marked our first move beyond the borders of North America. Since then, Starbucks has developed license agreements with local business partners and expanded our presence in three major regions of the world: Europe, Middle East, Africa (EMEA); Latin America; and Asia Pacific. At the end of fiscal 2004, there were 1,999 Starbucks stores in more than 30 countries outside the United States and Canada, including our newest locations in France and Cyprus.

Except for our company-operated international stores in the United Kingdom, Canada, Australia, Singapore and Thailand, we have looked to local business partners for their business acumen and to uphold Starbucks values of social responsibility. For the purposes of this report, each region compiled examples of how Starbucks is impacting the communities we're in. Because we lack uniform systems for collecting social and environmental data from our international retail operations, we present a few of their accounts as examples of our efforts in our international markets.

Europe, Middle East, Africa (EMEA)

Over the past nine years, Starbucks has opened 670 stores in more than 15 countries in this region of the world and currently provides an estimated 9,000 jobs. A strong bond connects Starbucks partners across national borders and diverse cultures, especially when it comes to their support of children's causes. An example of this is the Adopt a School program, which was launched in December 2003 by our partners in Turkey, and included the involvement of our customers. The program began with a toy drive, followed by a book drive, volunteer activities at local schools and donations of school supplies.

The Fair Trade movement and products such as Fair Trade Certified™ coffee and chocolate are more widely known in Europe than in the United States. Prior to 2004, Starbucks was licensed to sell Fair Trade Certified™ coffee in the United Kingdom, Germany, Spain, Austria and Switzerland, and Fair Trade Certified™ chocolate bars in the United Kingdom. In fiscal 2004, we signed new licensing agreements with Fair Trade Germany that allow us to offer Fair Trade Certified™ coffee in Greece and Cyprus, and one with the Fair Trade organization Max Havelaar that extends to France. Altogether, Starbucks is licensed to sell Fair Trade Certified™ coffee in 10 countries in the EMEA region. (More discussion about our participation in the Fair Trade system can be found on pages 28–29.)



Starbucks provided support to build a bridge that serves an estimated 70,000 Ethiopians living in a coffee-growing village in the Sidamo region. The new bridge, which was completed in August 2004, provides safe passage for farmers so they can access markets and sell their products. Starbucks funded the project jointly with our supplier by adding a premium to the coffee we purchased from this region. The project was also supported by partners in Starbucks EMEA region.

Starbucks UK initiated some major projects, including:

- A one-year collaboration with Oxfam Great Britain that included funding of a project focused on improving conditions for coffee farmers and their families in the East Hararge region of Ethiopia. The results of the collaboration, which launched in October 2004, will be reported at its conclusion.
- A partnership with the Royal Society for the Encouragement of the Arts, Manufactures and Commerce (RSA) to create the RSA Coffeehouse Challenge. Starbucks hosted more than 80 community meetings across the United Kingdom, bringing an estimated 2,000 people together to identify local challenges and find solutions to help make the United Kingdom a better place to live and work. Six winning Coffeehouse Challenge projects received recognition from RSA and awards from Starbucks.



Starbucks Australia partner Cayden Richards and an East Timor coffee farmer work together spreading green coffee beans so they can dry under the warm sun.

Latin America

In recent years, Starbucks extended our retail presence to Latin America, the part of the world where the majority of our coffee is grown. Presently, Starbucks stores are located in Mexico, Peru and Chile. As we enter new markets, our initial focus is on establishing our brand, educating consumers about Starbucks and finding opportunities to contribute to our new communities. The recycling initiative we undertook in our Mexico City stores is one example of how we are making a positive difference.

Our stores launched an effort in May 2004 to reduce the amount of solid waste that is disposed of in landfills by separating recyclable packaging waste from trash. We've partnered with a nonprofit group, Junior League Mexico, to transport the recycled waste to a factory that uses these materials to produce recycled paper, which we purchase for other uses. We estimate that our 32 stores in Mexico are collectively saving almost five trees per week through this initiative.

Asia Pacific

Starbucks Asia Pacific region extends from Japan to Australia and includes nine other countries. One of our proudest accomplishments emerged from this region – the introduction of Timor Lorosa'e, a single-origin coffee produced by Fair Trade farmers in East Timor.

After a long struggle, East Timor gained independence in 1999 and, with the help of the international community, has been rebuilding ever since. Starbucks has been working with local farmers to improve coffee quality and has provided past support for a healthcare clinic and more recently, a clean water facility in the village of Goulolo. Today, we believe Starbucks is the largest buyer of East Timor's highest-quality coffee, which will be offered first in Australia and New Zealand, and eventually throughout the Asia Pacific region.

A list of the countries where Starbucks has stores can be found on pages 13 and 14 of our Fiscal 2004 Annual Report to shareholders, which is available online at www.starbucks.com/aboutus/investor.asp.

Being Responsible to Our Customers

At the end of fiscal 2004, Starbucks was serving approximately 30 million customers around the globe every week. Many customers visit daily, while others drop in for the first time. We view every customer interaction as our opportunity to make that person's day. If we fall short, we risk losing our customers' trust and business.

We are pleased with the loyalty our customers have shown Starbucks. Their loyalty suggests we're doing something right. We believe it comes down to our uncompromising commitment to our Guiding Principles, in particular our commitment to "develop enthusiastically satisfied customers all of the time."

Our customers expect great coffee and exceptional service when they come to Starbucks. It's what they're paying for. But they also expect Starbucks to be responsible in how we run our business. They give us feedback and trust that we'll listen. And we do.

Customer Satisfaction

To get reliable feedback on how well Starbucks meets the needs of our customers, we survey for satisfaction. Specifically, we measure ourselves against our own high standards by focusing on "highly satisfied" customers. Our national retail customer satisfaction survey, conducted in August 2004, found that 89% of our customers were satisfied. Overall, 55% were highly satisfied. Starbucks is currently developing a measurement tool that will provide performance feedback to our stores relative to our key satisfaction metrics. Our stores will use this feedback to make needed improvements and ensure that more customers are highly satisfied with their *Starbucks Experience*.

Listening to Our Customers

Our customers are usually comfortable providing feedback to local store partners. If their needs can't be addressed at the store level, our customer relations partners are available for calls daily through a toll-free line, 800-23-LATTE (235-2883). This line is open to our customers as well as our other stakeholders. We strive to answer the letters and comment cards we receive within a week and respond to emails within 24 hours. In fiscal 2004, Starbucks received 862,000 customer contacts. The nature of these contacts

pertained mostly to the quality and consistency of the service and products in our stores. We also received many requests for nutrition information about our products.

Providing Customers with Nutrition Information



Obesity is a major health concern today. Having access to nutrition information on foods and beverages helps consumers make informed choices. In fiscal 2004, Starbucks published a brochure that provides nutrition information on our beverages, based on Starbucks standardized beverage recipes. This brochure is available in our stores, and the same information is on our website. Regarding fresh food products, nutrition information for

selected items is currently available on our website.

