



*my Starbucks*

**Maybe you have a Starbucks you call your own. And because it is yours, you expect a lot from it.**

Customers want to feel good about the place they go and the coffee they drink. Our employees, whom we call partners, want to feel proud when talking to friends and family about where they work. Farmers want to know that they can depend on us for a livelihood that's sustainable.

We have come to appreciate that throughout the world many people feel a sense of connection to us. Being *their* Starbucks is an honor. And also a responsibility.

For us corporate social responsibility is not just a program or a donation or a press release. It's the way we do business every day.

This report is one of the ways we openly and humbly share our commitment to do business responsibly. To continue to earn the privilege of being *your* Starbucks.

#### **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.

## Dear Stakeholders,

We are often asked how Starbucks went from a single coffee shop in 1971 to one of the most recognizable and respected global brands today. Delivering great coffee, exceptional service and an uplifting and personal customer experience have all contributed to Starbucks success. Equally important has been our commitment to conducting business in a socially and environmentally responsible manner, a commitment that stems from Starbucks Mission Statement and Guiding Principles.

Our store partners (employees) are connecting and creating relationships with our customers every day. We believe it matters greatly that they feel Starbucks is a great place to work, and a company that cares not only about their well-being but also about the world we live in. Good communication is key to all of this and helps to inspire our partners about the company they work for, the important role they play at Starbucks and the customers they serve. With more than 145,000 partners worldwide, our ability to communicate effectively and passionately about what Starbucks is doing to be a good company – in both a personal yet focused manner – is absolutely essential and a top priority for us.

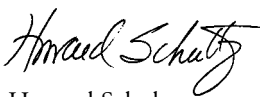
We believe the relationships we have with external stakeholders can be strengthened by focusing much of our communications on Starbucks commitment and passion to improve the world and the ways in which we are demonstrating this. For instance, we want our customers, shareholders, communities and others to understand how we are working together with farmers and suppliers to help create a more sustainable approach to high-quality coffee production. We also want to share what Starbucks is doing to contribute positively to local communities; minimize our environmental footprint; be responsive to our customers' health and wellness needs; and how Starbucks is serving as a leader in both our industry and within our global society through our participation in organizations such as the United Nations Global Compact.

We were very mindful of taking a focused approach when we prepared this year's Corporate Social Responsibility Annual Report. Rather than attempt to address every issue in the abridged print version of our fiscal 2006 report, we conducted a materiality assessment to determine what topics are of most significance to our stakeholders and to Starbucks, a process explained on the following page.

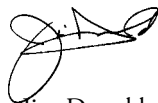
As you read through this full report we hope the information helps you assess for yourself how well Starbucks is doing with regard to our corporate social responsibilities. As always, we encourage you to share your honest feedback. To do so, we have created an online survey which is described on the back page of this report.

On behalf of everyone at Starbucks, thank you for taking your time to learn more about how Starbucks is doing business in a different kind of way.

Sincerely,



Howard Schultz  
chairman



Jim Donald  
president and chief executive officer

## Focusing on Materiality

This is Starbucks sixth annual Corporate Social Responsibility (CSR) Report. This year, we took a different approach by publishing both a printed abridged version and this full report online.

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

- Company objectives, strategies, policies, programs and risk factors.
- Partner (employee) surveys and other input gathered through various feedback mechanisms.
- Customer contact feedback.
- Shareholder resolutions and anecdotal feedback.
- Input gathered through stakeholder dialogues.
- Informal input from coffee suppliers.

- Media coverage and blog discussions of issues.
- Stakeholder feedback specific to Starbucks 2005 CSR Report.
- Global Reporting Initiative (GRI) recommended topics and data for inclusion.

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

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

Based on our assessment, we determined that the material issues of greatest importance to Starbucks and our stakeholders, which the company has a reasonable level of control over, fall into five topic areas highlighted in the top right box below. We chose to focus our abridged print report on these subjects only. This full report includes many of the topics on the following matrix.



## About This Report

### Scope

This report includes information on Starbucks U.S. and Canada company-operated retail and global supply chain operations – the areas that represent the majority of Starbucks social, environmental and economic impacts. Starbucks system for collecting and reporting reliable social, environmental and economic performance data does not encompass all of our operations. Where available, anecdotal information is included for international and licensed store operations. Information on total coffee purchases is for both Starbucks Coffee Company and Seattle Coffee Company.

### Reporting Year

Starbucks fiscal year 2006 (October 3, 2005–October 1, 2006), unless otherwise noted.

### Currency

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

### Starbucks 2006 CSR Report and Previous Reports

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

### Information Integrity

Starbucks management is responsible for the preparation and integrity of the information in this report. Through a system of internal controls, including a comprehensive verification process involving internal subject matter experts, we believe this report fairly represents our CSR activities and results for the fiscal year ended October 1, 2006. External verification is provided by Moss Adams LLP. See page 76.

### Global Reporting Initiative

Starbucks reporting continues to be influenced by the Global Reporting Initiative's (GRI) 2002 Sustainability Reporting Guidelines in determining relevant content and performance metrics to include. See the Table of Contents on the next page for a listing of GRI indicators included in this report, and page 13 for a description of how we applied the GRI principles. Information about GRI is online at [www.globalreporting.org](http://www.globalreporting.org).

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## Key Performance Indicators Summary and Highlights for Fiscal 2006














	INDICATOR	2005	2006	2007 TARGET
COFFEE				
Coffee and Farmer Equity (C.A.F.E.) Practices	Pounds of green (unroasted) coffee purchased from C.A.F.E. Practices approved suppliers	77 million pounds (goal: 75 million pounds)	155 million pounds (goal: 150 million pounds)	225 million pounds
	Percentage of total green (unroasted) coffee purchases	25%	53%	
Fair Trade Certified™ coffee	Pounds of green (unroasted) coffee purchased from Fair Trade Certified™ cooperatives	11 million pounds (goal: 10 million pounds)	18 million pounds (goal: 12 million pounds)	Fair Trade Certified™ green (unroasted) coffee purchases to support forecasted sales.
	Percentage of total green (unroasted) coffee purchases	4%	6%	
SOCIETY				
Charitable contributions	Total cash and in-kind contributions	\$30.3 million	\$36.1 million	Do not currently set targets for future charitable contributions.
	Percentage of pre-tax earnings	3.8%	4.0%	
Volunteerism (Make Your Mark)	Number of hours volunteered by partners and customers in the U.S. and Canada	299,000	383,000 (goal: 375,000)	421,000
ENVIRONMENT*				
Electricity	Kilowatt-hours per square foot of retail space per month	6.40	6.57	Target has not been established.
Water	Gallons per square foot of retail space per month	24	26	Target has not been established.
Paper	Percentage of post-consumer fiber (not including hot cups)	49.5% (goal: 48%)	66.4% (goal: 50%)	66.9%
	Percentage of unbleached fiber (not including hot cups)	85.9% (goal: 90%)	86.3% (goal: 86.5%)	87.1%
WORKPLACE				
Partner satisfaction	Percentage of satisfied or very satisfied partners	87%	86%	We continually strive to strengthen our workplace practices in ways that make Starbucks a great place to work.
Partner engagement	Percentage of engaged partners	73%	69%	
Health and safety	Injury rate per 200,000 hours worked – retail	7.05 <sup>1</sup>	5.46 (goal: 6.5)	5
DIVERSITY				
Women	U.S. executives (vice presidents and above)	34%	33%	While Starbucks values diversity and inclusion, we do not currently set targets for representation by race and gender.
	U.S. workforce	65%	66%	
People of color	U.S. executives (vice presidents and above)	14%	15%	
	U.S. workforce	30%	30%	
Suppliers	Amount spent with certified minority- and women-owned businesses in U.S.	\$166 million (goal: \$140 million)	\$213 million (goal: \$206 million)	\$250 million

\*We have not measured our greenhouse gas emissions since 2003 and therefore this indicator has been removed from this table. For information about our Climate Change Mitigation Strategy, see page 56.

<sup>1</sup> Fiscal 2005 information has been retroactively adjusted to reflect new claims that were filed after the fiscal year ended.



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 relevant metrics for our business. Each year, we will report our performance relative to these metrics and any new metrics we may add. We strive to include forward-looking targets for our performance indicators. However, in some cases the information is not available or the company is unable to provide it for other reasons.

WHAT WE SAID IN 2005	WHAT WE DID IN 2006	SELF-RATING	MORE INFO
<ul style="list-style-type: none"> <li>Explore opening a Farmer Support Center (FSC) in Asia-Pacific and begin introducing C.A.F.E. Practices to our local suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>Began exploring opportunities to open an FSC in Asia Pacific. Organized suppliers training sessions in both Indonesia and Papua New Guinea reaching out to small- and large-scale suppliers from various countries in Asia Pacific.</li> </ul>		Page 19
<ul style="list-style-type: none"> <li>Work with the African Wildlife Foundation (AWF) to provide coffee quality training and encourage adoption of sustainable coffee practices to cooperatives in Kenya.</li> </ul>	<ul style="list-style-type: none"> <li>Continued to work with the AWF to provide quality training and expertise and encourage sustainable coffee practices. Starbucks also conducted training in Kenya for coffee farmers, cooperatives and exporters from the majority of the countries we buy coffee from in East Africa.</li> </ul>		Page 22
<ul style="list-style-type: none"> <li>Promote our Fair Trade Certified™ coffee blends to increase customer demand and sales of these products.</li> </ul>	<ul style="list-style-type: none"> <li>Supported Fair Trade Month in October 2005, featuring Starbucks newest Fair Trade Certified™ blend, Café Estima Blend™, as the “Coffee of the Week” in U.S. and Canada stores. Increased distribution of packaged Fair Trade Certified™ coffees globally. Began selling Kirkland Signature Fair Trade Certified™ coffee in Costco stores in the U.S. and Canada.</li> </ul>		Page 23
<ul style="list-style-type: none"> <li>Continue to work with regional Fair Trade organizations to introduce additional Fair Trade Certified™ coffee products globally.</li> </ul>	<ul style="list-style-type: none"> <li>Globally, coordinated efforts with Fairtrade Labelling Organizations International and 10 of the 20 Fair Trade National Initiatives to expand Fair Trade Certified™ product offerings in 24 markets.</li> </ul>		
<ul style="list-style-type: none"> <li>Focus community investments to address global water issues and education.</li> </ul>	<ul style="list-style-type: none"> <li>Initiated water projects in Indonesia and in Ethiopia, both supported through The Starbucks Foundation’s Ethos Water Fund. Completed first of five-year, \$5 million commitment to Starbucks China Education Project.</li> </ul>		Page 40
<ul style="list-style-type: none"> <li>Increase partner volunteerism.</li> </ul>	<ul style="list-style-type: none"> <li>Encouraged partners to leverage their volunteerism through Starbucks Make Your Mark program.</li> </ul>		Page 42
<ul style="list-style-type: none"> <li>Purchase renewable energy certificates to offset 20% of the energy used in our U.S. and Canada company-operated stores.</li> </ul>	<ul style="list-style-type: none"> <li>Quadrupled our renewable energy purchase to equal 20% of the energy used in our U.S. and Canada company-operated stores.</li> </ul>		Page 55
<ul style="list-style-type: none"> <li>Integrate specific environmental practices into our retail operational standards to help focus on improving store level accountability for energy and water conservation, recycling and waste reduction.</li> </ul>	<ul style="list-style-type: none"> <li>Updated a store manager performance tool to emphasize the importance of managing environmental aspects of store operations and what bottom line impact – positive or negative – their actions can have.</li> </ul>		Page 57
<ul style="list-style-type: none"> <li>Roll out new hot beverage cups containing 10% post-consumer fiber (PCF) in U.S. company-operated and licensed stores.</li> </ul>	<ul style="list-style-type: none"> <li>Converted all hot beverage cups in Starbucks U.S. and Canada stores to the 10% PCF content version.</li> </ul>		Page 56
<ul style="list-style-type: none"> <li>Conduct a Partner View Survey approximately every 18-24 months. Last one took place in October 2004.</li> </ul>	<ul style="list-style-type: none"> <li>Expanded the reach of latest Partner View Survey, conducted March 2006, to include partners in company-operated stores globally. Achieved 84% response rate, our best yet.</li> </ul>		Page 64
<ul style="list-style-type: none"> <li>Complete the rollout of anti-slip mats to our North America company-operated stores.</li> </ul>	<ul style="list-style-type: none"> <li>Finished replacing mats in more than 3,400 existing stores and all new stores in North America.</li> </ul>		Page 59
<ul style="list-style-type: none"> <li>Roll out our diversity and inclusion scorecard to our ceo and senior leadership team.</li> </ul>	<ul style="list-style-type: none"> <li>Finalized diversity and inclusion scorecard and delivered it to Starbucks ceo and his direct reports. It includes data on workforce diversity; individual leadership performance related to diversity and inclusion; supplier diversity and customer demographics.</li> </ul>		Page 72
<ul style="list-style-type: none"> <li>Expose Starbucks buyers and procurement directors to more opportunities for doing business with diverse suppliers.</li> <li>Increase our level of participation in organizations such as the National Minority Supplier Development Council and Women’s Business Enterprise National Council.</li> </ul>	<ul style="list-style-type: none"> <li>Engaged with National Association of Minority Contractors; participated in National Minority Business Council annual opportunity fair and other events; attended Women’s Business Enterprise National Council annual conference; took part in supplier diversity training for Institute for Supply Management–Certified Purchasing Manager credits; and served as board chair for local Northwest chapter of National Minority Supplier Development Council.</li> </ul>		Page 74

KEY:  ACHIEVED  MAKING PROGRESS  DID NOT ACHIEVE

## STARBUCKS COMPANY PROFILE

Starbucks Corporation is the leading retailer, roaster and brand of specialty coffee in the world, with more than 12,000 company-operated and licensed locations in North America, Latin America, Europe, the Middle East and Asia Pacific. Through various licensing arrangements and foodservice accounts, Starbucks coffee and other products are sold in designated locations within airports, grocery stores, other prominent retailers, hotels and universities. Starbucks international licensed retail stores are operated through licensing arrangements and joint ventures, primarily with established retailers or restaurant operators.

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

Starbucks Corporation is incorporated in Washington State, in the United States. The company's common stock is traded on The NASDAQ® Global Select Market ("NASDAQ"), under the symbol "SBUX." As of January 12, 2007, there were approximately 603,000 registered and beneficial shareholders of record.

Company Data			
FISCAL YEAR	2004*	2005	2006
<b>Total net revenues</b>	<b>\$5.3 billion</b>	<b>\$6.4 billion</b>	<b>\$7.8 billion</b>
U.S. company-operated retail stores	\$3.8 billion	\$4.5 billion	\$5.5 billion
U.S. specialty (licensing, foodservice and other)**	\$465 million	\$558 million	\$683 million
International company-operated stores	\$657 million	\$852 million	\$1.1 billion
International specialty (licensing, foodservice and other)**	\$137 million	\$170 million	\$215 million
Total Global Consumer Products Group revenues** (licensing)	\$235 million	\$249 million	\$305 million
<b>Net earnings</b>	<b>\$389 million</b>	<b>\$494 million</b>	<b>\$564 million</b>
<b>Earnings per common share – diluted</b>	<b>\$0.47</b>	<b>\$0.61</b>	<b>\$0.71</b>
<b>Shareholders' equity</b>	<b>\$2.5 billion</b>	<b>\$2.1 billion</b>	<b>\$2.2 billion</b>
<b>Total income taxes</b>	<b>\$232 million</b>	<b>\$302 million</b>	<b>\$325 million</b>
<b>Cash paid for income tax expense</b>	<b>\$173 million</b>	<b>\$228 million</b>	<b>\$274 million</b>
U.S. federal and state	\$163 million	\$219 million	\$258 million
International	\$10 million	\$9 million	\$16 million
<b>Effective tax rate</b>	<b>37.3%</b>	<b>37.9%</b>	<b>35.8%</b>
<b>Number of countries where Starbucks stores are located</b>	<b>34</b>	<b>37</b>	<b>37</b>
<b>Total retail stores</b>	<b>8,569</b>	<b>10,241</b>	<b>12,440</b>
U.S. company-operated stores	4,338***	4,918***	5,728
International company-operated stores	978***	1,144***	1,374
U.S. licensed stores	1,839	2,435	3,168
International licensed stores	1,414***	1,744***	2,170
<b>Number of partners (employees)</b>	<b>97,000</b>	<b>115,000</b>	<b>145,800</b>

\*Fiscal 2004 included 53 weeks. For further information about our financial performance, please see our 2006 Annual Report to Shareholders, available online at [www.starbucks.com/aboutus/investor.asp](http://www.starbucks.com/aboutus/investor.asp).

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

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

## INTEGRATING CORPORATE SOCIAL RESPONSIBILITY (CSR)

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

### The Business Case

Starbucks defines CSR as conducting business in ways that produce social, environmental and economic benefits for the communities in which we operate and for the company's stakeholders, including shareholders. A few of the tangible benefits are:

- **Attracting and retaining our partners** – We believe Starbucks commitment to CSR leads to higher than typical levels of satisfaction and engagement among our partners.
- **Customer loyalty** – Studies have revealed that customers prefer to do business with a company they believe to be socially responsible, when their other key buying criteria are met. We believe customer loyalty has been a driving force behind Starbucks phenomenal growth and long-term success.
- **Reducing operating costs** – Many environmental measures, such as energy-efficient equipment or lighting, involve initial investments, but deliver long-term environmental and cost-saving benefits.
- **Strengthening our supply chain** – To have a sustainable business, we need a reliable and responsible supplier base that can keep pace with our growth. Starbucks invests in measures to ensure our suppliers have the opportunity to do so.
- **License to operate** – Having a strong reputation as a socially responsible company makes it more likely we will be welcomed into a local community.