We have also expanded our product offerings to include more options for customers seeking a broader range of food and beverage alternatives, such as soymilk, fresh fruit, yogurt, Penza™ nutrition bars and Frappuccino® Light blended coffee beverages.

This is only the beginning. We've created a nutrition strategy with targeted initiatives for the future. For instance, Starbucks plans to:

- Publish a new brochure for our stores in the United States that contains nutrition information on food and beverage products, by January 2006.
- Report trans fat content of packaged and nonpackaged food and beverage products, by January 2006.
- Continue to introduce new food and beverage products that meet the wide variety of our customers' needs, including those tailored to customers looking for specific nutritional benefits.
- Commit to not sell our products in schools for grades K–12.
- Gather feedback through a Starbucks-hosted nutrition and wellness stakeholder engagement session in fiscal 2005 that will enable us to be more responsive to the needs and concerns of our consumers.

Our Approach to Public Policy in the United States

Until recently, Starbucks has been relatively quiet on the public policy front. We've made few political donations in the past and have not typically engaged in lobbying efforts. During fiscal 2004, Starbucks began to engage in the political process, contributing \$75,000 to local education initiatives in Washington State. We also spoke out on the issue of rising healthcare costs.

Our chairman, Howard Schultz, has been a longtime champion of healthcare coverage, ensuring that the same comprehensive healthcare benefits Starbucks provides to full-time workers are extended to our eligible part-time partners. Doing so has helped establish a value system within Starbucks that, we believe, is directly linked to our success. Starbucks firmly believes every American

should have access to affordable healthcare. But escalating healthcare costs are undermining the ability of all companies and individuals to purchase affordable coverage. At Starbucks, we have experienced double-digit increases over the past four years for the healthcare coverage we provide to our partners. While we continue to look for ways to contain rising healthcare costs, we see little end in sight.

Given these realities, Starbucks has become an advocate for making America's healthcare system more efficient, reliable, transparent and affordable. In May 2004, Starbucks proudly sponsored Cover the Uninsured Week, an annual campaign of the Robert Wood Johnson Foundation focused on expanding access to affordable, quality healthcare coverage. Howard and other Starbucks leaders have met with federal policymakers and will continue to engage with them to offer our assistance and urge them to take meaningful action.



Right to left: Howard Schultz, Starbucks chairman; Dave Pace, executive vice president, Partner Resources; and Chet Kuchinad, senior vice president, Total Pay; met with U.S. Representative Joe Barton (R-TX), chairman of the U.S. House Energy and Commerce Committee, to discuss viable solutions for escalating healthcare costs.

United Nations Global Compact

At the World Economic Forum in January 1999, U.N. Secretary-General Kofi Annan challenged world business leaders to advance responsible corporate citizenship and universal social and environmental principles that meet the challenges of globalization. The Global Compact was conceived as a voluntary international network of corporations, U.N. agencies, trade unions and non-governmental organizations that support 10 universal principles on the environment, labor, human rights and corruption. Starbucks joined the Global Compact in June 2004. We consider our participation to be a natural fit with our own Guiding Principles that are based on social responsibility.

When companies join the Global Compact, they are asked to report on the ways in which they are supporting its 10 principles. We will report on our progress at the end of fiscal 2005.

Behind the Starbucks green aprons,
how green is the company?



ENVIRONMENT



We'll be the first to say that Starbucks is greener in some areas than in others.

To understand just how green Starbucks is, we analyzed our environmental footprint and have recently evaluated how our operations contribute to climate change. Both studies shed light on our opportunities for improvement. But the true sign of a green company isn't knowledge, it's action. So behind the green aprons, we're taking action to be more environmentally responsible.

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 (employees).*
- *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.*

Progress Report on 2004 Goals – Environment

| GOALS | |
|---|---|
| To conduct a climate inventory to better understand our greenhouse gas emissions. | ● |
| To increase the number of our U.S. stores participating in a recycling program by 10%. | ◐ |
| To increase our purchases of in-store furniture made from wood certified by the Forest Stewardship Council. | ● |
| To participate with the Paper Working Group to encourage the increased use of environmentally preferable paper. | ● |
| To develop a strategy for incorporating post-consumer fiber in our cups. | ● |
| To achieve target of 30% post-consumer fiber content in our paper purchases. | ○ |
| To pursue sustainable packaging solutions through participation in the Sustainable Packaging Coalition. | ● |
| To launch an “energy test bed” in a sampling of our stores to monitor all energy usage and test new conservation initiatives. | ○ |

KEY: ● ACHIEVED ◐ MAKING PROGRESS ○ DID NOT ACHIEVE

ENVIRONMENTAL RESPONSIBILITY AND LEADERSHIP

Environmental responsibility is essential if we hope to sustain the quality of life on our planet. Starbucks recognized this long ago and in 1990 embedded the value of “contributing positively to our communities and our environment” within our Guiding Principles. It’s been part of our culture ever since.

In this section of the report, we present information on our performance relative to each tenet of our Environmental Mission Statement, which was established in 1992 (see left).

Understanding Environmental Issues and Sharing Information with Our Partners

In fiscal 2004, Starbucks set out to understand more about the risks associated with climate change and to evaluate our contribution to global warming. This effort dovetailed with earlier work we had done to assess Starbucks environmental footprint. The findings – as well as the measures we are taking – have been shared with key partners and executives and are outlined below.

Climate Change

A wealth of scientific evidence suggests that climate change could be an enormous threat to the future of our planet. The cooperation of governments, corporations and individuals is needed to address this issue. Starbucks has voluntarily taken action to assess our contributions to climate change and develop a strategy for reducing our greenhouse gas (GHG) emissions. We recognize that coffee farming depends on a healthy environment and are therefore concerned that the negative impacts of climate change on coffee-growing regions could affect our business significantly in the long term.

Climate Inventory

In fiscal 2004, Starbucks conducted an inventory of our GHG emissions with support from CH2M HILL, one of the leading consultancies in helping multinational companies understand their contributions to climate change. We used the World Resources Institute/World Business Council for Sustainable Development GHG Protocol Corporate Standard (revised edition) in assessing the impacts of our business activities on climate change. (For information on the GHG Protocol, visit www.ghgprotocol.org.)

Q: What is causing climate change?

A: Climate change is a result of increased carbon dioxide (CO₂) and other gases caused by “human activities, primarily from the burning of fossil fuels and from deforestation,” according to the World Resources Institute. “Carbon that has been sequestered in the Earth’s crust (in the form of oil, coal and other fossil fuels) over millions of years has been extracted, burned, and released into the atmosphere in large quantities over the past two centuries,” causing the planet’s average temperature to change.

Scientists predict that climate change will lead to more severe weather patterns, changes in precipitation and other local climate conditions. These changes could alter forests, crop yields and water supplies, which will affect human health, animal life and many types of ecosystems, including the tropical ecosystems where coffee is grown. For more information, visit www.wri.org.

In doing our initial climate inventory, we limited the boundaries to major areas of our retail, coffee roasting, and administrative operations and our distribution network. We did not include our international retail operations or other businesses, which we hope to capture in future assessments.

Using the GHG Protocol, we calculated our total GHG emissions in 2003 to be 254,000 metric tons of carbon dioxide (CO₂) equivalents (see pie chart below). We believe it's our environmental responsibility to find ways to reduce these emissions.

Future Strategies for Emissions Reduction

In fiscal 2005, Starbucks plans to establish an emissions-reduction target and appropriate metrics to measure our ongoing performance. Given what we know from our initial inventory, we are adopting the following initiatives:

- **Purchasing renewable energy** – Starbucks will begin purchasing 5% of our retail energy in North America annually from renewable sources such as wind. We estimate that this will cut our CO₂ emissions by 2%.
- **Addressing our transportation impacts** – We will work together with Business for Social Responsibility's (BSR) Clean Cargo Group, a coalition of multinational corporations developing environmental guidelines for ocean transportation. We will use the Clean Cargo tool to engage with our freight vendors on opportunities to reduce impacts from the transportation of our products.
- **Focusing on our roasting plant operations** – An environmental team will be formed at each of our four

roasting plants to determine measures for reducing emissions and conserving energy.

- **Taking leadership** – We will join the Climate Group, a U.K.-based organization working to build an international coalition of business and government leaders who are committed to emissions reduction.

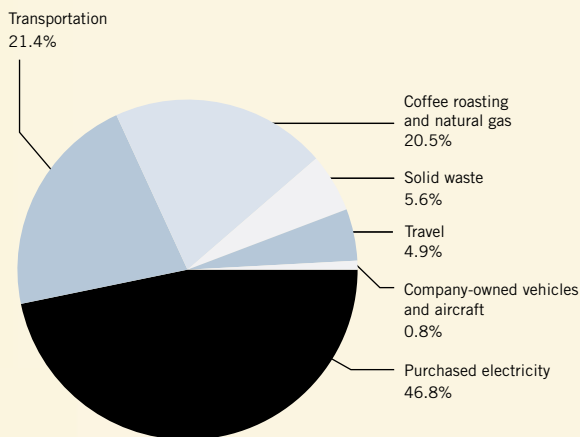
Sharing Information with Our Partners

To successfully minimize Starbucks environmental impact, we need the participation and engagement of our partners. Good communication is essential. Starbucks has several targeted internal communication tools that are used to educate our partners about Starbucks commitment and explain how they can help. Specifically, we communicate through our weekly *Scoop* operations bulletin that goes to our stores, plus our monthly *Siren's Tale* newsletter, which is distributed throughout our entire organization. Starbucks also has a Partner Portal for disseminating internal information online. For major announcements on our environmental programs, Starbucks executives use the company-wide voicemail system. In fiscal 2005, we will develop an environmental training module that will be incorporated into all new partner training.

Developing Innovative and Flexible Solutions to Bring about Change

At Starbucks, we often find that the best solutions emerge through a collaborative process. There are many examples that illustrate this, including the three that follow:

- **Environmentally friendly store design** – Starbucks partners have worked together to create sustainable solutions related to the design and construction of our stores. For instance, our partners specified environmentally friendly materials, such as Medex® and MDF cellulose panels engineered with no added formaldehyde, to be used by our qualified new store casework suppliers. These materials were used for building the cabinetry in more than 95% of our newly constructed U.S. company-operated stores in fiscal 2004. And whenever possible, we ensure that space for recycling is incorporated into the design of new stores.



Starbucks Greenhouse Gas Emissions

Q: “My wife and I were in one of your stores and heard the barista tell a customer that they did not recycle. I found this disturbing and hope it isn’t true of all your stores.”

– Greg Smith, Starbucks customer

A: Local recycling programs vary from community to community and from residential to business locations, especially in terms of what is recyclable. Many of Starbucks company-operated stores throughout North America participate in recycling programs, mostly done behind the counter. There’s a 70% participation rate among the Starbucks stores where we oversee the waste and recycling services. However, the lack

of outside storage space for recycling containers is a challenge. In our stores where the landlords manage the waste and recycling, participation is significantly lower. In 2004, Starbucks contacted all of our landlords in North America and asked them to support our commitment to recycling. The early response has been encouraging, but it’s too soon to see any results.

- **Sustainable wood furniture** – We have been working with our main hardwood seating supplier for a number of years to purchase furniture made with sustainable wood for our stores. In January 2004, our supplier received chain-of-custody certification from the Forest Stewardship Council (FSC) that ensures the wood we purchase originates from sustainably managed forests. As a result, our major purchases of hardwood seating in fiscal 2004 were FSC certified.
- **Creative recycling** – In nearly half of our North American stores our partners did some spring cleaning in 2004, sending unusable coffeemakers and espresso machines to Recycle America Alliance. The same was done at our Kent, Washington, roasting plant. Overall, Starbucks recycled nearly 114,000 pounds (51,710 kilograms) of electronic waste materials that would have ended up in landfills.



Starbucks extended our Earth Day celebration for an entire month in 2004. We launched a campaign in partnership with the Earth Day Network to promote environmental responsibility among our partners and customers. Special messages were printed on store posters, such as the one pictured above, and the sleeves for our cups to suggest ways that people can help care for the environment.



Margaret Papadakis, senior packaging buyer who represents Starbucks on the Sustainable Packaging Coalition, meets with Ben Packard, Starbucks director of environmental affairs.

Striving to Buy, Sell and Use Environmentally Friendly Products

Our focus on buying and selling sustainably produced coffees is the most obvious example of our commitment in this area. For manufactured goods, Starbucks communicates the environmental standards we expect our suppliers to adopt in our Supplier Code of Conduct. (See page 10 for more information.) Beyond these priorities, Starbucks has spearheaded other initiatives to use environmentally friendly products, including:

- **Sustainable packaging** – Starbucks has been a major participant in the Sustainable Packaging Coalition, a working group of packaging professionals. The group has adopted sustainable principles, including the cradle-to-cradle concept, for packaging design and systems. Starbucks is committed to the feasible application of these principles in the development and procurement of new packaging materials. We hope to report our progress in fiscal 2005.
- **Paper cups** – Serving millions of hot beverages in paper cups has a considerable environmental impact. We have struggled with this for many years and have finally come up with a small but significant way to

begin reducing our impact in this area. We worked with our cup and paper fiber suppliers, who recently received first-ever approval from the Food and Drug Administration to incorporate 10% post-consumer fiber into our paper cups. We announced our plans to incorporate recycled content into food contact packaging in November 2004. After testing in early 2005, we expect to roll out the new cups in our U.S. company-operated stores by the end of the year. We believe this is a significant step forward for an industry that uses large amounts of paper packaging.