### Corporate Governance

Starbucks board of directors holds management accountable to operate and manage the company according to strong ethical and governance principles. The board currently has 11 members, eight of whom meet the independence requirements of NASDAQ®. All three committees of the board are comprised of independent directors and have specific charters: Audit and Compliance; Compensation and Management Development; and Nominating and Corporate Governance.

There are well-defined criteria for the selection of new board members, foremost being a clear demonstration of their own personal integrity and ethics. Board diversity is sought in terms of members' personal and professional backgrounds, gender, race, ethnicity or other differentiating characteristics, enabling a wider range of opinions and perspectives to be considered. Of the 11 members of Starbucks board, one is Latino, two are African American (one of which is female), and one other female also serves on the board.

In fiscal 2006, one independent member of the board resigned, stating that increased demands on his time arising from his new position as president and chief executive officer of a large media company would make it difficult for him to continue to serve on the Starbucks board. The vacancy created by his resignation has not yet been filled.

For stability and continuity, among other reasons, Starbucks has historically had a classified board. However, Starbucks has questioned whether a classified board reduces accountability of directors because of the limits it places on shareholders' ability to evaluate and elect the board annually. The board requested that the Nominating and Corporate Governance Committee once again consider the merits of a declassified board in fiscal 2005. Based on the Nominating and Corporate Governance Committee's recommendation, the board approved an amendment to our Articles of Incorporation, which provides for the annual election of all directors, and then recommended to our shareholders that they approve this change. Starbucks shareholders approved the change at the company's 2006 Annual Shareholders' Meeting.

Committee charters, our governance principles, our director nominations policy (including criteria for board membership) and profiles on each board member are available at Starbucks.com. In addition, specific information regarding declassification of the board can be found in Starbucks fiscal 2005 proxy statement, also available at Starbucks.com.

### Business Ethics

Upholding our strong ethical corporate culture is paramount to Starbucks success. Starbucks Business Ethics and Compliance (BEC) program provides guidelines in the *Standards of Business Conduct* to help partners make ethical business decisions, facilitates legal compliance and ethics training, and provides mechanisms for partners to voice concerns. Partners are urged to report any related concerns through the Business Conduct Helpline. (More information is available on page 65.) Starbucks also maintains an Auditline for third parties, such as vendors, investors, and customers, to report possible accounting and/or auditing irregularities. The Auditline is available to Starbucks partners as well. In North America the program is well established, having been in place

since 1999. In 2004, program components were launched internationally and continue to be rolled out in company-owned markets following a market opening or acquisition.

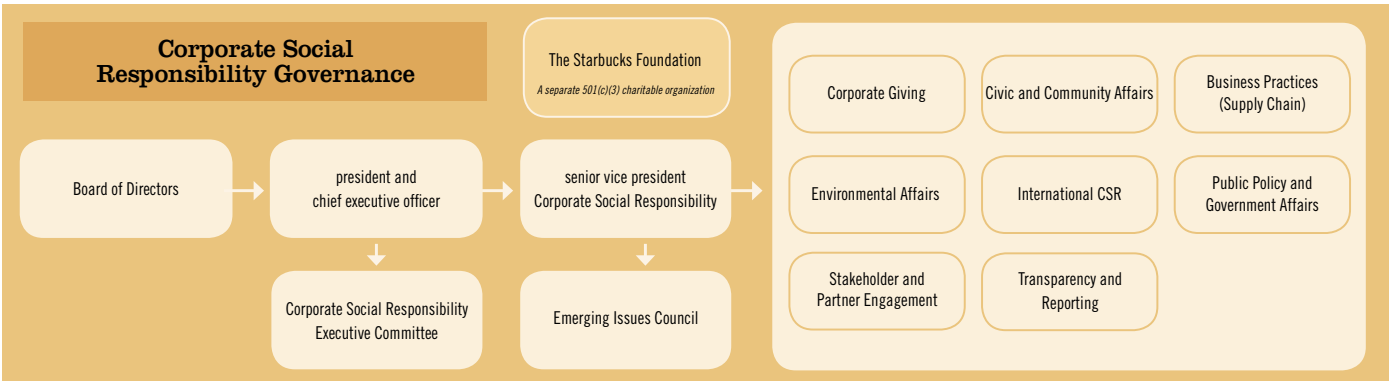
**Managing CSR**

The way in which CSR is managed at Starbucks continues to evolve to ensure that emerging issues are identified, prioritized and addressed in a more systematic and integrated manner throughout the company. While there is a sense of shared accountability for CSR at Starbucks, the company relies on a dedicated CSR group, reporting to the senior vice president of CSR, for the day-to-day management of specific CSR-related initiatives. This group also provides the impetus

for and broad oversight of other CSR programs that are managed and implemented at the business unit, division or department level.

Beyond the dedicated CSR group, Starbucks has established three cross-functional teams with specific responsibilities related to the company’s CSR and governance. They are the Emerging Issues Council, the CSR Executive Committee and the Policy Governance Council, all described below in more detail.

Our CSR organizational chart is also presented below. Currently the board does not have a committee dedicated to CSR.



**Emerging Issues Council (EIC)**

Established in 2004, the EIC is a cross-functional team of 18 Starbucks executives responsible for proactively identifying, prioritizing and mapping key external trends and issues that may impact Starbucks and/or specific business units on a local, regional or global level. As issues are identified, the EIC may engage external stakeholders to gain input. It may also involve appropriate business units to explore an issue further, define feasible options and present follow-up recommendations at a later date.

For instance, in 2004 the EIC began to assess potential risks and issues related to cocoa production, and later determined that the company needed to develop a sustainable approach to cocoa purchasing. This determination was presented as a formal recommendation to the CSR Executive Committee for approval.

In 2006, the EIC continued to focus on issues related to the health and wellness of Starbucks products and completed its preliminary review of Starbucks human rights policy. The EIC will submit its recommendations regarding a human rights policy to the CSR Executive Committee in fiscal 2007.

**CSR Executive Committee**

In fiscal 2006, we fulfilled our commitment to create a CSR Executive Committee, an effort we believe will strengthen the company’s overall governance of CSR. The Committee is charged with setting CSR-related strategy and policies; monitoring progress against CSR objectives; reviewing and approving major CSR social investment activity; overseeing global, regional and local CSR organizational structure and accountabilities; and ensuring CSR integration throughout the company. The CSR Executive Committee is comprised of Starbucks president and ceo, who heads the Committee, and several of his direct reports, all of whom are senior level officers of the company.

In 2006, as part of our ethical sourcing commitment, the Committee made the decision to approve the EIC’s recommendation and implement Starbucks Socially Responsible Cocoa Sourcing pilot, which allows for a premium to be paid for processed cocoa when it is produced and sourced in a socially responsible manner. (See page 30.)

### Policy Governance Council

Over the years, Starbucks has adopted certain governance tools, such as policies, standards, guidelines and procedures to help guide our business conduct in accordance with the law and Starbucks Mission Statement and Guiding Principles. Until recently, Starbucks did not have a formal structure or process for oversight and management of these governance tools, a reality that left the company's reputation, brand and culture at risk in the event these tools were not properly managed or enforced.

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

### Stakeholder Engagement

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

We hosted several stakeholder meetings in fiscal 2006, including the following:

- A nutrition roundtable was held in October 2005 to explore health and wellness issues in the food industry. Our objectives were to better understand stakeholder expectations of the company's responsibilities regarding specific nutrition issues, to learn how our current efforts are being perceived and to establish a platform for ongoing dialogue on the topic. An important outcome of this engagement was Starbucks decision to form a health and wellness advisory panel in fiscal 2007.
- Starbucks engaged stakeholders to discuss water-related issues in November 2005. The discussion focused on Starbucks role as both a user of water resources throughout our supply chain and operations, and as a supporter of efforts to improve access to clean water around the world. Stakeholders recommended that Starbucks conduct a resource use assessment to clarify the company's water footprint as a first step toward developing an overall corporate water strategy. Participants urged us to use our retail footprint and brand to raise awareness of the water crisis facing people in developing countries, in addition to funding clean water projects in communities.
- To help us improve our transparency, we engaged various stakeholders in June 2006 and invited them to provide feedback on Starbucks Fiscal 2005 CSR Report. Their input helped influence the changes we made to this current CSR Report, including our decision to print only an abridged version focused on our most material issues and publish the full report online.
- In September 2006, Starbucks held a stakeholder feedback session to gain initial input on the development of our sustainable purchasing guidelines for Starbucks cocoa, which will be piloted in fiscal 2007. Participants who attended the session represented our suppliers, governmental agencies, nongovernmental organizations (NGOs), and chocolate manufacturers. It is likely they will be consulted again on this issue as we move forward.



## Transparency and Reporting

Our stakeholders want to know what Starbucks is doing to be a socially and environmentally responsible company. Since 2001, Starbucks has published a CSR Report as part of our broader communications efforts to provide transparency on our CSR activities and performance. In preparing our fiscal 2006 and previous reports, we have been influenced by the Global Reporting Initiative (GRI) 2002 Guidelines, a set of internationally recognized sustainability reporting standards. A GRI Index is available on pages 5 and 6.

Starbucks also reviewed the recently released GRI G3 Guidelines in developing this report, which includes specific guidance for reporting against the GRI principles for defining content and quality. The principles, along with a brief description of how Starbucks addressed them, are listed below:

**Materiality:** To determine what topics and indicators to include in our report that reflect the company's most significant impacts and issues of greatest importance to stakeholders, Starbucks conducted a materiality assessment, described on page 3.

**Stakeholder Inclusiveness:** We define who our stakeholders are, describe the measures we took to engage and solicit their feedback, and throughout this report explain how we are addressing their concerns. More specific information on our stakeholder engagement efforts is described on the previous page.

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

**Completeness:** To provide readers with appropriate context for what is and is not covered in this report, we define the scope, boundaries and topics contained in this report on page 4. Since first publishing a CSR report in 2001, we have worked to make our report more comprehensive each year and will continue to do so in the future.

**Balance:** Throughout this report, Starbucks has included multi-year performance data and provided self assessments of our performance. We have also included case studies and external stakeholder comments as a way of providing more insight and objectivity about some of the challenges Starbucks faces.

**Comparability:** In developing the report each year, we use our previous reports as starting points. We provide follow-up information regarding any intended plans we previously stated and include multi-year performance data when possible. Self assessments about our performance are also included. This enables our stakeholders to compare our performance over time.

**Accuracy:** The content and data included in this report have been internally reviewed by numerous subject matter experts and senior leaders at Starbucks, and been subject to a system of internal controls. As described below, external verification was conducted by Moss Adams LLP, an independent accounting and consulting firm. See pages 76 and 77 for more information.

**Timeliness:** At the end of our fiscal year, which ends on the Sunday closest to September 30, our goal is to complete and release Starbucks CSR Report by the date of our Annual Shareholders' Meeting. The date of the meeting varies year to year, but usually takes place within six months after the fiscal year closes.

**Clarity:** Each year we have worked to improve the design and readability of our report in a format that is concise, understandable and user-friendly. We have also reduced the amount of content covered in our printed report and presented more information online.

**Reliability:** External verification of the data and statements made in Starbucks CSR Annual Reports began in 2002, when the company retained Seattle-based Moss Adams LLP, the 12<sup>th</sup> largest accounting and consulting firm in the U.S. The selection of Moss Adams met Starbucks criteria for a high-quality firm that had not worked with the company previously, and a firm that could develop a customized approach for verifying CSR-related data and content. (See pages 76 and 77.)

## External Recognition

### Socially Responsible Investments (SRI)

There are a variety of socially responsible mutual funds available to investors who choose to invest in companies that meet specific criteria in areas covering various social, environmental and economic dimensions. Starbucks was listed on several SRI indices (mentioned below) and included in some socially responsible mutual funds in fiscal 2006.

- Calvert Social Index™
- Citizens Index®
- Domini 400 Social<sup>SM</sup> Index (DS400)
- Dow Jones Sustainability North America Index (DJSI North America)
- Dow Jones Sustainability United States Index (DJSI United States)
- Dow Jones Sustainability World Index (DJSI World)
- Ethibel Sustainability Index, Excellence Constituent
- FTSE4Good Global Index
- FTSE4Good U.S. Index
- FTSE4Good US 100 Tradable Index
- KLD Broad Market Social<sup>SM</sup> Index (BMSI)
- KLD Large Cap Social<sup>SM</sup> Index (LCSI)
- KLD Select Social<sup>SM</sup> Index (SSI)

### CSR Awards

We are proud of the following CSR-related recognition that Starbucks received in fiscal 2006. While these honors are greatly valued and appreciated, we do not view them as end results but rather as important acknowledgements of our ongoing commitment to CSR and our efforts to date.

#### *Multiple-year awards*

Starbucks was ranked 17<sup>th</sup> on the list of “**100 Best Corporate Citizens**” by *Business Ethics* magazine in 2006. Starbucks has made this list every year since 2000.

Starbucks has made *Fortune*’s list of “**The 100 Best Companies to Work For**” eight times. Starbucks ranked 29<sup>th</sup> on the list in 2006.

#### *Single-year awards*

The U.S. Environmental Protection Agency’s Green Power Partnership list of **Top 25 Green Power Partners** ranked Starbucks sixth for our significant purchase of Green Power.

Starbucks was recognized as one of 15 employers to receive the “**Secretary of Defense Employer Support Freedom Award**” given by the National Committee for Employer Support of the Guard and Reserve, a Defense Department agency.

Starbucks was recognized by *DiversityInc* in its “**Top 50 Companies for Diversity**” and “**Top 10 Companies for Latinos.**”

Starbucks Calgary received the “**Employer of Persons with Disabilities Award of Distinction**” at the Alberta Business Awards of Distinction Banquet.

Starbucks UK was recognized as one of “**UK Top 50 Best Places to Work**” (ranked 34<sup>th</sup>), awarded by the Great Places to Work Institute, in partnership with the *Financial Times*.

Starbucks was ranked 9<sup>th</sup> by college students as a “**Most Desirable Company to Join,**” a listing compiled by *Cheers* magazine in Taiwan.

Starbucks was ranked 25<sup>th</sup> on *Newsweek Japan*’s “**2006 World Corporation Ranking 500**” list based on sales, corporate social responsibility and return on equity.

Starbucks was recognized as “**Model Company for Sustainable Economic Development**” by the Luohu Government in Shenzhen, China.

Starbucks UK was awarded a “**Big Tick**” by Business in the Community in recognition of excellence in corporate social responsibility, for the *Partners in Education* program.

## United Nations Global Compact

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

Through our participation in the Global Compact, we are continually learning how the company can strengthen existing or develop new internal practices and policies. For instance, Starbucks advanced efforts to create an overarching human rights policy during fiscal 2006, and in 2007 will seek approval of this policy. This is an important step as we further our expansion to areas of the world where human rights protections are not consistently upheld.

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

UN Global Compact "Communications on Progress" Report	
PRINCIPLES	PAGE
<b>HUMAN RIGHTS</b>	
1. Business should support and respect the protection of internationally proclaimed human rights.	19, 20, 29, 30, 31, 33, 65, 70, 71
2. Business should ensure that they are not complicit in human rights abuses.	19, 20, 29, 30, 65
<b>LABOR STANDARDS</b>	
3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining.	70
4. Business should support the elimination of all forms of forced and compulsory labor.	19, 20, 29, 30, 33
5. Business should support the effective abolition of child labor.	19, 20, 29, 30, 33, 70
6. Business should support the elimination of discrimination of employment and occupation.	65, 70, 73, 74
<b>ENVIRONMENT</b>	
7. Business should support a precautionary approach to environmental challenges.	19, 54-59
8. Business should undertake initiatives to promote greater environmental responsibility.	19, 30, 31, 54-62
9. Business should encourage the development and diffusion of environmentally friendly technologies.	55-57
<b>CORRUPTION</b>	
10. Business should work against corruption in all its forms, including extortion and bribery.	10, 65



## OUR WORLD OF PRODUCTS

**For 35 years, Starbucks has purchased, roasted and sold high-quality coffee beans through retail outlets and commercial wholesale accounts. While coffee continues to be Starbucks core product, the company markets, sells and/or licenses a broader range of products, including Tazo® tea, Hear Music® CDs, Ethos™ water, Starbucks™ Liqueurs, various food and dairy items and an array of brewing equipment and merchandise.**

With every product Starbucks brands, markets and sells, or uses in our operations, we uphold our commitment to quality and strive to source our products in a socially and environmentally responsible manner. This is what we refer to as sustainable trade.

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

- Sustaining Coffee Quality
- Sustainable Trade – Purchasing Our Non-Coffee Products
  - Agriculture Products
  - Cocoa, Tea, Dairy and Bakery
  - Manufactured Goods
  - Ethos™ water
- Quality Assurance and Product Recall

## Sustaining Coffee Quality

Whenever a customer walks into a Starbucks, we consider it an opportunity to share our passion and knowledge of coffee, serve the highest-quality beverage, and deliver an experience so rewarding that this customer becomes *our* customer – and our store becomes *their* Starbucks. We strive to create the ultimate *Starbucks Experience* for all of our customers, all of the time.

At its core, the *Starbucks Experience* is about great coffee – the quality that our customers have come to expect from Starbucks and for which they are willing to pay a premium. We know to continually earn our customers' loyalty, the quality of our coffee can never be compromised.

The farmers, millers, exporters and importers who grow, process and/or supply coffee to Starbucks share the same uncompromising commitment to quality we value. Because of this, they enable Starbucks to deliver on our promise of high quality to our customers.

In this section we discuss the steps Starbucks is taking to ensure the sustainable production and supply of high-quality coffee. The underlying force behind all of this is our relationships with coffee farmers and suppliers. They are critical to our business and, we believe, Starbucks is vital to theirs.