Recognizing That Fiscal Responsibility Is Essential to Our Environmental Future

An initial investment is often needed to establish an environmental measure. However, cost savings are often achieved in the long run that offset the original investment. Here are a couple of examples:

- **Commuter mug usage** – For years Starbucks has offered customers a 10-cent discount if they have their beverages served in their own mugs. The incentive has generated a loyal base of commuter mug users. Moreover, commuter mug usage cuts down on waste and reduces our costs associated with paper cups and waste removal. In fiscal 2004, customers used commuter mugs 15.1 million times, eliminating 655,000 pounds (297,103 kilograms) of paper waste from reaching landfills. Despite our efforts to actively promote commuter mug usage during our month-long celebration of Earth Day, the percentage of our customers using commuter mugs has declined. Thoughtful evaluation is needed to determine our next steps. (See graph on page 59.)
- **Recycled coffee grounds** – Coffee grounds account for approximately 37% of the waste by weight in our stores. Nine years ago, a team of store partners came up with a way to help reduce this waste and the associated costs by recycling used coffee grounds. Through our popular program, Grounds for Your Garden, we provide complimentary five-pound (2.27-kilogram) bags of used coffee grounds to customers and local parks to add to their soil as nourishment.

Instilling Environmental Responsibility as a Corporate Value

Responsibility begins at the top. One doesn't have to look much further than Orin Smith, Starbucks president and ceo. For years, Orin has passionately advocated the preservation of biodiversity, particularly in sensitive areas where coffee is grown. He has been an enthusiastic supporter of our alliance with Conservation International (CI) to promote sustainable coffee farming and is one of CI's most dedicated board members.

Recognizing that Starbucks is serious about environmental responsibility, our partners express their own commitment. For instance, 49 store managers across North America served on Starbucks Green Team in fiscal 2004, the largest team to date. The group regularly evaluates store operations and makes recommendations to improve our environmental performance. They exert their leadership by communicating with fellow partners on important environmental measures and inspiring them to volunteer in local improvement projects.



On Earth Day 2004, more than 100 Starbucks partners participated in the Mayor's Beautification Program in Tampa Bay, Florida, helping to restore a 500-foot section of the coastline and clean up the surrounding park. Starbucks provided a grant for a Tampa Bay environmental education program and plans to support ongoing restoration efforts of the coastline through volunteerism.

GREEN BEAN AWARD

The efforts of four partners were recognized in 2004 with Starbucks Green Bean Award because of the positive impacts they had on the environment and the company. Winners received cash awards and matching sums for them to donate to their favorite charities. Robert Squires was one of our 2004 winners.

Robert applied his knowledge of retail operations, having once been a Starbucks store manager, to a new challenge he faced: how to streamline our payroll-reporting process for stores. As a manager in Partner Shared Services, Robert worked with a team to create a database that enabled store managers to record payroll information electronically, rather than printing hard-copy documents and mailing them to the Starbucks Support Center in Seattle. The result is a user-friendly system, and the environmental benefit is measured by less paper use – an estimated 3 million sheets per year.

FROM FARMER TO CUSTOMER



Starbucks Environmental Efforts along Our Supply Chain

1. Farmers: Conservation

Through C.A.F.E. Practices and our partnership with Conservation International, Starbucks is encouraging farmers to use environmentally sound growing practices to help protect biodiversity.



2. Roasting: Environmental Management

Emissions control technology is used to control the smoke and odors from coffee roasting at our plants. When new plants are opened, the best available technology is employed. Other efforts to minimize our roasting plant impacts include reprocessing lightbulbs to prevent mercury halide from reaching landfills and recycling coffee chaff, stretch wrap and corrugated cardboard.

STARBUCKS RECEIVES ENVIROSTARS AWARD

In September 2004, Starbucks was given the first-ever EnviroStars Recognized Leader distinction, presented in Seattle by King County Executive Ron Sims. The award recognizes Starbucks leadership commitment to the environment and community building, balanced with proactive business strategies.

Measuring and Monitoring Our Progress for Each Project

More than four years ago, Starbucks strengthened the process for measuring and monitoring our environmental initiatives. The first step we took was in 2000 when we completed our Environmental Footprint assessment and determined our greatest impacts and opportunities for improvement. Key metrics were established in a number of areas deemed to be high-impact. Since 2001, we have reported our performance annually on these key metrics. In fiscal 2004, we expanded our focus to include roasting and administration, but have yet to establish additional metrics for reporting. Starbucks will provide transparency on any new performance metrics we develop in the future.

For a broader description of Starbucks Environmental Footprint assessment and initiatives, please refer to our Corporate Social Responsibility Fiscal 2003 Annual Report, available online at www.starbucks.com/csrannualreport.

Reporting Our Performance – Environmental Footprint Metrics

The original performance metrics we established as part of our Environmental Footprint assessment are listed below. Our annual performance record is reflected in the corresponding graphs and charts on the opposite page.

- **Coffee** – The amount of sustainably produced and organic coffee purchased. (See pages 21 and 26 for this information.)
- **Tea** – The percentage of organic tea ingredients purchased.
- **Paper** – The percentage of post-consumer fiber and unbleached paper fiber contained in our annual paper purchases.
- **Transportation of people** – The percentage of partners using alternative commuting options at the Starbucks Support Center (administrative headquarters).
- **Waste reduction** – The percentage of customers using commuter mugs, which reduces the number of disposable cups that are used and discarded.
- **Recycling** – The percentage of our North American stores, where Starbucks controls waste and recycling, that participate in a recycling program.
- **Energy consumption** – The amount of gas and electricity used per square foot in our North American company-operated stores.
- **Water consumption** – The amount of water used per square foot in our North American company-operated stores.



3. Support: Packaging and Paper Purchases

Starbucks considers recyclability, reusability and recycled content in our purchasing decisions. We strive to reduce unnecessary packaging and target a minimum of 30% post-consumer fiber in all paper purchases, excluding our hot cups.