Specific topics in this section include:

- Overview of the coffee industry
- Creating a sustainable approach
- C.A.F.E. Practices:
  - An overview of Starbucks coffee buying guidelines
  - Verification system
  - Results and achievements
  - Findings and next steps
- Economic transparency
- Linking premium prices to premium quality
- Respect for workers' human rights
- Starbucks and Fair Trade
- Purchasing certified organic and conservation coffees
- Providing farmers access to credit
  - Assisting coffee farmers in Ethiopia
- Investing in projects in coffee-growing communities
  - Black Apron Exclusives™ program
  - Tropical Storm Stan relief efforts

## The Coffee Industry – An Overview

It is believed that coffee was first consumed as a hot beverage in East Africa during the 11th century. Today, coffee is one of the most popular beverages, with more than \$80 billion in retail sales worldwide.\* Furthermore, the coffee industry provides a livelihood for an estimated 25 million coffee farmers\* in more than 60 coffee-producing countries.\*

The coffee market has always been prone to ups and downs, mostly related to the balance between supply and demand. Back in 2001, coffee prices fell to a record low of \$0.42 per pound (\$0.91 per kilogram), and fluctuated near the bottom for several years. These particular market conditions created a climate of economic instability that had an impact on many farmers and their communities. Today's market conditions are greatly improved, evident by recent prices of coffee traded on the New York "C" market (the worldwide reference used by coffee traders). In fiscal 2006, world coffee prices averaged \$1.04 per pound (\$2.29 per kilogram).

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

The higher-quality and more expensive *arabica* beans are sold as specialty coffee, which accounts for approximately 10 percent\*\* of total worldwide coffee purchases, including the coffee Starbucks buys. Starbucks purchases high-quality *arabica* coffee beans, paying premium prices for premium quality. These coffees are sold under the Starbucks, Seattle's Best Coffee and Torrefazione Italia brands.

\*International Coffee Organization

\*\* Specialty Coffee Association of America

## Quick Coffee Facts:

**Total worldwide coffee production (Oct. 2005–Sept. 2006):** 15 billion pounds (7 billion kilograms)\*

**Total coffee purchased by Starbucks (Oct. 2005–Sept. 2006):** 294 million pounds (133 million kilograms)

**Number of coffee farmers worldwide:** 25 million\*

**Number of countries where coffee is grown:** About 60\*

**Number of countries where Starbucks bought coffee in fiscal 2006:** 24

## Creating a Sustainable Approach

After years of traveling to coffee-growing regions around the world, we have come to deeply appreciate the care that goes into producing high-quality coffee. Our coffee buyers, quality experts and agronomists spent considerable time in the field during fiscal 2006, sometimes traveling great distances to reach a particular coffee farm.

These visits are always worthwhile, especially when we have been able to engage directly with farmers, observe their best practices, gain insight about their short- and long-term challenges and identify ways that Starbucks can contribute to the longevity of their business. More important, they have helped to raise our awareness about the need for a more sustainable approach to coffee production – one that touches on every essential aspect of the supply chain – from farming to processing to exporting.

When we began our journey to create a more sustainable model, there were several key assumptions we considered and which we still believe to be relevant today. We assume that:

- A holistic strategy for sustainability must include criteria for quality, social, environmental and economic aspects.
- Premium prices paid for coffee are linked to premium quality.
- Economic transparency is required and necessary to evaluate whether farmers receive equitable payment for their crops.
- Our strong relationships and direct engagement with coffee farmers and suppliers will keep us in touch with their progress and issues.
- Coffee-growing communities will benefit from the economic stability of local farmers as well as from targeted community investments.
- Access to credit and other resources will enable farmers to make quality improvements and strengthen their businesses.
- Certification labels, such as Fair Trade Certified™ and organic, help to advance specific aspects of sustainable coffee farming.
- By embracing sustainability, Starbucks can lead change within the coffee industry.

As our journey progressed over several years, we created and launched a number of programs and initiatives. Collectively, they represent the key components of Starbucks sustainable model for coffee production, and have been the focus of our ongoing efforts. They are:

- Coffee and Farmer Equity (C.A.F.E.) Practices, a set of coffee-buying guidelines, was formally introduced in fiscal 2004.

- Starbucks Farmer Support Center, an on-the-ground field office located in Costa Rica, opened in fiscal 2004 to provide technical resources and ongoing support to coffee farmers throughout the world.
- Funding of coffee community projects was started in fiscal 1998.
- Starbucks Black Apron Exclusives™ program launched in fiscal 2004 to showcase and recognize the production of rare coffees of exceptional quality, and reward the origin farming community with funding for a local project.
- Loans that enable farmers to access credit began in fiscal 2001.
- An alliance with Conservation International began in 1998 to promote environmentally sound practices aimed at preserving biodiversity in some coffee-growing regions in Latin America.
- The purchasing of certified coffees, such as Fair Trade Certified™ and organic coffees – both of which promote aspects of a sustainable farming model – began in fiscal 2000.
- A partnership with the African Wildlife Foundation to advance sustainable farming practices in East Africa was initiated in fiscal 2005.

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### *My Starbucks –*

*I want you – my Starbucks friends – to appreciate the impact your company is having on higher prices being paid to coffee farmers in Papua New Guinea.*

*The local mill is paying the best price local farmers have ever been paid.*

*Everyone here knows Starbucks is buying this coffee, but only if it's good quality. So now farmers are competing with their quality so they can sell to Starbucks.*

*It shows me how supply and demand is contributing to a sustainable solution.*

*Thank you, Starbucks.*

*Aarlie Hull*

*(A coffee supplier to Starbucks)*

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## C.A.F.E. Practices

The Conservation Principles for Coffee Production, a set of multistakeholder criteria launched in 2001, became the original platform that Starbucks used to evolve and eventually develop a more holistic set of coffee-buying guidelines that is now known as Coffee and Farmer Equity (C.A.F.E.) Practices. These guidelines were designed to ensure the sustainable supply of high-quality coffee; achieve economic accountability; promote social responsibility within the coffee supply chain; and protect the environment.

C.A.F.E. Practices encompasses various sustainability measures that are defined by 28 criteria, extending to both the farming and processing of coffee. The criteria, which serve as the basis for a comprehensive scorecard, fall under four focus areas: product quality; economic accountability; social responsibility; and environmental leadership.

Thousands of participants – from our largest coffee suppliers to many small-holder farms and cooperatives – have applied and been approved as C.A.F.E. Practices suppliers since 2004. When suppliers apply to C.A.F.E. Practices, they must undergo a third-party evaluation to verify the degree to which their practices are aligned with the criteria. (For more information about the verification process, see page 23.)

## The Link Between Quality and Price

We believe that with any product there is an inherent link between quality and price. Through our close working relationships with coffee farmers and suppliers, we have always emphasized the importance of quality as the best, most sustainable driver of higher prices paid. We understand that coffee farming, like any business, must be profitable to be sustainable. Furthermore, we know that when coffee farmers do not earn enough to cover their production costs and/or provide a reasonable income, they may switch to other crops or perhaps stop growing coffee altogether.

Starbucks commitment to pay premium prices for premium quality coffee has not wavered over the years. It is an approach that not only serves the short- and long-term economic interests of coffee farmers and suppliers; it also serves Starbucks interests by creating an incentive for farmers to improve quality and increase production that in turn contributes to a more sustainable supply of high-quality coffee which we depend on to support Starbucks continued growth.

### What Determines Price?

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

## What Did Starbucks Pay for Coffee?

In fiscal 2006, Starbucks purchased 294 million pounds (133 million kilograms) of coffee and paid an average price of \$1.42 per pound (\$3.12 per kilogram).

## Respect for Workers' Human Rights

Starbucks believes every person deserves to be treated with respect and dignity, and is entitled to a fair, safe and humane work environment. This is a deeply held value at Starbucks and one of our Guiding Principles. Our commitment to this value applies as much to our own workforce as it does to the workers employed by our suppliers.

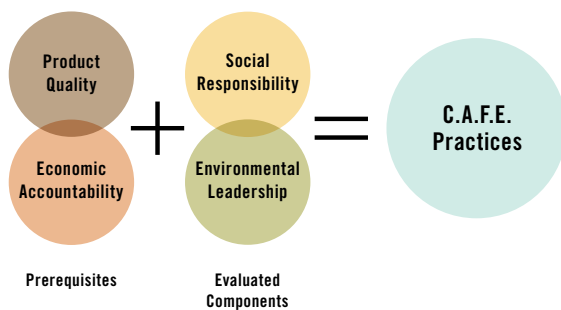
Child labor is a topic widely reported in the media. The coverage has raised awareness about the issue and led to some reforms. While the concern over child labor remains, it may not always be well understood. For instance, in many coffee-growing communities, it is a natural extension of family life for children to work alongside their parents. Concerns over child labor arise when it is considered forced, of a hazardous nature, inappropriate or prevents a child from attending school. There are international child labor standards that provide clear guidance on what is and is not acceptable.\*

Starbucks is committed to upholding international child labor standards in our own operations and throughout our supply chain by making them a stipulation of our supplier relationships. Like other companies, Starbucks has adopted policies that require all of our suppliers – from large-scale to small enterprises – to comply with international or locally mandated labor standards, whichever is higher.

International labor standards also include principles related to working conditions, such as the health and safety of workers; minimum wage requirements; security; and freedom of association, among others. As part of C.A.F.E. Practices, Starbucks developed a comprehensive system to verify our coffee suppliers' compliance with international labor standards, including child and forced labor practices as well as other socially and environmentally responsible practices.

*\* International Labor Office, 2006*

## The Four Fundamentals of C.A.F.E. Practices



### C.A.F.E. Practices Criteria – Areas of Focus

**Product Quality (prerequisite):** All coffee purchased from C.A.F.E. Practices suppliers must meet Starbucks standards of high quality.

**Economic Accountability (prerequisite):** C.A.F.E. Practices suppliers are required to submit evidence of payments made at all levels along our coffee supply chain, including receipts that indicate how much was paid to farmers for their coffee.

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

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

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

## C.A.F.E. Practices – Hitting Our Targets

Achieving our annual targets for the amount of coffee purchased from C.A.F.E. Practices–approved suppliers has not always been easy. We have worked to increase participation in C.A.F.E. Practices by expanding to new regions, motivating thousands of farmers and suppliers to apply, and guiding them through the application process. Currently, suppliers from 10 different coffee-producing countries have applied and been approved to participate in C.A.F.E. Practices.

We took the following specific steps in fiscal 2006 to get to this point:

- Laid important groundwork for the expansion of C.A.F.E. Practices in Africa and Asia Pacific.
- Trained 30 potential verifiers in Africa and Asia Pacific, and held a “train the trainer” session in Costa Rica, attended by lead verifiers from 14 approved verification organizations. The additional verifiers enabled more suppliers to be evaluated and approved for C.A.F.E. Practices. Trainings were conducted by Scientific Certification Systems (SCS), an independent evaluation and certification firm.
- Spent more time in the field with C.A.F.E. Practices participants, soliciting their feedback, offering support about how they can improve coffee quality and scores, and conducting training workshops via Farmer Support Center agronomists.
- Continued to work with and solicit input from various parties on ways Starbucks can improve elements of C.A.F.E. Practices, including Conservation International, a nonprofit environmental organization; African Wildlife Foundation, an organization dedicated to conserving the wildlife and wild lands of Africa; and SCS.

### Results and Achievements

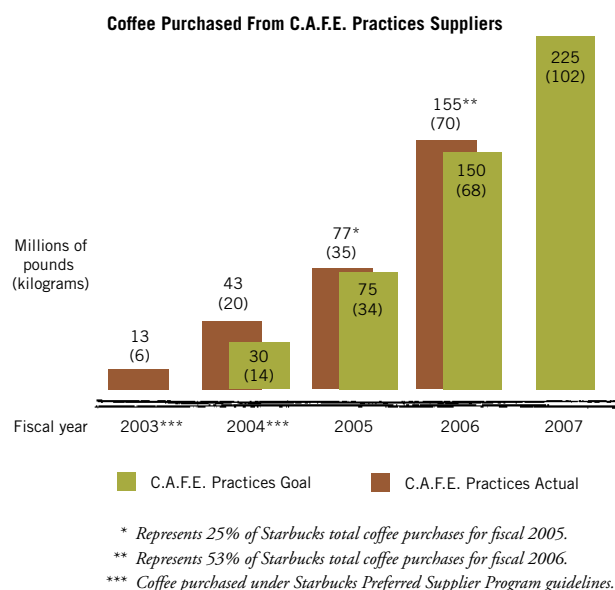
Metrics used to measure the growth of C.A.F.E.

Practices include:

- Total pounds of coffee purchased annually from C.A.F.E. Practices–approved suppliers.
- Estimated number of hectares (acres) of sustainable land linked to C.A.F.E. Practices purchases.
- Percentage of C.A.F.E. Practices coffee purchased from approved suppliers by status level.

## C.A.F.E. Practices Purchases

Starbucks established an aggressive goal to purchase 150 million pounds (68 million kilograms) of green (unroasted) coffee from C.A.F.E. Practices suppliers in fiscal 2006, approximately double the volume purchased the previous year. We exceeded that goal with purchases of 155 million pounds (70 million kilograms), representing more than 50 percent of all coffee purchased in fiscal 2006 by Starbucks. (See graph for purchases and future targets.) The 155 million pounds of coffee purchased under the program were produced on farms that represent a total of approximately 200,000 hectares (494,000 acres) of sustainable land.



## Percent Purchased by Supplier Group

There are three status levels for C.A.F.E. Practices suppliers: Strategic, Preferred and Verified. Of the 155 million pounds of coffee purchased from C.A.F.E. Practices suppliers in fiscal 2006, the percentage from each supplier group is as follows:

- 19 percent purchased from Strategic Suppliers (those with scores of 80 percent and higher in each of the social and environmental areas)
- 12 percent purchased from Preferred Suppliers (those with scores between 60 percent and 79 percent in each of the social and environmental areas)
- 69 percent purchased from Verified Suppliers (those with scores of less than 60 percent in each of the social and environmental areas)

## C.A.F.E. Practices – Findings and Next Steps

When we first introduced C.A.F.E. Practices, we were inspired and motivated to help create a better future for coffee farmers and their communities, based on a shared interest to sustain the production of high-quality coffee. Our vision – and commitment – has not changed, only deepened.

The amount of time, energy and resources needed to implement and manage C.A.F.E. Practices across such a complex, diverse and sprawling supply chain is considerable – and at times more than we anticipated. We did, however, expect the process to involve challenges. In fact, there were a number of obstacles we faced – and overcame – in the last two years, such as making C.A.F.E. Practices as accessible to small-scale producers as it has been to larger coffee producers.

We have encountered some dilemmas that we are continually working to address. Given our optimistic mindset at Starbucks, we choose to view these as opportunities for improvement. We outline a few of these ongoing opportunities below.

### Continued Emphasis on Relationships, Communication and Training

As our demand for coffee grows and our already complex supplier network expands, we understand the importance of staying in touch with and training our suppliers so they understand how to complete the application forms for C.A.F.E. Practices, manage the required verification process, and adapt their practices to improve their scores. We must also seek efficiencies on our end that enable us to respond more quickly to the needs of our suppliers.

### Verifiers and Improved Systems Needed

Our plan to buy more sustainable coffee in the future can only be realized if our network of approved suppliers participating in C.A.F.E. Practices grows. The process of approving more suppliers will involve conducting a great number of inspections by third-party verifiers.

At the end of fiscal 2006, we had 143 trained and approved verifiers in the field, which was 43 more than the previous year. Going forward, we expect that more verifiers will be needed to keep pace with the increasing number of verifications that will be required.

We see the need for more trained verifiers as an opportunity, and we are encouraged by the interest farmers have shown in becoming approved C.A.F.E. Practices suppliers. And because of this, verifiers will need to be responsive to the increasing demand of more inspections.



Our priorities are to increase the number of trained verifiers and make the verification process more efficient and user-friendly. Some adjustments were made in fiscal 2006, and others are in the works.

The process improvements we are making are necessary to ensure that Starbucks coffee buying guidelines are supported by a highly efficient and credible verification system with the capacity to serve the growing number of suppliers wanting to participate in C.A.F.E. Practices.

#### FUTURE GOALS

Going forward, our efforts will focus on:

- Introducing a revised version of the guidelines to allow for streamlined, efficient and objective scoring.
- Updating our guidelines to account for regional differences, including clarification of minimum performance levels and compliance with local labor laws and wages for permanent, temporary and seasonal workers.
- Implementing a new IT system for online verifier reporting and score calculation.

#### Extending C.A.F.E. Practices to Africa and Asia Pacific

In 2004, Starbucks opened a Farmer Support Center in Costa Rica, which has allowed us to work more closely with farmers and suppliers on their sustainability measures and coffee quality. Shortly thereafter, suppliers in that region began applying and gaining approval for C.A.F.E. Practices, and the number has kept growing ever since.

Increasing our focus on C.A.F.E. Practices in Africa and Asia Pacific has proven to be difficult, as expected. In Kenya, Starbucks has been collaborating with the African Wildlife Foundation (AWF) on various sustainability initiatives as a first step toward advancing C.A.F.E. Practices in Africa.

In both Africa and Asia Pacific, Starbucks has been working to introduce C.A.F.E. Practices to coffee farmers, processors and suppliers. Progress has been slowed by realities of local coffee industries, lack of financial transparency, minimal understanding of C.A.F.E. Practices among local suppliers, and too few trained verifiers. Some headway was made in fiscal 2006 to improve suppliers' understanding of C.A.F.E. Practices and train more verifiers, partly because of efforts made by SCS, Starbucks coffee buyers, agronomists and business partners to organize training sessions.