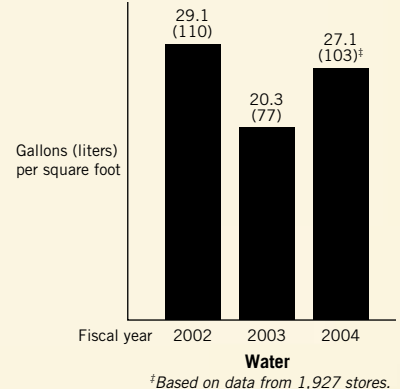
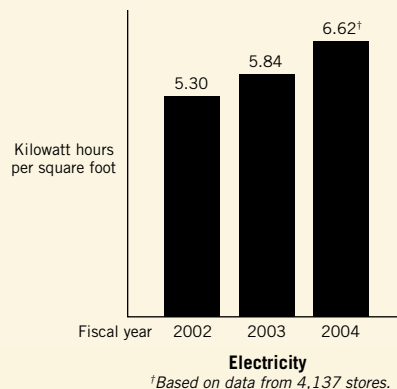
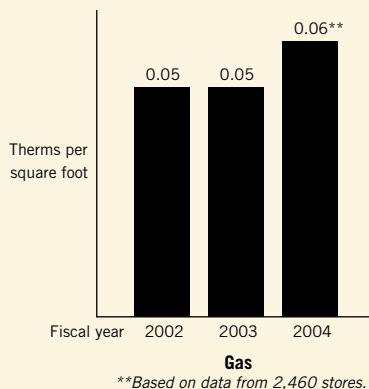
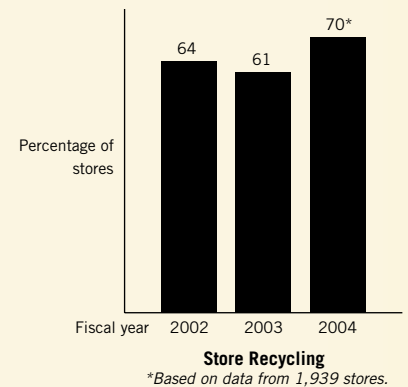
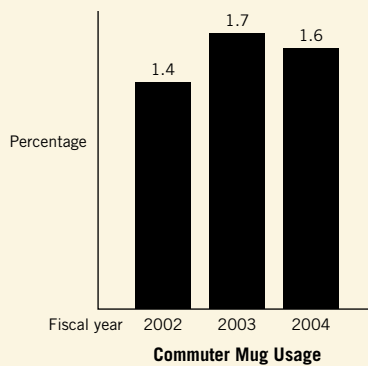
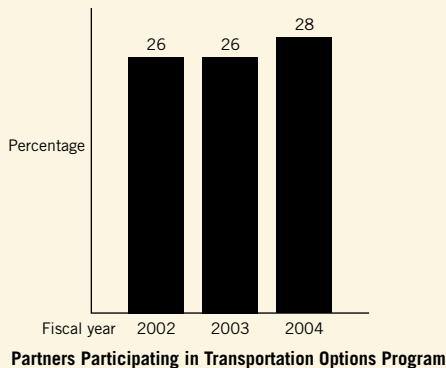
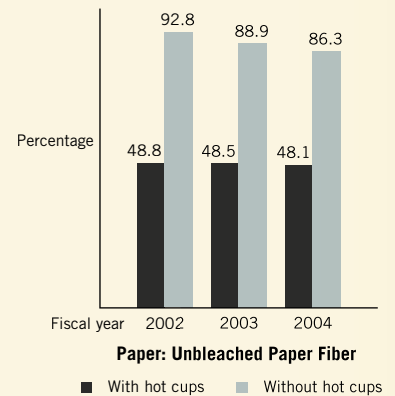
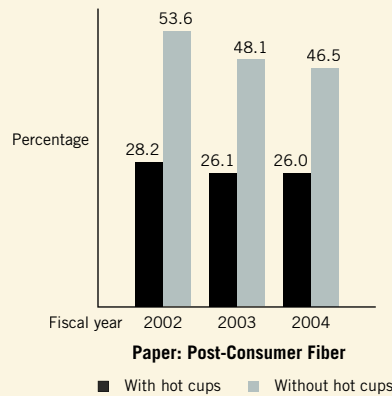
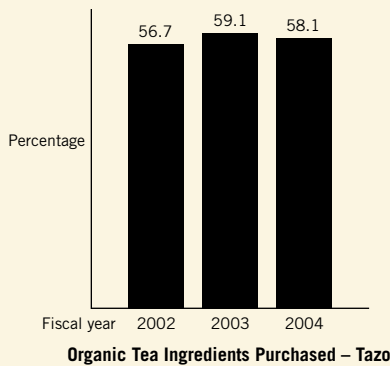
4. Retail Stores: Design and Operations

Starbucks incorporates environmentally friendly measures in the design and construction of our stores, including the use of sustainable wood products, energy-efficient lighting and reduced-flow water fixtures. We also recycle milk jugs, cardboard boxes and other waste products where commercial recycling collection services exist.



5. Customers: Reusing and Recycling

Starbucks offers a 10-cent discount to customers who bring in their own commuter mugs. We also provide complimentary five-pound (2.27-kilogram) bags of used coffee grounds to customers, parks, schools and nurseries as a nitrogen-rich garden nutrient.





Starbucks partners from Everett, Washington, spruced up Howarth Park on Earth Day 2004.

Encouraging All Partners to Share in Our Mission

Starbucks encourages both partners and customers to share in our mission. By working together we can improve the quality of our environment – a benefit to everyone. A couple of ways we engage our partners and customers are through participation in Earth Day and Earthwatch Expeditions.

Earth Day

For the past three years, Starbucks has supported Earth Day Network (EDN), a resource for people who want to learn more about environmental responsibility and wish to volunteer in our communities. In 2004, we dedicated a month to an environmental awareness campaign in our North American stores. Using our insulating cup sleeves, we featured five simple things individuals can do to help the environment. The tips printed on the cup sleeves were developed in collaboration with EDN and included such things as factoring in fuel efficiency when shopping for a new car and using low-flow showerheads. (For information on EDN, go to www.earthday.org.)

To encourage our partners to personally make a difference, we sent a commemorative tumbler mug to all partners in our stores in the United States and Canada with a message

about how they can promote a healthy environment by enjoying their beverages in a reusable mug rather than a disposable cup.

Increasing volunteerism at Earth Day events was another goal of the campaign. Overall, nearly 14,000 partners, their friends, families and customers, spent more than 29,000 hours volunteering for 111 projects, doubling our efforts from the year before. Starbucks matched the hours volunteered with cash contributions of more than \$109,000 to the environmental organizations involved.

In addition, our partners selected and forged new relationships with 36 local environmental organizations. Starbucks also donated more than \$86,000 to these nonprofit groups across North America in support of their positive contributions to our communities.

Earthwatch Expeditions

Starbucks aligned with the Earthwatch Institute to sponsor 10 customers and five partners on two-week Earthwatch research expeditions. The customers, selected by a random drawing, traveled to a region of Costa Rica where less than 10% of the original rain forest remains. They worked closely with scientists and members of a coffee cooperative on a forest restoration project. Starbucks partners headed to different parts of the world and assisted researchers in Belize, Kenya and Hungary.



Dr. Karen Holl of the Earthwatch Institute leads a research project to restore the Costa Rican rain forest. She was joined by a group of Starbucks customers who were selected by a random drawing to participate in a two-week Earthwatch Expedition. Together, they planted 1,200 trees.

Challenges and Opportunities

Starbucks has initiated and implemented various energy- and water-conservation measures over the years, but we haven't seen as much improvement as we would like. In fact, during this past year our performance declined, indicating higher average energy and water use per square foot of retail space. While we don't have concrete answers as to why this is happening, we suspect it may be related to the increasing number of customers we serve at each store. In addition, some of our stores are now open 24 hours. After conducting our climate inventory, we recognize that energy usage is the largest contributor of CO₂ emissions, thus we will continue to focus on conservation measures in our retail stores.

Finally, our greatest challenge is the lack of company-wide metrics and data collection systems that would allow us to fully measure our store performance. This is partly due to the large number of licensed Starbucks operations in the United States and in our international markets, which are not currently measured. We also haven't expanded our metrics to account for how Tazo, Seattle's Best Coffee and Torrefazione Italia contribute to our environmental footprint.

Q: "As a store partner, I'm concerned about how much paper is used to print the weekly 'Scoop' bulletin and mail it to every store. Can't we just read it online?"

— Andrea Upton, Starbucks partner

A: At the time this question was received, Starbucks was beginning to test electronic distribution of *The Scoop*, our operational newsletter for store partners. The multipage *Scoop* has traditionally been printed double-sided and delivered to stores. We explained to Andrea that even with electronic distribution, stores will still need to print and post one copy of *The Scoop* to ensure all partners read it. While this

approach will not decrease our paper usage, we believe an environmental benefit will be gained by eliminating the need to transport hard copies to each store. In the coming year, we will review our test and determine whether electronic distribution of *The Scoop* and other operational communications geared for store partners can effectively replace hard-copy distribution.

Why would someone want
to work for Starbucks?



WORKPLACE



If you ask our partners what's so great about Starbucks, they'll probably mention their co-workers.

Having the chance to join an enthusiastic team is the top reason our partners give for working at Starbucks. Feeling valued is also cited, followed by the comprehensive health benefits Starbucks offers. We're particularly proud to offer the same health benefits that eligible full-time partners receive to eligible part-time workers, an increasingly rare benefit in today's climate of escalating healthcare costs. We know that to keep our nearly 97,000 partners engaged and satisfied, we must continually maintain and enhance our great workplace culture.

Starbucks Employment Profile – Fiscal 2004

| | |
|---|---------------|
| Number of U.S. partners | 82,000 |
| Number of international partners (includes retail partners in Canada, United Kingdom, Australia, Thailand and Singapore and regional support partners in Europe and Asia Pacific) | 14,700 |
| Net jobs created (Starbucks partners) in fiscal 2004 | 16,200 |
| Total wages and benefits paid to U.S. partners (includes salaries, bonuses, vacation, payroll taxes, healthcare benefits, workers' compensation, 401(k) contributions and weekly coffee markouts) | \$1.6 billion |

Progress Report on 2004 Goals – Workplace

| GOALS | |
|---|---|
| To expand training and development opportunities so partners can improve their skills and capabilities and deepen their coffee knowledge. | ● |
| To develop systems that allow partners to pursue their own personal development and career movement. | ● |
| To introduce a tuition-reimbursement program. | ● |
| To involve partners on matters regarding their personal health so that we can better control healthcare costs. | ● |
| To introduce new tools for increasing two-way communication with partners. | ● |
| To maintain formal and informal recognition processes that express our appreciation for the efforts of our partners. | ● |
| To improve our interviewing process to help us select customer-focused partners. | ● |
| To administer a Partner View Survey in October 2004. | ● |
| To implement a global strategic diversity plan to increase diversity in our workforce. | ◐ |

KEY: ● ACHIEVED ◐ MAKING PROGRESS ○ DID NOT ACHIEVE

CREATING A GREAT WORK ENVIRONMENT

Starbucks leaders often talk about the “old days,” referring to 1990. The company was short on cash but long on passion. Our leaders had a vision for Starbucks, believing the company might one day have 500 stores. Starbucks surpassed that mark in 1995 and went on to exceed 8,500 locations by the end of fiscal 2004.

Along the way, we have hired tens of thousands of people and introduced them to our workplace culture, which is based on treating each other with respect and dignity. This was the type of work environment our leaders meant to cultivate when they established it as a Guiding Principle for Starbucks.

Starbucks has translated our Guiding Principle of treating each other with respect and dignity into actions that make our partners feel valued, such as:

- Offering comprehensive benefits
- Embracing diversity
- Offering training and career-development opportunities
- Improving two-way communication channels
- Maintaining recognition programs
- Respecting partner rights and ensuring a supportive workplace
- Focusing on health and safety precautions



“The word is out about Starbucks.

People know it’s a good place to work.”

*– Aisha Cornick, assistant store manager,
Harlem, New York City*

Starbucks Benefits

| PARTNER BENEFITS | PROGRAM DESCRIPTIONS AND COVERAGE | ELIGIBILITY |
|---|--|---|
| Comprehensive healthcare benefits (U.S. and Canada) | Benefits include medical, dental, vision, prescription drugs and alternative health coverage. In the U.S., Starbucks paid 77% of health-coverage costs for partners and 55% for dependents. In Canada, 74% of costs were paid for partners and 51% for dependents. | Full- and part-time partners who are paid a minimum of 240 hours per calendar quarter and their eligible dependents, including spouses, domestic partners and children. In fiscal 2004, 66% of U.S. partners and 67% of Canadian partners were eligible for these benefits. |
| <i>Bean Stock</i> – Starbucks stock option plan (U.S., Canada, U.K., Hong Kong, the Netherlands, Switzerland) | The Board of Directors determines annual stock option grants based on company performance – up to 14% of our partners’ eligible base wages. Every partner through the director level receives the same percentage of his or her fiscal-year wages. For fiscal 2004 performance, the basis for stock option grants was 14%. | Full- and part-time partners up through the director level who have been employed by Starbucks as of April 1; been paid for at least 500 hours from the first of the fiscal year through March 31 or from April 1 through the end of the fiscal year; and are employed at the time the grant packets are distributed the following January. More than 47,000 partners in the U.S. and Canada qualified for <i>Bean Stock</i> for fiscal 2004 performance. |
| S.I.P. – Stock Investment Plan (U.S. and Canada), Share Incentive Plan (U.K.) | Partners can purchase company stock at discounted prices on a quarterly basis (U.S. and Canada) or a semiannual basis (U.K.). | Partners who have worked as a regular partner at least 90 days for Starbucks and have been paid an average of 20 hours a week during the three months preceding the quarterly offering. No hours requirement in the U.K. |
| Future Roast – Starbucks 401(k) Plan (U.S.), RRSP – Registered Retirement Savings Plan (Canada) | Starbucks matches between 25% and 150% (based on length of service from most recent date of hire) on the first 4% of pay that partners contribute to the U.S. 401(k) Plan. Eligible Canadian partners receive a 25% match on the first 4% of pay that they contribute to the RRSP. | Full- and part-time partners with one year of service are eligible. In the U.S., partners age 30 or older may participate immediately. |

Partner Benefits

After receiving feedback from our partners last year, Starbucks introduced a tuition-reimbursement program as a new U.S. partner benefit in August 2004. One year of continuous service and eligibility for benefits are required before partners can apply for tuition reimbursement and receive up to \$1,000 per calendar year. In the two months the program was active in fiscal 2004, 807 partners were approved for this benefit. In 2005, we plan to extend this program to partners in Canada and explore how similar programs may enhance the partner experience in other countries. Some of the other benefits offered by Starbucks are listed above.