We realize there may be a need to consider regional guidance for C.A.F.E. Practices to make the criteria more relevant to

unique conditions in Africa and Asia Pacific. Also, the need for more locally based support through regional Farmer Support Centers has been confirmed.

#### FUTURE GOAL

In fiscal 2007, we plan to hire additional agronomists who will focus on helping coffee farmers worldwide implement C.A.F.E. Practices.

#### My Starbucks -

In a letter to Starbucks president and ceo, Jim Donald, Estuardo Porras wrote:

Since Tropical Storm Stan passed, I have been spending 24 hours a day assessing the damage on the El Faro and Las Delicias coffee farms in Guatemala. Now I am glad to inform you that C.A.F.E. Practices has been by far our best investment. Both farms are virtually intact in regards to any disease or soil erosion issues. I strongly believe that the implementation of C.A.F.E. Practices on both farms has greatly contributed to our ability to withstand any potential adversities caused by this storm.

Your friend,

Estuardo Porras, Owner  
El Faro and Las Delicias farms,  
Guatemala

## C.A.F.E. Practices – The Verification Process

When suppliers apply to C.A.F.E. Practices, they must undergo an independent third-party evaluation to verify the degree to which their practices are aligned with the 28 criteria. Upon completion of each evaluation, the verifier submits a report along with a scorecard to the applicant and to Starbucks for review. The scores given by the verifier determine the supplier's approval status in C.A.F.E. Practices.

Evaluations involve field inspections, face-to-face interviews with workers, document reviews and desk audits. The conditions of a supplier's status dictate the terms of reverification. Reverification is periodically required in order to measure continuity and sustainability improvements.

Since launching C.A.F.E. Practices in 2004, Starbucks has retained Scientific Certification Systems (SCS), a third-party evaluation and certification firm, to help develop and oversee the verification system and conduct ongoing verifier trainings. By the end of fiscal 2006, SCS had trained 30 additional individual verifiers on how to evaluate and score suppliers against C.A.F.E. Practices' comprehensive set of criteria. Independent verifiers for C.A.F.E. Practices are affiliated with 25 different organizations conducting verifications in 19 countries.

## Economic Transparency

To help assure that the farmer receives an equitable share of the price paid by Starbucks, a requirement for economic transparency is included in our coffee contracts, including all of our contracts with suppliers participating in C.A.F.E. Practices. This provision stipulates that our suppliers must provide credible evidence of payments, usually in the form of receipts indicating payments made at all levels along the coffee supply chain, including prices paid to farmers. In fiscal 2006, 98 percent of our coffee contracts included an economic transparency clause requesting documentation of payments made to various participants in the supply chain. In 95 percent of these contracts, economic transparency was required to the producer level.

Requiring coffee suppliers to provide evidence of payments was almost inconceivable several years ago, especially given the diffused and complex nature of the coffee supply chain and the historical lack of record keeping. However, since Starbucks instituted this requirement, a notable change has started to take place in the specialty coffee industry, with more serious attention now being focused on assuring that farmers receive an equitable share of the purchase price. We believe this ultimately benefits coffee farmers and other key suppliers who add value along the supply chain.

While we are encouraged by the progress to date, institutionalizing this new requirement has come with certain challenges. In particular, the coffee industry does not have a standardized mechanism in place that allows all parties across the coffee supply chain to easily submit evidence of payment in a consistent, uniform manner. At Starbucks, we receive different forms of documentation – from a simple receipt for the coffee cherries that the farmer delivered to the mill to full purchase agreements that include more levels along the coffee supply chain. These documents not only differ in quality, they reflect variations in currency, industry standards and laws, units of measure and are prepared in many different languages.

Despite these realities and the unique circumstances of each producing country, Starbucks will continue to work toward verifying the submitted evidence in order to assure that farmers received an equitable portion of the purchase price.

## Starbucks and Fair Trade

Starbucks and the Fair Trade movement share common goals: to help ensure that farmers receive a fair price for their coffee and have improved access to international markets. C.A.F.E. Practices and the Fair Trade system both focus on cultivating long-term, stable relationships with farmers; providing supplemental funding for community projects; and providing farmers with access to affordable credit. A point of differentiation is that the Fair Trade coffee model focuses on smallholder farmers belonging to cooperatives and associations, while Starbucks purchases from coffee cooperatives, farms and supply networks of all sizes and scale.

Starbucks first relationship with a Fair Trade certification and licensing organization began in April 2000, when we established an agreement with TransFair USA that allowed Starbucks to purchase, roast and sell Fair Trade Certified™ coffee. We are still actively engaged with TransFair USA, as well as with Fairtrade Labelling Organizations International (FLO) and nine of the 20 other national initiatives around the world that oversee and coordinate Fair Trade licensing and sales promotion in 24 of our international markets.

Each Fair Trade national initiative is unique and has its own requirements, trademarks and protocols, a reality that has constrained our ability to offer Fair Trade Certified™ coffee internationally. Starbucks is committed to working together with FLO and the national initiatives on a streamlined solution that will make it easier for multinational companies, like Starbucks, to distribute and sell Fair Trade Certified™ products in other countries.



## WHAT IS FAIR TRADE CERTIFIED™?

The Fair Trade Certified™ labels are owned by the Fairtrade Labelling Organizations International and Fair Trade national initiatives around the world. Starbucks pays licensing fees to the national initiatives in order to affix the Fair Trade Certified™ trademark on our packaging. According to the national initiatives, a majority of the fees support various Fair Trade activities to help market the product, and the remaining fees are used to fund the certification process, the development of standards and support for producers.

Fair Trade products appeal to socially minded consumers who place a high value on the Fair Trade certification seal. Fairtrade Labelling Organizations International certifies to consumers through the seal that a minimum price\* of \$1.24 - \$1.26 per pound (\$1.39 - \$1.41 per pound for organic) was paid to the farmer cooperative that produced the coffee. However, factors such as market recognition of Fair Trade coffee quality, higher commodity prices, and supply and demand may work in combination to raise the Fair Trade price.

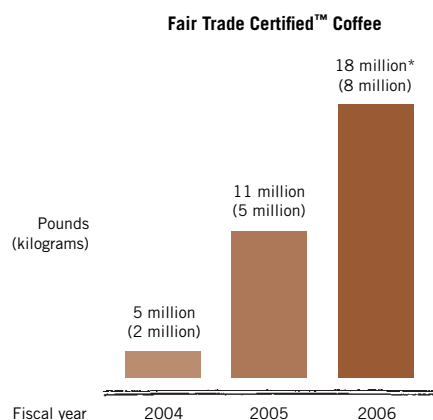
Fair Trade certification includes criteria to be met by coffee cooperatives, such as fair labor conditions, freedom of association and certain environmental standards. To be certified as Fair Trade, the coffee is to be produced only by farmers who belong to farmer-owned, democratically run coffee cooperatives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

*\* These established prices are set by Fairtrade Labelling Organizations International for the purpose of covering the costs of sustainable production and living. The pricing components include \$1.19-\$1.21 for the coffee (depending on the region), \$0.05 for a social premium and an additional \$0.15 premium for organic. When "C" market prices rise above the Fair Trade minimum price, Fair Trade prices are adjusted accordingly to be at least \$0.05 above the "C" price.*

### Our Purchases of Fair Trade Certified™ Coffee

In fiscal 2006, Starbucks global purchases totaled more than 18 million pounds (8 million kilograms) of Fair Trade Certified™ coffee, representing approximately 14 percent of global Fair Trade Certified™ coffee imports, and about 30 percent imported into the United States.

**Starbucks remains the largest purchaser, roaster and distributor of Fair Trade Certified™ coffee in North America.**



*\*Represents 6% of Starbucks total coffee purchases.*

At the beginning of fiscal 2006, Starbucks set a 12 million pound (5 million kilogram) purchasing target for Fair Trade Certified™ coffee, which we exceeded by more than 6 million pounds (3 million kilograms) because we extended our line-up and broadened distribution of our Fair Trade Certified™ product offerings. In addition to offering Café Estima Blend™ in Starbucks stores, strong sales were achieved through the rollout of a new Fair Trade Certified™ coffee product under the Kirkland Signature brand in Costco stores in the U.S. and Canada.

Starbucks will continue to work with various Fair Trade national initiatives to promote and market our Fair Trade Certified™ coffee products in our stores around the world. We believe these efforts will help to further increase customer demand and sales of Starbucks Fair Trade Certified™ coffees. Purchasing enough Fair Trade Certified™ coffee to meet the demand will be essential.

Previously, we set arbitrary targets for the amount of Fair Trade Certified™ coffee we planned to purchase annually, an approach that is no longer practical. Instead, we will begin linking our purchases of Fair Trade Certified™ coffee to sales forecasts.

Through our purchases of Fair Trade Certified™ coffee in fiscal 2006, we:

- Provided more than \$900,000 in Fair Trade social premiums through the price we paid for Fair Trade Certified™ coffee. FLO certifies that these funds were redistributed back to the Fair Trade cooperatives we purchased from to support local community improvement projects decided upon by the general assembly of the members.
- Paid approximately \$8 million more to Fair Trade Certified™ cooperatives than they would have received if they sold their coffee at "C" market prices. This is similar to the premiums that Starbucks typically pays above the commodity price for other high-quality coffees. According to TransFair USA, the average price of Fair Trade Certified™ coffee during fiscal 2006 was \$1.48 per pound, including the social premiums. Approximately 80 percent of the price paid to the Fair Trade registered cooperatives goes to coffee farmers, and the remaining 20 percent covers co-op overhead, export costs and social investments.
- Paid a total of \$1.6 million in licensing fees to various Fair Trade organizations, with the majority paid to TransFair USA.

## Going Forward

Starbucks is committed to purchasing Fair Trade Certified™ coffee as a way of supporting the network of Fair Trade registered coffee cooperatives. Specifically, Starbucks plans to:

- Link global purchases of Fair Trade Certified™ coffee to customer demand in fiscal 2007. Using fiscal 2006 demand as a barometer, we expect that Fair Trade Certified™ coffees could represent approximately five percent of our total coffee purchases in a given year.
- Work with the Fair Trade national initiatives to promote and increase customer demand and sales of our Fair Trade Certified™ coffees while also collaborating on a streamlined approach to the global distribution of this product.
- Offer Kirkland Signature Fair Trade Certified™ coffee to Costco for stores located in the UK, Japan, Taiwan and Korea beginning in fiscal 2007.
- Support and promote the sale of Café Estima Blend™ coffee in Starbucks company-operated stores, foodservice channels and other points of distribution.
- Continue to work with Fair Trade organizations to communicate key findings and challenges, provide transparency to the farmer level, augment the business capacity of participating Fair Trade cooperatives, and support a multipronged approach to ethical, sustainable coffee purchasing.

## Purchasing Certified Organic and Conservation Coffees

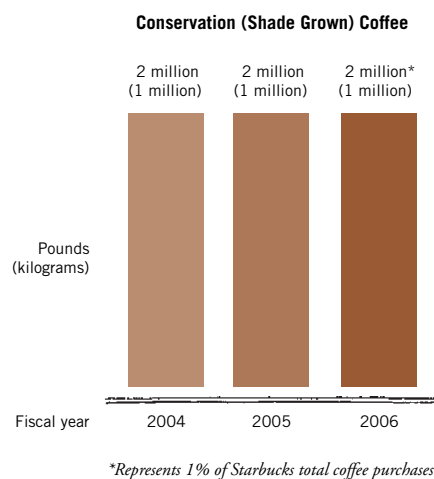
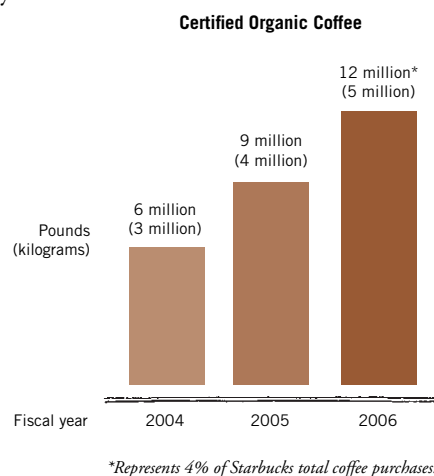
Starbucks purchases certified organic and conservation (shade grown) coffees. These purchases support the company's larger effort to preserve the natural environment and/or promote economic stability. (See graphs at right for amounts purchased.)

As consumer demand for certified organic coffee continues to grow, Starbucks purchases of this coffee has also increased. Some of the certified organic coffee Starbucks buys is produced by farmers participating in the Fair Trade system, in which case this coffee is included in our total purchases of both Fair Trade Certified™ and certified organic. In other instances, certified organic coffee is purchased from farmers participating in Conservation International's (CI) Conservation Coffee™ program, and therefore accounted as purchases of conservation, organic and possibly even Fair Trade Certified™ coffees.

In fiscal 2006, Starbucks offered two specifically labeled types of certified organic coffee, and Seattle's Best Coffee sold eight varieties.

Over the years Starbucks has purchased millions of pounds of conservation coffees grown by farmers participating in CI's Conservation Coffee™ program. This particular source of our supply stems from the alliance Starbucks and CI formed in 1998 to encourage farmers to use ecologically sound growing practices that help protect biodiversity in environmentally sensitive areas and to stimulate the production and sale of high-quality coffee grown under the canopy of bird-friendly shade trees.

Today, much of the conservation coffee grown by participating farmers is also certified organic or "in-transition" coffee, the term used when an agricultural product is grown under organic conditions but has yet to be certified. Beginning in fiscal 2007, the coffee Starbucks purchases from farmers participating in the Conservation Coffee™ program will no longer be tracked as conservation coffee. Instead we will track only certified organic coffee purchases rather than specifying both organic and conservation purchases, which in many cases is the same coffee. Fair Trade Certified™ coffee that is also certified organic will continue to be tracked in both ways.



*Note: Coffees may be certified in more than one category.*

## Access to Credit

During the growing and harvest cycles, coffee farmers rely on their modest reserves to pay their expenses. It isn't until their crops are finally shipped that payment is received, which may take months. It's common for farmers to experience a cash shortage, which can lead them to sell their crops early to local buyers, be charged high interest rates and receive lower prices. This inevitably cuts into farmers' profits and sets up a similar scenario for the next year.

Starbucks works with several social investment organizations to make loans available to coffee growers, which makes it possible for farmers to postpone selling their crops until the price is favorable and to invest in capital improvements. In fiscal 2006, we increased our loan commitment to EcoLogic Finance by \$1 million, bringing the total commitment to \$6 million. EcoLogic uses Starbucks capital to make loans to both coffee and cocoa farmers. We also continued our \$1 million loan commitment to Calvert Foundation and \$2.5 million loan commitment to Verde Ventures, a loan program managed by Conservation International. (See chart on next page.)

### *Assisting Coffee Farmers in Ethiopia*

When the Sidama Coffee Farmers Cooperative Union in Ethiopia (SCFCU) was established in 2000, it set bold objectives: to increase farmers' share of the Free on Board\* (FOB) price of coffee, stabilize the local coffee market, export directly to foreign buyers, protect co-ops and family farmers from illegal domestic market actors, take advantage of economies of scale, and promote and reward production of high-quality coffee.

SCFCU is a farmer-owned and managed cooperative union comprised of 42 primary societies, representing nearly 87,000 local coffee growers practicing shade-managed and organic farming techniques in the forests of southcentral Ethiopia. It is also part of the Fair Trade Certified™ market system.

In October 2005, SCFCU received a \$400,000 loan from EcoLogic Finance. The loan is enabling the cooperative to provide services to its members, including marketing assistance in developing producer/buyer linkages; direct export of members' specialty coffee; coordination of warehousing services, processing and transport; promotion of high-quality coffee production; field-based training and education programs; and access to savings and credit services. Starbucks provided the capital funds that EcoLogic used to finance the loan.

As one of the cooperative's principal foreign buyers, Starbucks respects SCFCU for its organizational integrity, and values its premium product. Indeed, the unique flavor characteristics of local coffee beans grown by one primary society belonging to SCFCU were so distinctive and of such exceptional quality that this coffee – "Shirkina Sun-Dried Sidamo" – was chosen as one of Starbucks Black Apron Exclusives™\*\* coffees in fiscal 2006. As a result, the farming community where this coffee was produced was awarded a \$15,000 prize from Starbucks. These funds, combined with the funds they receive through Fair Trade social premiums, are being used to construct an office space where community meetings and trainings can be held.

Starbucks and the Ethiopian government have been engaged in discussions regarding the protection and use of the intellectual property rights of Ethiopia's geographic coffee names. We are committed to working together in pursuit of a solution that benefits Ethiopian coffee farmers. For the most current information on this topic, please visit Starbucks.com.

*\*Free on Board is a trade term requiring the seller to deliver goods on board a vessel designated by the buyer. The seller fulfills its obligations to deliver when goods have passed over the ship's rail. The word "free" means the seller has an obligation to deliver goods to a named place for transfer to a carrier.*

*\*\*The Black Apron Exclusives™ coffees are a select line of rare, exotic and cherished coffees. The Black Apron name refers to the color of apron worn by Starbucks most knowledgeable buyers, roasters, tasters and Coffee Masters while in the tasting rooms and in Starbucks coffeehouses.*

FARMER LOAN PROGRAMS						
Name of Organization	Amount of Starbucks loans to Fund	Total number and value of loans made by Starbucks in fiscal 2006	Average loan size (per borrower) made from Starbucks capital in fiscal 2006	Purposes of loans made from Starbucks capital	# of farmers participating	Countries where borrowers of loans made by Starbucks capital live
Calvert Foundation	\$1 million loaned in fiscal 2004	6 loans valued at \$2.25 million*	\$371,000	Prefinancing of Fair Trade and organic coffee contracts	24,000	Mexico, Nicaragua, Peru
Verde Ventures, managed by Conservation International	\$2.5 million loaned in fiscal 2004	8 loans using Starbucks capital valued at \$2.12 million	\$265,000	Prefinancing of C.A.F.E. Practices or conservation coffee farms; working capital for the above coffee farmers	6,000 smallholder farmers participating in CI's Conservation Coffee Program sites, and applicants to C.A.F.E. Practices	Mexico, El Salvador, Guatemala, Indonesia, Peru
EcoLogic Finance	\$2.5 million loaned in fiscal 2004 \$2.5 million loaned in fiscal 2005 \$1 million loaned in fiscal 2006	63 loans using Starbucks capital valued at \$11 million*	\$175,000	Prefinancing of Fair Trade, organic and specialty coffee and cocoa contracts; capital investments for infrastructure	44,000 farmers from 58 various coffee and cocoa farming organizations	Bolivia, Honduras, Colombia, Indonesia, Costa Rica, Mexico, Nicaragua, East Timor, Peru, Ecuador, Rwanda, El Salvador, Tanzania, Ethiopia, Uganda, Guatemala
*Total exceeds amount of Starbucks loan because money is loaned, repaid and loaned again.						

## Investments in Coffee Communities

The majority of high-quality coffee is grown in remote communities of developing countries. These areas have historically faced a devastating range of social, environmental and economic challenges. At times, they have also been left in ruins by severe natural disasters.

Over the years, Starbucks has worked with coffee farmers, cooperatives, mills, exporters and local communities on various community improvements, which have included building schools, health clinics and other projects that strengthen the local infrastructure and benefit nearby residents. These investments are not only made through our philanthropic contributions, they are also funded in two other ways:

- Through premiums that we add to our coffee contracts, which provide additional funds for community projects.

- Financial awards given to farming communities that produce a specific coffee selected as part of Starbucks Black Apron Exclusives™ program. For each Black Apron Exclusives™ winner, Starbucks awards \$15,000 to use for a targeted project. In fiscal 2006, four coffees were selected as Black Apron Exclusives™ offerings, three from Africa and one from Indonesia.

The combined total of Starbucks investments in coffee-growing communities was \$2.7 million in fiscal 2006, which included \$1 million towards Tropical Storm Stan relief efforts. (See next page.) The funds were used to pay for 103 projects located in 11 countries, benefiting an estimated 545,000 local farmers, their families and community residents.

### *Tropical Storm Stan Relief Efforts*

In October 2005, Tropical Storm Stan struck parts of Mexico, Guatemala and El Salvador, including areas where coffee is grown. The storm caused flash floods, mudslides, damage to crops, and it claimed the lives of thousands. We responded to the immediate needs for humanitarian relief and longer-term rebuilding efforts. Within the first week following the storm, Starbucks coffee buyers and agronomists visited some of the affected areas where we buy coffee to make a human connection with local farmers and gain a better sense of long-term rebuilding needs. Starbucks was able to respond rapidly with \$1 million toward relief and rebuilding efforts in Mexico and Guatemala, which helped to fund 59 local projects and benefit an estimated 415,000 people.

To assist affected communities in El Salvador and Guatemala, Starbucks earmarked \$23,000 of the emergency funds we had contributed to CARE International earlier, and we also provided an additional \$250,000 via Mercy Corp for relief efforts in areas of Guatemala that were especially hard-hit.

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#### *My Starbucks -*

*The first two weeks following Tropical Storm Stan were very difficult for us. The Chanjul coffee farm was completely inaccessible after the storm's torrential rains had washed away the road. Now it has been fixed, thanks to Starbucks. Along with our neighbors, we are once again able to transport our coffee crops to the processing facility. While the monetary support you gave was of great help, we are more uplifted by the solidarity we experienced with Starbucks coffee buyers.*

*Marco Lucas  
Farm General Manager  
Chiapas, Mexico*

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### **AFRICAN HEARTLANDS COFFEE PROJECT**

The first phase of the African Heartlands Coffee Project, a collaboration between Starbucks and the African Wildlife Foundation (AWF), was launched in Kenya in January 2005. The three-year project is focused on helping farmers improve the quality and quantity of Kenya coffee, introducing sustainable growing and processing best practices as well as supporting wildlife and biodiversity conservation.

The three-year venture is being funded with a \$600,000 commitment from Starbucks, which included a contribution of \$187,000 to AWF in fiscal 2006. We believe the positive developments taking place in the two Kenyan coffee cooperatives participating in phase one of this project clearly reflect the hard work and dedication of coffee growers to embrace sustainable growing practices and higher quality standards.

Additional support for AWF's work in Kenya came from Starbucks UK. In fiscal 2006, Starbucks UK contributed approximately \$90,000 to AWF to help to fund the construction of an earth dam, revitalize a reforestation program and rehabilitate the Kihuyo Wildlife Fence. To engage partners in this effort, Starbucks UK created an Africa-themed photo contest, from which 10 UK Starbucks partners were selected to travel to Kenya in October 2006 and meet with local coffee farmers who are benefiting from the project.

## Sustainable Trade: Purchasing Our Non-Coffee Products

In 2003, we introduced Starbucks Supplier Code of Conduct, a values-based framework that guides our global purchasing decisions and supplier relationships. The Code of Conduct and supporting guidelines set forth our standards for human rights, social conditions and environmental responsibility. The Code applies to agriculture products (such as coffee, cocoa and tea) and manufactured goods and services. Through adherence to this Code, Starbucks and our suppliers seek to demonstrate our commitment to the welfare, economic improvement and sustainability of the people and places that produce our products and services.

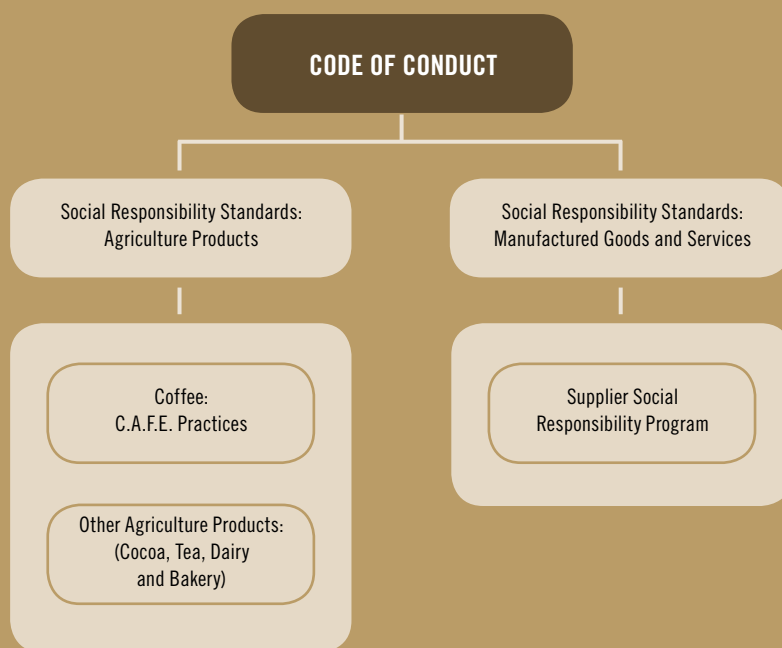
In the remaining pages of this section, we discuss our approach to sustainable trade and product quality. Specific topics include:

- Procurement Practices for Sustainable Agriculture
  - Responsible Cocoa Sourcing Program
  - Tazo Tea Sustainability Practices
  - Dairy and Bakery Products
- Starbucks Social Responsibility Standards for Manufactured Goods
- Ethos™ water
- Quality Assurance and Product Recall

### Starbucks Approach to Sustainable Trade

Our products are grown, produced and/or manufactured by a multitude of suppliers around the world. As our global supply chain operations expand and become increasingly complex, we recognize the importance of instituting an overarching framework that ensures ethical trading practices, increases transparency and continues to build a sustainable network of suppliers. Starbucks is working on many levels to implement such an approach.

Starbucks Supplier Code of Conduct articulates our core values and the expectations we have of our suppliers. The Code includes social responsibility standards for both agricultural products and for manufactured goods.





## Procurement Practices for Sustainable Agriculture

In addition to C.A.F.E. Practices, our coffee buying guidelines, Starbucks is working to develop sustainable purchasing guidelines for cocoa and may also develop guidelines for other products such as tea, paper and dairy.

### Responsible Cocoa Sourcing Program

Cocoa continues to be an important ingredient in many of the beverages and products we sell in our stores, including coffee beverages, bakery items and chocolate bars. We seek to ensure that the cocoa we buy has been produced and traded in an ethical, transparent and sustainable manner, and we are taking significant steps to ensure our supply chain is in line with our company's values.

Worldwide cocoa production for the 2005/2006 crop year was 7.7 billion pounds (3.5 billion kilograms), of which approximately 70 percent was produced in West Africa. In fiscal 2006, Starbucks purchased just over 15 million pounds (6.8 million kilograms) of processed cocoa from our suppliers, sourced primarily from the Ivory Coast.

In fiscal 2006 we launched Starbucks Socially Responsible Cocoa Sourcing (SSRC) Pilot Program in the Ivory Coast, with two established cocoa suppliers that included nine farmer cooperatives and hundreds of farmers. An initial set of general guidelines for transparency, working conditions and price premiums for cocoa farmers were developed for this pilot program.

During the first year of the pilot, Starbucks sourced 11 million pounds (5 million kilograms) of cocoa beans, in which we expect to have full price transparency throughout the supply chain – from the cocoa farm to Starbucks. This transparency data will be audited and validated by an independent third party to ensure farmers are receiving an equitable share of the sustainability premiums we pay.

### Cocoa Practices Sourcing Guidelines

Building upon the initial Socially Responsible Cocoa Sourcing Pilot, in September 2006 we completed a new draft of our Cocoa Practices Sourcing Guidelines (Cocoa Practices). Similar to C.A.F.E. Practices for coffee, Cocoa Practices provide guidelines for the cultivation and processing of cocoa in a manner that is environmentally sustainable, socially responsible, and promotes equitable relationships with farmers, workers and communities. We plan to launch Cocoa Practices in fiscal 2007 as a two-year pilot program, and move toward our longer-term plan to utilize the guidelines for all of our cocoa purchases.

### Access to Credit & Social Development Projects

In fiscal 2006, EcoLogic Finance provided \$400,000 in loans to three cocoa farming cooperatives. Starbucks provided the capital funds used for the loans. To further support cocoa growing communities in the future, Starbucks has authorized EcoLogic Finance to provide up to \$500,000 in affordable loans to cocoa farmers, drawing off the \$6 million in loan capital Starbucks already provided. We also amended our loan agreement with Conservation International's Verde Ventures, which will now allow up to 25 percent of the \$2.5 million in capital we provided to be loaned to cocoa farmers.

### Stakeholder Engagement

In September 2006 we hosted a stakeholder engagement session with suppliers, government agencies, non-governmental organizations (NGOs) and chocolate manufacturers to review the initial draft of the guidelines and obtain feedback. This feedback will be incorporated into Cocoa Practices prior to the pilot launch in 2007, and we will continue to consult with stakeholders as we move forward.

#### FUTURE GOALS

Our goals for fiscal 2007 include:

- Purchasing 22 million pounds (10 million kilograms) of cocoa beans from the Starbucks Socially Responsible Cocoa Sourcing Program.
- Completing independent audits and sharing results of the fiscal 2006 pilot.
- Rolling out Cocoa Practices Guidelines for use in the next crop year (2007-08)
- Delivering quarterly updates to cocoa stakeholders.
- Providing financial support for social development projects in cocoa growing communities in the Ivory Coast.

## Tazo® Tea – Sustainability Practices

Tazo Tea is one of several brands within Starbucks portfolio, and is sold in Starbucks stores, grocery stores and other retail outlets.

Global tea production in 2006 was 7.6 billion pounds (3.5 billion kilograms). In fiscal 2006, Tazo purchased 5.7 million pounds (2.6 million kilograms) of tea and botanicals from 25 countries.

In previous years we focused our sustainability reporting for Tazo on purchases of organic ingredients. Tazo has moved away from this singular focus on organic purchasing in order to pursue a more comprehensive sustainability strategy for our tea sourcing.

As part of this strategy, Tazo joined the Ethical Tea Partnership (ETP) to ensure the teas we purchase are produced in a socially responsible way. ETP is a unique, long-term ethical sourcing initiative, set up to work in partnership with producers to independently monitor living and working conditions in tea gardens. The organization also works to improve the working conditions in the tea industry.

Additionally, in fiscal 2006 we began purchasing some tea from smallholder tea growers in order to develop closer ties with tea-growing communities and help support smallholder farmers in and around the Himalayan foothills of Darjeeling, India. We worked in partnership with the Darjeeling Earth Group (DEG), a nonprofit organization focused on environmental and social issues, to collaborate with tea growers on better tea production and green leaf handling techniques.

Similar to Starbucks holistic approach to responsible coffee sourcing, Tazo combines its commitment to purchase responsibly grown tea with a social development strategy. At the center of Tazo's social development strategy is our Community Health and Advancement Initiative (CHAI), which we launched in conjunction with Mercy Corps in 2002, and which remains our way of giving back to the regions that produce Tazo® tea ingredients. Funding for CHAI comes from Tazo, its tea suppliers and Starbucks. Since 2003, nearly \$1.4 million has been contributed to the CHAI Project, including donations in fiscal 2006 of \$301,000 from Tazo and its suppliers, and \$100,000 from Starbucks.

Today CHAI is a partnership between Tazo, Mercy Corps, DEG, and the Assam Branch of the India Tea Association and is aimed at improving the lives of community members living in tea estates and neighboring communities. Working with local Community Action Groups, CHAI works to democratically identify and address common problems through a community mobilization process to improve the quality of life through health, economic development and youth initiatives.

During fiscal 2006, the CHAI Project expanded a pilot that originally began in 2005 in four cardamom-producing communities in Guatemala, and now encompasses nine communities. As a result of expanding the project, an additional 1,000 people have benefited.

In fiscal 2006 we laid the groundwork to expand the CHAI Project into the Assam region of India, an area where Tazo purchases tea. Next year, we plan to develop programs focused on income generation and education programs that help to improve economic opportunities for farmers and families living on tea estates in the region.

### FUTURE GOALS

Our goals for fiscal 2007 include:

- Completing development of a long-term strategy for Tazo's sustainable tea sourcing initiative.
- Developing a three-year strategic plan for the CHAI Project.
- Launching the CHAI Assam Project in four tea estates, and expand CHAI Guatemala to two additional villages.



## Dairy and Bakery Products

Dairy and bakery products comprise a significant part of our store operations. For all of our products, Starbucks upholds our high standards for quality and ensures our products are safe for consumption.

In response to some stakeholders' concerns about our dairy products and our own interest in developing a more sustainable approach to our dairy purchases, we recently evaluated the feasibility and implications of converting all core dairy products – fluid milk, half-and-half, whipping cream, and eggnog – to rBGH-free and changing our default milk standard for our beverages to 2% milk from whole milk. (rBGH is a synthetic growth hormone given to dairy cows to increase milk production.)

In fiscal 2006, we surveyed our current dairy suppliers to understand their cost structure and ability to deliver sufficient supplies of the highest quality certified organic and/or rBGH-free milk needed for Starbucks operations. We also met with stakeholders and dairy suppliers to discuss and learn more about rBGH and options for new products. As a result of these efforts, we are able to ensure that 37 percent of the core dairy products in our U.S. company-operated stores were rBGH-free as of January 2007.

### FUTURE GOALS

In fiscal 2007 we plan to:

- Require all core dairy products used in our handcrafted beverages to be rBGH-free. This requirement initially will take place in our U.S. company-operated stores.
- Conduct a market test in our U.S. company-operated stores and a small group of stores in Canada to assess the feasibility of making 2% milk the default for our beverages.

Starbucks has also been investigating options for using organic ingredients in some of our bakery products. Our efforts during fiscal 2006 included test marketing two 100 percent organic bakery items in more than 100 company-operated Starbucks stores in North America stores, and exploring opportunities to incorporate the use of sustainable wheat into our portfolio of bakery products.

## Stakeholder Engagement

In April 2006, Starbucks hosted stakeholders for a two-day "Dairy Summit." Our goals in hosting this session were to:

- Deepen Starbucks understanding of supply chain costs and performance related to rBGH-free milk.
- Discuss dairy industry innovations and supplier/industry capabilities as well as the health and nutrition impacts associated with dairy products.
- Build stronger connections to our dairy suppliers.

Attendees of this summit included Starbucks partners, representatives from Oregon Physicians for Social Responsibility, and several of Starbucks dairy suppliers. In addition, we met with the National Dairy Council in fiscal 2006 to discuss Starbucks existing sustainability programs, including C.A.F.E. Practices, as a first step to introduce and explore how sustainability applies to dairy, as well as consumer health and wellness. We are in the process of evaluating and/or rolling out new products as a result of this dialogue, and intend to continue consulting with many of these stakeholders going forward.

For more information on Starbucks health and wellness initiatives, please see the Health and Wellness section of this report beginning on page 49.

## Starbucks Social Responsibility Standards – Manufactured Goods

Starbucks purchases an increasing number of manufactured products that are sold in our stores or used in our business operations. With the aim to ensure these products are produced without harm to workers or the environment, in fiscal 2006 we created a new internal organization – Sustainable Procurement Practices (SPP) – focused on socially responsible procurement practices, the Supplier Social Responsibility Program and Supplier Diversity.