In support of our Guiding Principle to “embrace diversity as an essential component in the way we do business,” our U.S. 401(k) retirement plan, Future Roast, was enhanced in 2004 with the addition of a new fund managed by a minority-owned investment firm.

Fostering Diversity and Inclusion

We are all individuals – different in many ways yet often remarkably similar. Our goal is to make everyone feel included and valued. This starts at the top. “Embrace diversity as an essential component in the way we do business” is one of our Guiding Principles. Starbucks leaders are expected to uphold our values and set strong examples for our partners.

At Starbucks, the term “diversity” includes factors such as age, race, gender, sexual orientation, national origin, physical and mental attributes, education, skills, experiences and ideas. When we apply our collective mixture of differences and similarities in the pursuit of business goals, then great things happen.

Our customers, communities, suppliers and partners are all diverse.
We believe diversity is to be embraced.

We believe that the changing demographics in the United States will one day make today's term "minority" irrelevant. By 2008, 70% of new entrants into the U.S. workforce will be women and people of color.*

Our major accomplishments in 2004 included the following:

- Increased diversity in our hiring pools, which resulted in an increase in the percentage of people of color at the executive level.
- Created Starbucks Global Diversity Strategy Team, led by our ceo.
- Developed a global strategic LEAD model for diversity that is focused on four key areas:
 - L – Leadership competency and accountability
 - E – Environment that fosters learning and inclusive, safe, high-performing teams
 - A – Acquisition of talent, customers and suppliers
 - D – Delivering and communicating results through a diversity and inclusion scorecard and enterprise-wide performance metrics
- Strengthened relationships with the Urban League, National Association for the Advancement of Colored People (NAACP) and the National Council of La Raza to reach a more diverse pool of job candidates.

In fiscal 2005, we plan to test a company-wide diversity and inclusion scorecard that will help us develop metrics and establish long-term goals. We will also make diversity training an integrated element of our overall executive development process.

**Source: Catalyst – compiled from U.S. Bureau of Labor Statistics, Projection from Current Population Survey, 1988–1998*

Diversity in Our Workplace

| STARBUCKS U.S. WORKFORCE | FISCAL 2004 |
|--|-------------|
| Total | |
| Women..... | 63% |
| People of color..... | 24% |
| Executives (vice presidents and above) | |
| Women..... | 31% |
| People of color..... | 13% |

Diversity Learning

The importance of inclusion is emphasized in the training and development courses for our store and field partners. Our Diversity Learning Journey workshop, geared for partners at the Starbucks Support Center and our roasting plants, promotes the value of diversity in all aspects of our business. Partners at the director level and above receive additional training on the business case for diversity. In fiscal 2004, the number of partners attending diversity workshops did not meet our expectations. In fiscal 2005, we plan to enhance our diversity training with a focus on multicultural customers and customers with disabilities.

Policies and Protection

Starbucks has policies in place that provide equal employment opportunities and strictly prohibit discrimination or harassment on the basis of age, race, gender, color, national origin, religion, sexual orientation, physical or mental disability, as well as any other basis prohibited by federal, state, local or provincial laws. In addition to following standard avenues, partners who believe they have been discriminated against or believe they have witnessed any form of discrimination or harassment can submit an anonymous report through our Business Conduct Helpline, 800-611-7792.



Partners from the Starbucks Support Center in Seattle participate in a coffee tasting, one of the steps to becoming certified as a Coffee Master. From left to right: Kirsten Lemke, Elizabeth King, Joy Mirabueno and Isabel Ortmeier.

Partner Training and Career Development

In response to feedback through our 2003 Partner View Survey, we expanded training and career-development offerings last year while keeping existing programs in place. In our Corporate Social Responsibility Fiscal 2003 Annual Report, we provided a detailed overview of our training for retail and non-retail partners (visit www.starbucks.com/csrannualreport).

Some examples of new programs initiated in 2004:

- **Coffee Masters program** – All partners are encouraged to deepen their coffee knowledge and expertise through this multilevel training program. By the end of fiscal 2004, more than 7,000 partners had completed some of the workshops or the entire program.
- **Servant Leadership workshop** – Approximately 6,200 partners attended this leadership training workshop,

which emphasizes trust, collaboration, people development and ethics.

- **CareerPower™ and CareerPower™ for Coaches workshop** – A workshop designed to provide partners and their managers with an opportunity to reflect on their personal values, career dreams and development through continuous coaching and feedback. In fiscal 2004, more than 200 partners at Starbucks Support Center in Seattle attended the workshop.

Training for Retail Partners

To become experts in the preparation and delivery of our products, Starbucks baristas are given comprehensive training, beginning with their first day on the job. If a partner moves into another retail position, he or she receives additional training, beyond what they received as a barista, to ensure their continual job success. Our retail partners received an estimated 2.9 million hours of training in fiscal 2004. (See table on opposite page.)

Retail Partner Training

| POSITION | NUMBER OF TRAINING HOURS |
|---------------------------------------|--|
| Barista | 35 hours conducted over eight shifts, plus one-hour certification |
| Shift supervisor | In addition to barista training, 32 hours conducted over eight shifts, plus one-hour certification |
| Assistant store manager/store manager | 320 hours of training over eight weeks |
| District manager trainee | 200 hours of training over four months |

Recognizing Our Partners

Starbucks success reflects the quality, passion and initiative of our partners. In recognition of our partners' contributions, we have 19 awards programs to acknowledge all levels of achievement. These range from frequent awards (an estimated 60,000 of these are presented annually) to high-level awards that include cash rewards. Annually, 500 partners receive high-level awards that range from Manager of the Quarter for store manager leadership, to Green Apron Awards for outstanding customer service, to Green Bean Awards for exceptional support of Starbucks Environmental Mission Statement.

Respecting Partner Rights and Ensuring a Supportive Workplace

The pervasive theme at Starbucks is respect. Out of respect, Starbucks believes our partners should have a workplace environment that is free of discrimination and harassment and is in accordance with all labor laws. We are committed to upholding these values.