Initially launched in 2005, the Supplier Social Responsibility Program aims to integrate responsible procurement practices throughout Starbucks global supply chain for manufactured goods by June 2010. This will help ensure supply chain transparency, encourage a shared responsibility between Starbucks buyers and suppliers, and support sound purchasing decisions through a system of standards, tools and factory assessments.

In fiscal 2006, we advanced our work in responsible sourcing for manufactured goods by developing an enhanced set of factory standards, creating tools for monitoring and compliance, and initiating a pilot test of 10 factories in China. Our Supplier Social Responsibility Standards (SSR) for factories include requirements for worker health and safety, worker treatment and rights, worker hours and compensation, transparency and environmental protection. Rather than seek short-term remedies for issues that may arise, Starbucks stresses the importance of continuous, measurable improvement among our suppliers.

Additional progress made this year includes:

- Development of new Zero Tolerance Standards to designate critical non-negotiable behaviors for suppliers of manufactured goods, including lack of transparency, denied access, child labor, forced labor, nonpayment of wages and physical/sexual abuse.
- Development of and testing of processes and tools to implement the SSR Standards. These include factory assessment forms, an SSR Standards Manual and other resources.
- Training of our internal buyers on the SSR guidelines, standards and tools.

### FUTURE GOALS

Our goals for fiscal 2007 include:

- Selecting factory monitoring firms to conduct independent assessments.
- Rolling out the Supplier Social Responsibility (SSR) Standards.
- Assessing all new factories and systematically assessing existing factories.
- Conducting three factory training sessions for an estimated 60 factories.
- Verifying and reporting on our factory base/supply chain for manufactured products.

### KEY SUPPLIER SOCIAL RESPONSIBILITY PROGRAM POLICIES

1. **Code of Conduct** – overarching business standards and practices
2. **Standards for Manufactured Goods & Services** – specific guidelines that incorporate applicable laws, codes and regulations
3. **Zero Tolerance Standards** – non-negotiable standards for being a Starbucks supplier

## Ethos™ Water

Starbucks acquired the Ethos Water brand in April 2005 and began selling Ethos™ bottled water in our U.S. company-operated stores that same year. As part of this acquisition, we began exploring the range of issues associated with bottled water.

In November 2005 Starbucks hosted a Water Stakeholders' Summit, moderated by Business for Social Responsibility (BSR), in order to learn more about stakeholder concerns related to Starbucks use of water resources throughout our business, sourcing and packaging for Ethos™ water, The Starbucks Foundation's investments in humanitarian water projects resulting from the sale of Ethos™ water, and other water-related issues and topics. For information on Starbucks and The Starbucks Foundation's commitment to providing clean water for children, please see pages 41 and 47, respectively.

Encouraged by this stakeholder discussion, in 2006 we focused our efforts on developing a set of responsible sourcing protocols for Ethos™ water. Quickly recognizing that, to date, there is no one single standard for responsible sourcing of spring water, we consulted with a number of industry and environmental experts to further understand the issues, and to develop a strategy to guide our current and future water sourcing plans.\*

The result of this work is a responsible water sourcing protocol designed to ensure that we purchase the highest quality bottled water product, sourced in an environmentally and socially responsible manner. The protocol includes provisions for a variety of crucial sourcing concerns and specific legal issues, such as the appropriate definitions of spring water; transportation impacts; sustainable yield assessment to better understand existing water uses (by animals, plants and communities); bottling issues; and community impacts and engagement.

Following initial development, we reviewed and refined the protocol with our stakeholders and utilized it to audit our existing water sources. Moving forward, we intend to use this protocol as a tool to monitor our existing sites and to qualify additional sources for Ethos™ water. Starbucks will also continue to engage in dialogue with our stakeholders.

*\*Ethos™ water is currently sourced from two natural spring sources – Baxter Springs in the Sierra Nevada Range in Northern California, and Tomhicken Springs in the Pocono Valley in northeastern Pennsylvania.*

## Ethos™ Water Voluntary Product Withdrawal

Starbucks is deeply committed to the health and safety of our customers and partners, and to delivering high-quality products. If a concern arises regarding the safety or quality of one of our products, Starbucks is committed to taking appropriate measures and immediate action. One recent example of Starbucks swift response related to an issue that involved Ethos™ water.

In December 2005, it was discovered that one of the suppliers that Starbucks was using at the time to bottle Ethos™ water was out of regulatory compliance for levels of bromate. Bromate is formed from bromide – naturally occurring minerals found in some spring waters – during the purification process.

Upon learning of this issue, Starbucks contacted the FDA and initiated a voluntary product withdrawal for Ethos™ water sold in 14 Western states. Supplies of Ethos™ water on the East Coast of the U.S. were not affected because we utilize a different supplier for this region.

As a result of the recall, West Coast production of Ethos™ water was immediately halted, and the impacted inventory in our stores, warehouses and other retail outlets was destroyed. Starbucks temporarily supplied our Western U.S. stores with Ethos™ water from our East Coast bottler while we located a new source for the West Coast. Using our new water sourcing protocol as a guide, we have qualified a new supplier that we believe can consistently meet our quality standards and sustainable sourcing criteria.

## Quality Assurance and Product Recalls

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

Our commitment to product safety means that we not only comply with government regulations and operate with full transparency in our QA processes, but ultimately, we seek to do the right thing – for customers, partners and the environment – going above and beyond basic regulations whenever possible and appropriate.

Several years ago we formed an internal “Product Incident Team,” comprised of representatives from QA, Legal, Operations and Communications in order to provide additional monitoring of product quality. The team is tasked with weekly review of product performance information, customer and partner feedback, and other product usage information in order to proactively assess any potential issues. Should a product quality, failure or safety issue arise, an extensive response system, including communications and operational components, is rapidly implemented.

Despite having extensive QA controls, certain unforeseen situations can arise, making a product recall necessary in order to bring a product into government compliance and/or to ensure the health and safety of partners and customers. In Starbucks 35-year history, we’ve had only a handful of incidents that warranted a product recall, and in each situation we took a proactive and universal approach to rectifying the situation and maintaining customer trust and loyalty. In fiscal 2006 we conducted a rapid and voluntary withdrawal of Ethos™ water as a result of quality issues, explained in more detail on the previous page.

## STARBUCKS GROWTH AND COMMUNITY IMPACTS

**In an era of increasing globalization, when communities around the world are striving to preserve their cultural uniqueness, one might assume that a large, global coffee company is out of touch with the needs of individual communities or its individual customers.**

**This assumption runs contrary to what we believe at Starbucks. We do, however, recognize that Starbucks continued success depends greatly on our ability to operate our individual stores much like a small, local business does – by building lasting, personal relationships with our customers and neighbors. It also means honoring the intent of Starbucks Guiding Principles by contributing positively to our communities.**

Throughout this section, we discuss Starbucks role in our society and the relationships we have with our communities and customers. Specifically, we address:

- Starbucks growth
- Starbucks community investments
- Investing in communities around the world
- The Starbucks Foundation
- Starbucks commitment to health and wellness
- Being responsive to our customers
- Public policy and government affairs

## Starbucks Growth

To realize our ambitions for Starbucks long-term growth, we work to gain the support of local communities to open new stores and operate our business. This comes down to how well Starbucks is regarded as an enterprise that adds value to local communities. When Starbucks is viewed as stimulating local economic development, providing an inviting gathering place for residents, and supporting neighborhood interests, we are almost always welcomed in.

Occasionally, Starbucks entry into some areas raises concerns among local residents. Our approach is to engage openly and directly in the hope of resolving concerns before or as they arise.

Over the next few pages, we examine some of the specific issues related to Starbucks growth, explain our perspective, and share what Starbucks is doing to be a responsible neighbor. Some of the topics discussed below are:

- Continuing marketplace evolution
- Operating in the global community
- Being respectful of community concerns
- Being locally relevant
- Supporting local communities and economic development

### Store Growth

In fiscal 2006, Starbucks opened 2,199 new stores, bringing the worldwide total to 12,440 locations. We expect to add as many as 2,400 new locations next year.

In October 2006, Starbucks announced plans to increase the company's long-term store target from 30,000 to 40,000 locations worldwide, more than tripling the company's current store base. We envision having approximately 20,000 locations in the U.S., and another 20,000 locations outside the U.S. someday.

## Continuing Marketplace Evolution

Over the past several decades, the marketplace has become increasingly more competitive and global in nature. Large retail companies entering the market offer the most visible signs of this trend through the replication of their successful store concepts within and beyond their national borders. This is also true for Starbucks.

A common misperception is that large global brand retailers and small, independent retailers cannot coexist. The coffee retailer market offers an example of such coexistence. Coinciding with Starbucks growth has been a steady growth of small, independent coffee shops throughout the U.S. This would suggest continuing synergy between the growth of Starbucks and that of smaller coffee retailers. Starbucks has long believed that coffee consumers have a wide variety of needs and preferences, and, in turn, their demands support a very diverse range of coffee retailers.

From the beginning, Starbucks has played an integral part in creating an industry for gourmet coffee. This growth of the specialty coffee industry has, in turn, created opportunities for competing coffee businesses that similarly cater to the increasingly sophisticated consumer palate for specialty coffees. As Starbucks has grown, so has the industry, all of which has benefited coffee consumers.

## Operating in the Global Community

In our efforts to extend Starbucks presence to markets beyond the U.S., we have been introduced to a multitude of new places, each one uniquely characterized by its history, culture, sense of community and natural environment. We have also been introduced to and welcomed by millions of enthusiastic customers. Overall, our experience of doing business throughout the world has been overwhelmingly positive.

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

## Being Respectful of Community Concerns

The growing presence of global brand retailers has heightened awareness about the level of homogeneity in the marketplace. Some local citizens are opposed to national retailers entering their communities, suspicious that these retailers will force out small independents by driving up commercial rents or affecting the unique complexion of their neighborhoods. On occasion Starbucks has encountered community opposition, although it is far more typical for us to receive a warm and enthusiastic welcome when opening in a new area.

We make every effort to understand the underlying issues related to these situations and work collaboratively and respectfully with local citizen groups. Looking for ways to leverage Starbucks economic impact – jobs, support for community-based organizations, use of local vendors and suppliers – is one approach we take. Another is to determine how Starbucks can contribute to the local character of an area and minimize any undesirable impacts.

Many factors are weighed when considering a specific location to site a new Starbucks, focusing the end goal on being able to serve our loyal customers in a welcoming environment. However, if after thoughtful review we determine that Starbucks is not a good fit for a particular locale, we may choose to respectfully withdraw our plans to open a new store. There have been several instances in the past when we have elected to do this.

On the next page we report on three experiences we recently had in California, New York City and London.



## Local Community Case Studies

### ***La Mesa, California***

When some members of the community learned of our plans to open a new store in the heart of La Mesa Village, they expressed concern that Starbucks arrival might erode competition and change the unique character of this area. La Mesa Village, the city's oldest, most established shopping district, is surrounded by many historic buildings that date back to 1912, the year this city was incorporated in San Diego County.

Some residents welcomed Starbucks presence, while others who were more apprehensive registered their concerns with local civic leaders and the mayor's office.

We believe a situation such as this can only be resolved when a climate of mutual respect and trust exists. We took this to heart in La Mesa and reached out to the mayor, affiliated with the local merchant association and looked for other ways to become immersed and invested in the overall success of La Mesa Village. Starbucks also identified opportunities to support important events that helped to strengthen our connection to the local community, which we had been a part of since opening our first store in the area in 1995.

As a result of these efforts, tensions softened and there was a notable turn in acceptance. To celebrate the opening of Starbucks new store, we held an event that was attended by representatives from the City of La Mesa, members of the La Mesa Merchants Association and many local neighbors.

### ***New York City – Astor Place***

When Starbucks began planning to make some much needed repairs and improvements to the atrium area of the historic Astor Place building, local residents wanted assurance that Starbucks would be respectful of this 160-year-old landmark structure as well as the distinctive character of the surrounding community. The atrium offers ample seating space, which many customers of Starbucks Astor Place store enjoy.

Many longstanding structures, such as Astor Place, are architectural treasures that connect residents to their local history and add charm and character to their neighborhoods. In the case of Astor Place, we wanted local residents to understand Starbucks commitment to their neighborhood and our intent to preserve this mixed-use building that holds a commanding view of the immediate area.

Due to our delay in renewing our local business license, and the community's overall concerns about the needed repairs to the atrium, our permit to use the atrium space was threatened. We resolved this matter in a positive manner by working with a local council member, area residents, city employees and the Landmark Preservation Commission to find a suitable process that would ensure the preservation of this beloved site.

Through our engagement with the community, we were able to dispel some misinformation that had previously been reported, and share our desire to work together on a common goal. Because Starbucks had been operating in this location for some time, this process also helped to strengthen our existing relationships in the community and set the course for ongoing engagement.

### ***London – Bloomsbury District***

The occasional opposition to Starbucks has not only been isolated to specific communities in the U.S. In 2006 we experienced an incident in London when some local citizens signed petitions in an effort to keep Starbucks from opening a store on Lamb's Conduit Street in the Bloomsbury district. The resulting media coverage focused largely on the influence certain celebrities had in galvanizing the community's opposition to this new Starbucks.

Since opening in August 2006, our store partners have sought to establish relationships with neighboring businesses and community organizations, and looked for opportunities to support local causes. While some community members have chosen not to frequent this new Starbucks store, others have become our customers. Starbucks is committed to building strong ties to this community and continually looking for ways we can contribute to the thriving life on Lamb's Conduit Street.

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### *My Starbucks –*

*Through its work with local preservationists, Starbucks demonstrates how a national retailer can be a good neighbor by helping to preserve community character instead of destroying it.*

*–Richard Moe, president, National Trust for Historic Preservation*

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## Being Locally Relevant

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

In the UK, Starbucks has an initiative aimed at incorporating features that make our stores relevant to the local communities. For example, in Manchester, England, we have purchased several items for our local stores from Benchmark Furniture Design, a local maker of wood furnishings with a social mission.

Some of our stores in the U.S. are also adapted with a local flair. For instance, instead of building a new store in Chicago's Beverly neighborhood, Starbucks refurbished an existing limestone building and preserved many of the original features, including a distinctive fireplace mantel which we designed to be a focal point of our new store.

## Supporting Local Communities and Economic Development

Whether it's an existing location or we are entering a neighborhood for the first time, an important way we ensure strong ties to the community is through our support of local programs and causes. This takes a variety of paths, including our ongoing support for community-based organizations; encouraging our partners to actively volunteer; establishing alliances with nonprofit organizations; and other local engagement activities.

In addition to this type of support, Starbucks has been a catalyst for local economic development. Since 1998, Starbucks has had a joint venture with Johnson Development Corporation, a company owned by Earvin "Magic" Johnson, through Urban Coffee Opportunities, LLC (UCO). The goal of UCO is to bring Starbucks stores to diverse local communities in the U.S. At the end of fiscal 2006, there were 102 UCO stores in operation.

As the name suggests, UCO focuses on creating opportunities for communities that may have been overlooked by other prominent retailers, despite their long-term potential for economic vitality. At times, Starbucks has been the first premium brand retailer to site a store in a certain area, a presence that has helped to serve as an economic stimulus with the creation of new jobs, use of local suppliers, and by attracting other major retailers to the neighborhood. (For more information on UCO, please see page 75)

### *Building Civic Alliances*

In fiscal 2006, Starbucks worked closely with civic organizations that helped us better understand the opportunities, concerns and challenges faced by our local communities, including the U.S. Conference of Mayors and the National Trust for Historic Preservation – Main Street Center.

These relationships have been mutually beneficial. Not only have we forged closer connections to our communities through these civic relationships, we have also been able to educate the public about Starbucks brand and the value we bring to local municipalities, and gain a broader range of insights and feedback at the civic level. We believe these organizations have benefited from Starbucks support of issues that are important to their constituents. Historic preservation, the environment, infrastructure, jobs and urban revitalization are just a few of the issues we collectively address through these alliances.

In the following pages, we explain how Starbucks is investing in our local communities in the U.S. and our international markets.



## Starbucks Community Investments

Starbucks seeks opportunities to contribute positively wherever we have a presence. At any given time, we may be funding a water purification system in Indonesia; contributing to the rebuilding of a library damaged by a natural disaster; or helping to establish a new high school in a rural coffee-growing village.

The specific topics we discuss include:

- Our overall approach to community investments
- Investing in local communities
  - Promoting the need for clean water
  - Rebuilding communities struck by natural disaster
  - Starbucks partners – supporting their communities
  - Localized initiatives
- Investing in communities around the world
  - Investing in coffee- and tea-growing communities
- The Starbucks Foundation

Our approach to community investments has been shaped by our increasingly global presence. After thoughtful discourse – internally and with external stakeholders – Starbucks decided in fiscal 2006 to begin focusing a significant portion of our community investments on two universally important issues: education and access to clean water. These two complex yet critical issues complement Starbucks core values and our strategic direction. We also believe that by focusing and aligning the giving priorities of Starbucks Coffee Company and The Starbucks Foundation, Starbucks contributions will have greater impact and provide more benefit to communities around the world.

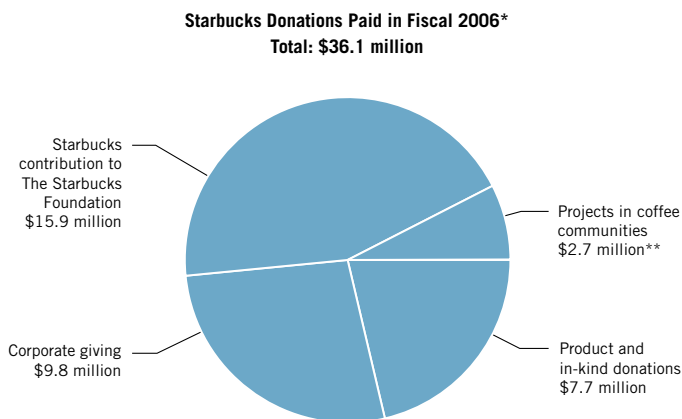
Given the complex nature of the issues we address, our giving is done in a number of ways and through various channels. These include:

- Cash contributions made at the corporate, regional and local level
- In-kind donations of Starbucks products and resources
- Partner (employee) volunteer and gift-matching programs
- Contributing funds to The Starbucks Foundation for its grant-making efforts
- Adding premiums to some of our coffee contracts to fund community projects
- Encouraging customer charitable donations

We recognize that our focused approach to community investments needs to remain flexible so we can be responsive to emergent needs in the areas where we have a local presence. This was certainly the direction we took in fiscal 2006, by targeting our giving in the following ways:

- Launched a campaign to call attention to the global water crisis and provided funds to address critical water, sanitation and hygiene programs in regions of Ethiopia and Indonesia.
- Provided ongoing assistance for rebuilding efforts in U.S. Gulf Coast communities affected by Hurricane Katrina.
- Supported locally relevant education programs in communities where we do business.
- Contributed to the local nonprofits that our partners personally support with their contributions of time and money.
- Invested in projects that benefit coffee- and tea-growing communities.

In fiscal 2006, Starbucks cash and in-kind contributions were valued at \$36.1 million, or four percent of the company's earnings before income tax. (See pie chart below.)



*\*This chart represents grants and product donations paid by Starbucks Coffee Company during fiscal 2006. These numbers differ from grant expenses recorded in our consolidated financial statements, which are shown on an accrual basis as required by generally accepted accounting principles (GAAP) in the U.S.*

*\*\*Represents the total amount Starbucks paid through some coffee contracts to fund various projects to improve coffee-growing communities.*

## Investing in Local Communities

Starbucks long tradition of supporting important and locally relevant causes got its start in the U.S., although today our giving extends to communities around the world – especially in places where we have a strong and growing presence.

Below we provide several tangible examples of community investments Starbucks made in fiscal 2006, beginning with descriptions of our U.S. initiatives and our support for disaster relief; followed by a section highlighting our local community efforts in some of our international markets.

### Promoting the Need for Clean Water

In recognition of World Water Day, a UN day of observance, on March 22, 2006, Starbucks launched a multiyear effort to call attention to one of the most significant public issues in the world. More than one billion people globally lack access to clean, safe drinking water. The public health effects associated with this global water crisis are enormous, including the death of an estimated 1.8 million children each year from preventable waterborne illnesses.\*

Solving the problem will take a concerted global effort and resources from many different sources. Our goal is to leverage Starbucks unique culture and global presence to make a difference. Raising awareness with our partners and customers about the world water crisis – and what we all can do to address it – is a first step. In fiscal 2006, we:

- Sponsored World Water Day walks in eleven U.S. cities to symbolize the difficult average three-mile daily walk that women and children in developing countries often make to get drinking water for their families.
- Launched a World Water Day website, [www.worldwaterday2006.org](http://www.worldwaterday2006.org), to inform and mobilize the public about the issue.
- Encouraged nearly 4,000 partners and individuals representing NGOs to participate in World Water Day Walks for Water in cities around the country and on a “Virtual Walk for Water” online.

For information about The Starbucks Foundation’s international initiatives to bring reliable and clean water to communities in Ethiopia and Indonesia, see page 47.

\*Human Development Report 2006 from the United Nations Development Programme

## Rebuilding Communities Struck by Natural Disasters

Starbucks has been quick to respond to and provide assistance to local communities devastated by natural disasters in several regions around the world. This includes our relief efforts for communities along the U.S. Gulf Coast, and areas affected by the tsunami in South Asia and the earthquake in Indonesia. Starbucks also provided support to coffee-growing communities in Central America affected by Tropical Storm Stan. Our response to Tropical Storm Stan is described on page 28.

### Hurricane Katrina

In September 2005, following Hurricane Katrina, Starbucks made a \$5 million commitment, funded by both Starbucks and The Starbucks Foundation, to support the region. This commitment included an immediate \$1 million donation that Starbucks made to the American Red Cross for emergency relief services.

The remaining funds will be used for the ongoing rebuilding of local Gulf Coast communities that are still recovering from the overwhelming damage caused by this hurricane.

As part of our initial \$5 million commitment, Starbucks pledged a portion of revenues generated by the CD *I Believe to My Soul* for the rebuilding efforts. Ten dollars of the purchase price of every copy sold in Starbucks company-operated stores in the U.S. and Canada is donated to aid in the Gulf Coast’s recovery. Donations are made to the American Red Cross and the Canadian Red Cross and will continue for the lifetime of the CD. To date, more than \$315,000 has been raised through the sale of *I Believe to My Soul*.

To learn how The Starbucks Foundation is addressing the restoration of communities in the U.S. Gulf Coast, please see page 46.

### ***South Asia Tsunami Communities***

As part of our ongoing work with CARE International, a leading humanitarian organization fighting global poverty, Starbucks provided \$50,000 to CARE in fiscal 2006 to support the restoration of areas in South Asia where the needs are greatest. With Starbucks support, CARE has been able to:

- Develop innovative and local technology to improve water and sanitation devices in CARE-constructed houses.
- Organize trainings and provide materials that have helped 16,000 people find a range of ways to earn an income, including: tailoring, carpentry, cooking, fishing and small shops.
- Conduct three-day trainings on maternal and child health issues for 245 health workers. Each month, approximately 2,500 women are screened for malnutrition and provided with supplements.

For a complete picture of CARE and its work in South Asia, see [www.care.org](http://www.care.org).

### ***Indonesia Earthquake***

Starbucks Asia Pacific business established The Starbucks Indonesia Earthquake Fund as part of a fundraising effort aimed at helping our partners and others in need who were recovering from this natural disaster. Starbucks Japan contributed to the earthquake relief efforts by initiating a donation program in conjunction with Starbucks Coffee International and Starbucks Coffee Asia Pacific. Funds raised through the sales of Indonesian whole bean coffee during June 2006, approximately \$17,800 (¥2,100,149), were contributed to Japan's chapter of CARE International.

### **Starbucks Partners – Supporting Their Local Communities**

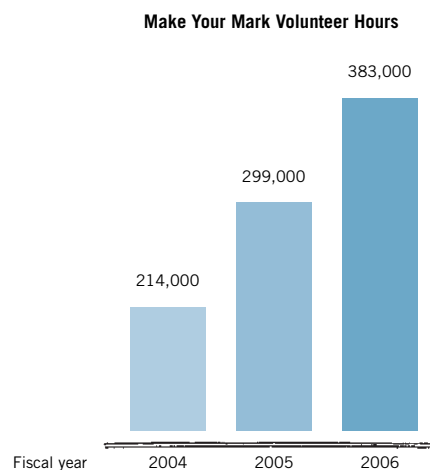
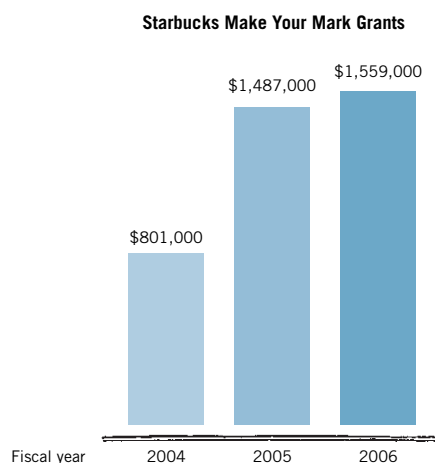
Our partners have repeatedly demonstrated a strong desire to engage in their communities, and Starbucks is proud to encourage and support their efforts. The following two programs are unique to the U.S. and Canada, although our international partners are involved in their communities in many similar forms.

#### ***Make Your Mark Volunteer Program***

Starbucks volunteer program – Make Your Mark (MYM) – was introduced six years ago in the U.S. and Canada as a way to encourage and support our partners' (employees) volunteer efforts. Through MYM, Starbucks matches our partners' volunteer efforts by donating \$10 for every hour volunteered to the designated nonprofit organization, up to \$1,000 per project.

If our partners enlist the help of customers, Starbucks matches their volunteer hours, too. Since its inception, MYM has inspired our U.S. and Canadian partners and customers to volunteer more than one million hours for thousands of local community organizations. That's equivalent to about 480 people working full-time for one year. (See graphs below.)

To learn about The Starbucks Foundation's special Make Your Mark program to support partners' exceptional community efforts in the U.S. Gulf Coast region, see page 46.



### ***Choose to Give! Gift Matching Program***

Starbucks also encourages our U.S. and Canadian partners to make their own charitable gifts with support from the company's gift-matching program, Choose to Give! Starbucks matches our partners' charitable gifts, dollar-for-dollar, up to \$1,000 annually. In fiscal 2006, 3,800 of our partners' charitable contributions were matched by Starbucks with \$677,000.

### **Localized Initiatives**

In addition to our national community initiatives in the U.S., Starbucks looks for opportunities to contribute at the local level in meaningful ways. Based on our belief that communities greatly benefit when grants are combined with volunteerism, we often direct our local community investments to the organizations where our partners are actively involved. In other cases, Starbucks supports causes that are locally relevant and contribute in a meaningful way to enhancing community life.

Examples of our localized initiatives include the Starbucks California Giving Program ([www.starbucksca.giving.com](http://www.starbucksca.giving.com)), which awards grants annually to eligible community-based nonprofit programs that allow children an opportunity to grow and flourish. The other is Starbucks Neighborhood Parks Program ([www.starbuckslovesparks.com](http://www.starbuckslovesparks.com)), an initiative designed to help improve local area parks in the Greater Seattle area, Starbucks hometown. With our localized initiatives, our partners' involvement is a key component, and strongly encouraged.

### **NAACP STRATEGIC ALLIANCE**

In May 2006, Starbucks announced a five-year, \$2.5 million commitment of both cash and in-kind donations to the National Association for the Advancement of Colored People (NAACP), the oldest and largest civil rights organization in the U.S. This strategic alliance will enable Starbucks and the NAACP to support programs and activities reflecting our shared commitment to social and economic equality. The NAACP and Starbucks will work together on an annual basis to identify programs that will receive funding through Starbucks donations.

## Investing in Communities Around the World

In our international markets, there are countless examples of how Starbucks supports local communities through philanthropy, partner engagement and by opening our doors for community events. While our international community efforts support many causes and often follow the lead of our partners' interests, we are beginning to focus more of our efforts on support of educational and water-related initiatives that improve the lives of children. Below are some examples that represent our activities in fiscal 2006:

### Greater China

- **Mainland China** – Since the opening of our first store in Beijing in 1999, partners have been involved in community initiatives, from volunteering in local schools to assisting other educational nonprofit organizations.
- **Hong Kong/Macau** – We facilitated a customer toy and book drive for Operation Santa Claus, an annual fundraising effort held every December in support of small charities in urgent need of support.
- **Taiwan** – Starbucks Taiwan continued its long-term support of aboriginal children through World Vision Taiwan, in addition to sponsoring an environmental awareness campaign and a community cleanup.

### Asia Pacific

- **Thailand** – On Earth Day, Starbucks Thailand held a “Green Up” workshop at a central park in Bangkok for customers and partners. Workshop participants learned how to minimize their environmental footprint and planted new trees in Rot Fai Park.
- **Japan** – Starbucks Japan, in collaboration with Major League Baseball, donated \$248,500 (¥28.7 million) to four agencies that enhance the lives of children in Japan, Ethiopia and Indonesia. Revenues for the donations were raised through sales of a Starbucks Card featuring Ichiro, a famous Japanese baseball player who plays for the Seattle Mariners. The Cards were sold in all Starbucks Japan stores.

### Europe/Middle East/Africa (EMEA)

- **The UK** – Starbucks partners have worked with the National Literacy Trust for six years to develop All Books for Children, a program that introduces preschool children and their families to the benefits of libraries and reading. Hundreds of Starbucks partners have been involved with the program since its inception. For the second year in a row, UK partners were honored for their outstanding efforts in support of literacy with a prestigious award from Business in the Community, a movement that encourages positive civic engagement by businesses.

UK partners also supported an African Wildlife Foundation (AWF) program in Kenya. AWF is working to improve the accessibility and reliability of water and bring other basic improvements to a Kenyan coffee-growing community. Ten UK partners traveled to Kenya in October 2006 to meet with local coffee farmers who have benefited from the project and learn about the other work of AWF.

- **Germany** – Literacy was the focus of our partners in Germany who participated in a nationwide Read-Out Day in November 2005 in cooperation with the German Literacy Trust Organization and *Die Zeit*, a nationwide weekly newspaper. Twenty-four Starbucks stores hosted reading sessions for children.
- **Greece** – Our partners in Greece have continued to support SOS Children's Villages and prioritize children's health and welfare in their community efforts. In fiscal 2006, partners lent their support to several programs for orphaned children. They also helped create libraries and playrooms for children hospitalized in four state-run organizations.
- **Spain** – Our partners organized an in-store children's book drive during the holiday season in fiscal 2006. Many of our customers donated books, bringing the total to 1,475 books collected. The books were then donated to several different Children's Hospitals.
- **Turkey** – Our partners in Turkey identified education as an important issue in their communities, due to the young age of the Turkish population (65 percent are below 18 years of age). Working with the Ministry of Education, each new Starbucks location identifies a local school to work with. Partners commit personal time to support events such as parties, fund raising and gift giving as well as organizing day trips for the children to theatres and museums. They have found that the trips can be a once-in-a-lifetime experience for some of the children, and this fact alone has a positive effect on the satisfaction our partners feel from being involved. As of May 2006, there were 40 schools involved in the program, with an average of 1,000 students each, including two schools that serve students who are deaf.

## Canada

Starbucks Coffee Canada is dedicated to supporting family literacy by working with a variety of national and local literacy organizations. In fiscal 2006, we partnered with the ABC Canada Literacy Foundation to launch Gift of Words (GOW), a national program to address funding shortages in schools, libraries and literacy organizations. GOW will provide children with access to books and one-on-one reading opportunities to encourage their development as lifelong readers and learners. In its first year GOW delivered thousands of books to children across Canada, and more than 69,800 children gained access to new or improved reading circles.

Starbucks Canada donated \$264,000 (CAD\$305,000), which represented the full proceeds of latte sales in all Canadian Starbucks stores on January 19, 2006, to Gift of Words and Frontier College, another national literacy organization.

## Latin America

- **Mexico** – Until recently, there was no high school in the rural province of Nuevo Paraiso in Chiapas, Mexico, an area that is home to many coffee farming families. Attending high school – or taking any class beyond primary school – meant leaving the province and relocating miles away. When the coffee cooperative Comon Yaj Nop Tic looked into building a regional high school, Tecnológico de Monterrey, a private college, offered to install a virtual education program, transmitted via satellite to a central location in the province.

After six months of combined effort by the cooperative, Starbucks and many community members, as well as \$10,000 in financial support from Starbucks, a Community Learning Center was built and opened in June 2006. The Center, which now serves 150 coffee farming families and others from five neighboring communities, provides access to a virtual high school and post-graduate programs, as well as family development and health programs. Permanent instructors staff the Learning Center under the supervision of Instituto Tecnológico y de Estudios Superiores de Monterrey. More than 50 students have registered for the 2006-2008 high school program. Other courses are being developed, including training on sustainable coffee production.

- **Chile** – Starbucks partners in Chile are dedicating their efforts to help children with serious medical issues participate in a special form of movement therapy known as hipotherapy. Starbucks partners worked twice a week with these children as they engaged in hipotherapy as a means to improve their balance and coordination. Starbucks Chile funded a scholarship to allow one child to receive the treatment in fiscal 2006, and will continue supporting the program in fiscal 2007 with an additional scholarship and partner support.

## Investing in Coffee- and Tea-Growing Communities

Starbucks recognizes the positive impact our trading relationships and our commitment to education and health issues can have on coffee- and tea-growing communities. Starbucks often works with nongovernmental organizations (NGOs) with required knowledge and expertise to ensure our efforts are effective.

In fiscal 2006, Starbucks continued to support the work of Conservation International, African Wildlife Foundation, CARE International, and Coffee Kids in the areas of biodiversity preservation, wildlife conservation, poverty alleviation and microlending, respectively. We also maintained our collaboration with Save the Children in Guatemala and our work with Mercy Corps in tea-growing communities.

For information about our investments in coffee- and tea-growing communities, see pages 27 and 31 respectively.

### SAVE THE CHILDREN

In 2005, Starbucks committed \$1.5 million over four years to bring bilingual education to 20 Mayan communities in the rural highlands of Guatemala, \$426,000 of which was contributed in fiscal 2006. Starbucks selected Save the Children USA, an international relief and development organization, to lead our Guatemala Education Initiative. Save the Children then successfully leveraged Starbucks support by securing \$600,000 in matching funds from the United States Agency for International Development (USAID) to bring additional educational benefits to rural Guatemala.

The Guatemala Education Initiative aims to provide quality preschool, primary and secondary education to rural indigenous children, with special emphasis on girls. Save the Children has developed bilingual programs sensitive to local social and cultural factors, with input from parents, education officials and community leaders.

In the first year of operation, Save the Children worked in 14 schools in 12 communities and established 14 preprimary centers. More than 50 teachers were trained and as many as 1,700 children are now participating in the new bilingual active learning programs. More information is available on the Save the Children website: [www.savethechildren.org/corporate/partners/starbucks.html](http://www.savethechildren.org/corporate/partners/starbucks.html)

Starbucks partners have supported the Guatemala Education Initiative enthusiastically. In fiscal 2006, partner support of the Guatemala Education Initiative provided funding to furnish two rural Guatemala schools with backpacks containing school supplies; school playgrounds; and other valuable supplemental support for the children.