Starbucks recognizes our partners' right to unionize. In fiscal 2004, trade unions represented one-eighth of 1% of our partners. Most union-represented partners are in Canada and a few are in one U.S. roasting plant.

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

The CUP Fund

We also encourage our partners to participate in the CUP (Caring Unites Partners) Fund, an emergency assistance program that is funded exclusively by partners for the benefit of their co-workers. Last year the CUP Fund experienced its fastest rate of growth yet, assisting twice as many partners in fiscal 2004 than in the previous year. Specifically, 654 partners received financial relief totaling \$529,000 from nearly 23,000 fellow partners who voluntarily contributed to the program.



FORTUNE 100 BEST COMPANIES TO WORK FOR
Starbucks was named one of the "100 Best Companies to Work For" in 2004 by FORTUNE. It is the sixth time Starbucks has made the prestigious list. In 2004, Starbucks was ranked 34, compared to 47 in 2003.

Q: “There’s been some recent talk that Starbucks is beginning to have some nasty conflicts with its partners who want to be represented by a union. One of my friends won’t go to a Starbucks because of this. As a shareholder, I think Starbucks should acknowledge it rather than ignore the problem.”

– Guy Allen, Starbucks customer and shareholder

A: Starbucks respects our partners’ right to unionize if they so choose, and it is in this context that we would like to provide the facts about the situation Guy Allen referenced. In May 2004, we were notified by the National Labor Relations Board (NLRB) that a union believed they had sufficient interest from partners in one of our stores to represent them. As a result, the NLRB scheduled an independent election to determine whether this was what the majority of partners in that store desired. On the day before

the election was to take place, the union voluntarily withdrew its petition, and the election did not take place. We believe that the union realized that the majority of partners who were eligible to vote were not in support of union representation.

In addition, the 13 partners in one of our U.S. roasting plants who are currently represented by a union have indicated to that union, and to us, that they no longer want to be represented by the union.

Listening to Our Partners

Surveys provide a great opportunity for our partners to tell us what’s on their minds, including their levels of satisfaction and engagement. In 2003, 82% of our partners stated that they were satisfied or very satisfied with Starbucks, and 73% reported a high level of engagement. We didn’t conduct this type of research during fiscal 2004, but instead launched an extensive survey in October at the beginning of our 2005 fiscal year. These results will be reported next year.

Last year, we recognized there may be more effective ways to communicate with our partners about their healthcare coverage and other benefits. We launched Thrive, a comprehensive internal wellness program, to educate partners about decisions they can make to live healthier lives and better manage healthcare costs. We also created *My Brew*, a new publication about the benefits and rewards of being a partner.

Our Mission Review program and the Business Conduct Helpline are two channels that partners can access to ask questions or raise concerns.

- **Mission Review** – Through our Mission Review program, our partners tell us when their on-the-job experiences are inconsistent with our Guiding Principles. The Mission Review team ensures that the comments or questions sent in by partners are quickly responded to and that Starbucks leaders are informed of the issues raised. In fiscal 2004, our Mission Review team recorded more than 3,500 contacts from partners on topics that ran the gamut from store equipment to environmental responsibility. (See example on page 61.)
- **Business Conduct Helpline** – The Helpline is a component of our Business Conduct and Corporate Compliance program. Partners can access it 24 hours a day and speak to a non-company, third-party agent without fear of retaliation. Partners may call the Helpline anonymously, and all information is treated in a confidential manner. The concerns reported are investigated and resolved in a manner consistent with Starbucks Mission Statement and Guiding Principles.

Health and Safety

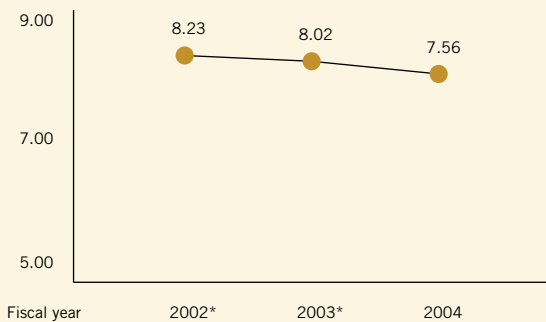
Our top priority is ensuring a safe and healthy environment for our partners and customers. Safety programs for Starbucks stores and roasting plants are designed to meet or exceed the most stringent regulatory standards in the jurisdictions where we do business.

In fiscal 2004, a major focus was the prevention of slips and falls in the workplace. We worked with an innovative vendor to design new floor mats for our stores and tested several solutions that incorporated anti-slip and anti-trip elements into the design. We began installing the improved mats in September 2004, a process that will continue through fiscal 2005.

We also rolled out new digital coffee-brewing machines in fiscal 2004 that incorporate improvements to reduce the most common cause of injury to our partners, brewer-related burns. Early results indicate that the number of these burns has been significantly reduced.



After receiving special training, our baristas become experts in the handcrafting of Starbucks many coffee beverages.



Injury Rate per 200,000 Hours Worked – Starbucks Retail Stores

**Data have been retroactively adjusted to reflect new claims that were filed after the fiscal year ended.*



Interstate Experience Modification Factor**

***The Interstate Experience Modification Factor is an assigned rate that compares the number and cost of a company's workers' compensation claims with those of peer companies in their industry. A rating of 1.0 represents average performance for the industry. Starbucks ratings are less than 1.0 and therefore better than the industry average.*

Independent Verifier's Report

To the Stakeholders of Starbucks Coffee Company:

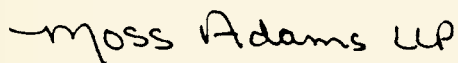
Starbucks Coffee Company (Starbucks) engaged Moss Adams LLP, a certified public accounting firm, to provide external assurance and verify the contents of its Corporate Social Responsibility Annual Report (Report) for the fiscal year ended October 3, 2004. As the independent verifier, we have maintained 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 and compiled the underlying data and are 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 are 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 of the Report 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 October 3, 2004.
- Statements, assertions and data disclosed in the Report are reasonably supported by documentation, internal processes and activities, and information provided by external parties.



Moss Adams LLP

Seattle, Washington

January 25, 2005

Feedback and Further Information:

Is Starbucks Responsible?

Throughout this report, we present information about Starbucks social, environmental and economic impacts on the communities in which we do business. And we answer questions from key stakeholders that we hope will give you a new perspective on how we're addressing some of our challenges. We've made every attempt to provide a balanced view of our business and our CSR initiatives. In the spirit of open dialogue, we invite you to tell us how we're doing. You can provide feedback through our online survey at www.starbucks.com/csrsurvey or by contacting us at:

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PO Box 3717
Seattle, WA 98124-8891 USA
Phone: 800-23-LATTE (800-235-2883)
Email: info@starbucks.com

To receive a printed copy of this report, please call the number listed above. The report is also available online at www.starbucks.com/csr.

For additional information about Starbucks, visit Starbucks.com.

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