## The Starbucks Foundation

Starbucks chairman Howard Schultz established The Starbucks Foundation in 1997 with a mission to create hope, discovery and opportunity in communities where Starbucks retail stores are located. Since that time, The Foundation has provided more than \$18 million in funding initially to literacy and youth education programs in underserved communities in the U.S. and Canada. More recently, The Foundation has broadened its approach to grant making.

The Starbucks Foundation, a 501(c)(3) charitable organization, receives the majority of its funding from Starbucks Corporation as well as some private donations. The Foundation, a separate entity from Starbucks Corporation, is governed by a board of directors comprised of 11 Starbucks senior executives and is chaired by Orin Smith, retired Starbucks president and chief executive officer.

In fiscal 2006, The Foundation made more than 200 grants to nonprofit organizations, totaling \$7 million.

The Starbucks Foundation is increasingly focusing more of its resources on education and addressing issues related to water. The Foundation seeks to align its giving with its core values and mission, and be responsive to emergent needs in communities where Starbucks has a presence. In fiscal 2006, The Foundation supported a variety of initiatives around the world, including:

- Rebuilding efforts in areas impacted by two significant natural disasters
- Projects aimed at improving access to water, sanitation and hygiene education
- Youth development programs in education, the arts and environmental education
- Continued support of key nonprofit partners that promote literacy
- Funding to establish The Starbucks China Education Project at Give2Asia

### FUTURE GOAL

The Starbucks Foundation will mark its 10-year anniversary in 2007. Both The Foundation and Starbucks Coffee Company will announce a global philanthropic framework focused on supporting educational initiatives in Starbucks retail markets around the world.

## Hurricane Katrina Rebuilding Efforts

In September 2005, following Hurricane Katrina, Starbucks made a \$5 million commitment, funded by both Starbucks and The Starbucks Foundation, to support the region. The Starbucks Foundation donated \$200,000 to immediate relief efforts following Katrina, including \$150,000 to Habitat for Humanity and \$50,000 to Jumpstart of New Orleans. The Jumpstart funds will be used to rebuild libraries and replace books, and the donation to Habitat for Humanity supported a musicians village project. The Starbucks Foundation has taken an innovative, community-based approach to helping the region recover from the hurricane disaster, including:

- Making grants of \$50,000 each to four community foundations to be used where the need was greatest.
- Setting up Donor Advised Funds totaling \$700,000 at three community foundations to take recommendations from partners (employees) for gifts of up to \$10,000 to grass-roots, neighborhood nonprofits.
- Instituting a Gulf Coast version of Make Your Mark to support our partners' extraordinary volunteerism in their communities. The Foundation donates \$25 for every hour that our partners volunteer their time to nonprofit organizations working to restore homes, lives and communities destroyed by Hurricane Katrina. To date, nearly \$17,000 has been granted to eight projects through Starbucks match of the volunteer hours of 86 individuals.

The Foundation will monitor rebuilding efforts in the region and work with community leaders to identify the areas of greatest need and determine how the reserved funds can best serve local communities.

### My Starbucks -

*Jerry Moran, store manager, and his fellow New Orleans partners have been instrumental in saving flood-damaged homes from the bulldozer. The City of New Orleans placed a deadline for homeowners to salvage and treat their sodden and often mold-infested homes.*

*The cost was prohibitive for many families in lower income neighborhoods.*

*So Jerry and his co-workers, along with others throughout the Gulf Coast region, teamed up with ACORN (The Association of Community Organizations for Reform Now) to help recover these homes through a combined 670-hour volunteer effort. The volunteers restored 11 homes in fiscal 2006, while raising an additional \$17,000 to support ACORN through donations from a special Gulf Coast version of Make Your Mark.*

## Ethos Water Fund and World Water Initiatives

Through the acquisition of the Ethos Water brand in April 2005, Starbucks embarked on an effort to raise awareness of the world water crisis and support clean water initiatives. For each bottle of Ethos™ water sold, five cents is donated toward Starbucks goal of contributing at least \$10 million by 2010 to help alleviate the world water crisis.

The Ethos Water Fund is housed within and directed by The Starbucks Foundation to support nonprofit and nongovernmental organizations working to bring clean water to those in need around the world. Funding priority is given to integrated and sustainable water projects that positively impact the lives of children and their communities.

On World Water Day 2006 The Starbucks Foundation announced two new multiyear initiatives to help communities in Indonesia and Ethiopia gain access to improved water, sanitation and hygiene education.

### ***Mercy Corps in Sumatra, Indonesia***

The Starbucks Foundation committed \$1 million over two years to support Mercy Corps' Sumatra Healthy Schools Program on Sumatra Island, Indonesia. In this region, the lack of potable water has helped fuel an anemia epidemic in young people, among other serious nutritional and health problems.

Mercy Corps has identified four interrelated program components to improve children's health by addressing the problem through 960 schools in four provinces. The Foundation's Ethos Water Fund is providing needed funds to address the water and sanitation components of the program in 760 schools.

For more information about the Sumatra Healthy Schools Program, see [www.ethoswater.com](http://www.ethoswater.com) and <http://indonesia.mercycorps.org>

### ***WaterAid in Ethiopia***

Menge Woreda is located in northwestern Ethiopia near the Sudan border. Surrounded by mountains, it is a remote and marginalized region of one of the poorest countries in the world.

Over a period of three years, beginning in 2005, WaterAid plans to provide all 22 villages in Menge Woreda with access to safe water, effective sanitation, and the hygiene education necessary to make the best use of these facilities. The Starbucks Foundation has committed \$1.13 million over three years to support this potentially life-changing project for the 38,000 residents of Menge Woreda. For more information about this project, see [www.ethoswater.com](http://www.ethoswater.com), or see [www.wateraid.org](http://www.wateraid.org) for more about WaterAid's work in Ethiopia.

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## *My Starbucks -*

*Sandy Nelson has been engaged in the world water crisis for the last five years. She and her husband, Chris, are actively involved with a Seattle-based international water organization and have seen firsthand how severe the water-access issues are in countries like Honduras, Ethiopia, Bangladesh and India. "To actually see children who are sick because their drinking water is contaminated changes one's values tremendously," Sandy says.*

*Sandy is a senior designer in the Starbucks Creative Group, so when Starbucks acquired Ethos Water in 2005 she was eager to bring her personal experience to help build the Ethos Water brand. The passion Sandy has for bringing safe water to those in desperate need is now helping to inform the design and communication of the Ethos Water mission.*

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## Supporting Youth: Arts and Literacy, Environmental Literacy

Through the *Giving Voice* grant program, The Starbucks Foundation promotes literacy for the 21st century. The regional grant program supports programming for youth ages 6-18. Priority is given to programs that integrate literacy skills with personal and civic action, and that empower youth to become local champions for a sustainable environment. In fiscal 2006, The Foundation awarded more than \$2 million in *Giving Voice* grants, ranging from \$5,000–\$20,000, to community-based organizations in the U.S. and Canada.

### City at Peace Award

In May 2006, City at Peace, an after-school program for teens in Los Angeles, honored The Starbucks Foundation and Starbucks partners for their support over the last three years. City at Peace was a fledgling organization in 2003 when, with the support of local Starbucks partners, the organization applied for a grant from The Starbucks Foundation. Today City at Peace is a dynamic youth development program that uses the performing arts to bring together teenagers from vastly diverse backgrounds to create personal and social change. The program supports, guides, instructs and nurtures youth leaders, corresponding perfectly with the goals of The Starbucks Foundation's *Giving Voice* grants.

### Key Partnerships

In fiscal 2006, The Foundation continued support of several national youth organizations in the U.S. and Canada – America SCORES and Jumpstart – and Earth Day Network, an environmental education organization.

### Jumpstart's Read for the Record

During August 2006, Starbucks supported Jumpstart's Read for the Record campaign to promote awareness of early learning and school readiness. The campaign raised national awareness of Jumpstart's successful approach to preparing young children to succeed in school, and achieved the following goals as well:

- An official Guinness World Record was set when adults across the U.S. read *The Little Engine That Could* to more than 150,000 children on August 24, 2006.
- In partnership with Jumpstart's corporate partners, Starbucks was the exclusive retailer and sold nearly 53,000 copies of a special edition of *The Little Engine That Could* in four weeks and donated the sales price of the books, totaling more than \$500,000 to Jumpstart.
- Starbucks stores hosted more than 330 reading events across the U.S., engaging thousands of partners and customers in Jumpstart's mission.
- Renewed interest in the classic children's book pushed it to first place on the New York Times Bestselling Children's Book list.

### Earth Day Network – National Civic Education Project

The Starbucks Foundation contributed \$75,000 in fiscal 2006 to launch Earth Day Network's new National Civic Education Project (NCEP). The Project recruits teachers and their students from diverse urban neighborhoods to combine civic and environmental education through a community environmental project of their choosing.

In its first year, the NCEP worked with three schools in Cincinnati and one in Washington, D.C. The project was particularly effective in Cincinnati where the teachers focused on greening schools and contributed greatly to the Board of Education's decision to adopt greener building practices. Student projects ranged from building a green roof on a school to raising awareness of the economic, educational and environmental benefits of green schools. The students presented their findings to the Board of Education, including such benefits as higher attendance and greater academic performance.

### THE STARBUCKS CHINA EDUCATION PROJECT

Starbucks first store in China opened in 1999 and ever since we have been working to simultaneously expand our store and community presence. At the heart of Starbucks social responsibility endeavors in China is the China Education Project. This project was created to support the emphasis that both China and Starbucks place on the importance of education. In 2005, The Starbucks Foundation pledged \$5 million over five years to establish the Starbucks China Education Project at Give2Asia, an organization dedicated to promoting philanthropy in Asia.

The Starbucks China Education Project is also overseen by a local steering committee in China, comprised of education experts, foundation and community representatives, and Starbucks executives. Working with this committee of local stakeholders helps ensure that Starbucks efforts are locally relevant and address the areas of greatest need in the rural communities targeted for assistance. Since the project was launched in 2005, the steering committee has been instrumental in shaping the overall direction and structure of the project.

The committee identified the need for quality teacher training as one of the top priorities to improve education. In China, many teachers in rural villages have little or no formal training. Almost always, they are the only teacher in their village so they must teach to all grade levels.

To help address this challenge, the Starbucks China Education Project is supporting the China Soong Ching Ling Foundation in an effort to provide training for teachers to improve their skills and offer financial assistance to financially disadvantaged students pursuing teaching careers in 15 universities in China.

At the first teacher training session held in July 2006, teachers were trained in the latest techniques and received materials to continue their education in their home villages. Other components of the program will offer:

- Training for school administrators
- Books, supplies and teaching tools

By 2010, the teacher-training program is expected to reach an estimated 3,000 teachers from nearly 1,000 primary and middle schools located in five western provinces.

More information about The Starbucks Foundation is available online at [www.starbucks.com/foundation](http://www.starbucks.com/foundation).

## STARBUCKS COMMITMENT TO HEALTH AND WELLNESS

**In 2004 the World Health Organization (WHO) introduced a major plan, calling attention to the growing worldwide epidemic of diseases attributed to poor diet, lack of exercise and obesity. Among them: heart disease, diabetes, cancer, osteoporosis and tooth decay – all of which have an impact on healthcare systems worldwide and overall quality of life. According to the WHO, obesity is not only a formidable problem in some Western countries, it is now becoming an issue in the developing world.**

As concern over this public health issue mounts, Starbucks has already implemented a number of health and wellness measures to offer more choices to our customers. These include:

- Expanding our menu offerings to include an array of options, and encouraging customization
- Providing nutrition information on our beverages and food products
- Reducing trans fats in our products
- Adopting a long-term and holistic approach to promote health and wellness

### Expanded and Customized Menu Offerings

Starbucks actively listens to what our customers tell us and continually adapts in response to their demands. In recent years our customers have requested a wider range of menu options from which to choose and customize. They have also asked for more nutrition information about Starbucks food and beverage products. This feedback, as well as feedback from nutrition experts, helped inform specific actions we took in fiscal 2006, including the formation of an internal team to focus on health and wellness initiatives. For example, this team is looking at nutritional criteria for future product development.

In addition, Starbucks will drive efforts aimed at providing a broader selection of product choices to our customers, on both a companywide and a regional basis. We will build on options currently offered, such as nonfat, organic and soy milk; sugar-free syrups used in some of Starbucks handcrafted beverages; reduced-fat and lowfat baked items; and lower fat and reduced calorie Frappuccino® blended beverages.

In fiscal 2006, Starbucks introduced several beverage and food items as part of our commitment to health and wellness. Here are some examples:

- Yogurt parfaits and fresh fruit salads were added to the menu in various stores.
- Prepackaged nut and dried fruit blends began being offered.
- Pomegranate and Tangerine Frappuccino® Juice Blends, which contain real fruit juice and are naturally fat-free, cholesterol-free, and completely non-dairy, were introduced. These lighter beverages can be customized with any Tazo® tea flavor, including caffeine-free options.

We encourage our customers to customize and create their favorite beverages exactly as they like – from lighter versions to indulgent splurges. In fiscal 2006, nearly 40 percent of the beverages consumed by our U.S. customers were ordered with fewer calories and less fat, such as coffee and tea.

## Nutrition Information on Starbucks Beverages and Fresh Food

We are committed to helping our customers make well-informed choices about Starbucks food and beverages by making nutrition information readily available. Our U.S., Canadian and UK customers can access nutrition information on Starbucks beverages via an in-store brochure. The information is also available on Starbucks.com.

In fiscal 2006, we enhanced our website to include nutrition information on all fresh food items offered at Starbucks stores in the U.S., the majority of which are regional offerings. Customers visiting the nutrition page on Starbucks website are prompted to enter their local zip code and then access nutrition information on specific fresh food items offered at their local Starbucks store.

Over the past three years, more than six million customers, nearly half of those in fiscal 2006, visited Starbucks.com for nutrition information. This indicates to us that Starbucks customers are taking personal responsibility to make their own well-informed choices.

## Addressing the Issue of Trans Fat

Starbucks has taken measures to reformulate our beverage ingredients in order to reduce trans fat content while still maintaining the taste and quality our customers enjoy. We are also working closely with our regional bakeries on efforts to reduce or eliminate trans fat content in our pastry items.

Some of our accomplishments in fiscal 2006 are listed below:

- Complied with the new labeling requirements for trans fats. This includes the labeling of our prepackaged foods and posting information about trans fat content in our non-packaged foods and beverages online. Since dairy ingredients contain small amounts of naturally occurring trans fats, there will always be traces of these fats reported for our beverages made with dairy products.
- Reformulated our Frappuccino® blended crème base, bringing all of Starbucks beverages to less than 0.5 grams of artificial trans fat.
- Reduced trans fats to 0 grams (per the U.S. Food and Drug Administration's nutrition labeling rounding rule) in all of Starbucks national promotional pastry items offered in the U.S., including our pumpkin cream cheese muffins and gingerbread loafs.

### FUTURE GOAL

In fiscal 2007, work with our regional bakeries to eliminate trans fats from all of our food offerings in our U.S. company-operated stores.

## Our Long-term Approach to Health and Wellness

Our commitment to health and wellness is a deeply embedded tenet of Starbucks history and culture. It's reflected in the way we care for our partners and in the relationships we have with our customers. In recent years, Starbucks has become an advocate for healthcare reform in the U.S.

We believe in being proactive when it comes to addressing the shared concerns of our customers and the public at large. In early fiscal 2006, Starbucks held a roundtable discussion with nutrition experts. We asked for feedback regarding our health and nutrition efforts, and we listened to their advice. Starbucks valued this dialogue greatly and is now moving forward on plans for continued engagement.

### FUTURE GOAL

Establish a Health and Wellness Advisory Panel to meet on an ongoing basis, and include experts from the medical and nutrition communities who will provide insight and advice to Starbucks on health and wellness issues; societal expectations of Starbucks with respect to health and wellness; and our future initiatives and strategies globally.

### My Starbucks —

Providing nutrition information enables our customers to make well-informed decisions, and customize their orders.

Customization can help people cut calories, fat and sugar without sacrificing taste and quality. Customers can tailor their order by asking for less syrup or substitute sugar-free syrup; request a "light" version of their favorite Frappuccino® blended beverage; opt for nonfat milk; or ask to "hold the whip." For instance, my favorite beverage — a Double Tall Sugar Free Vanilla Nonfat Caramel Macchiato — contains about 100 calories, 1 gram of fat, 3 grams of added sugar and provides 20 percent of my daily calcium and 8 grams of protein.

These types of simple adjustments can easily save 100 calories, which day after day and over the course of a year, can translate to a loss of 10 pounds of body weight.

Katie Thomson, RD  
Starbucks nutritionist



## Being Responsive to Our Customers

Starbucks customers expect an outstanding coffee experience – at their local store and in every Starbucks around the world – each time they visit. In the spirit of our fourth Guiding Principle, which inspires us to “develop enthusiastically satisfied customers all of the time,” we are constantly looking for ways to meet or exceed their expectations.

At the end of fiscal 2006, we were serving customers around the world more than 40 million times per week. To ensure their *Starbucks Experience* is consistently excellent wherever they are, it's essential that we stay in touch. We strive to respond to every customer comment appropriately and in a timely manner. We use our customers' feedback to make improvements that enhance their experience and earn their loyalty and respect.

### Listening to Our Customers

Several channels are available for customers to provide their feedback. They can call Starbucks customer relations at a toll-free number, fill out in-store comment cards, or submit comments online at Starbucks.com. We welcome the valuable comments we receive from our customers, which we share with store partners, management and others as appropriate.

In fiscal 2006, Starbucks received more than 890,000 customer contacts. The majority of customer contacts concerned the use of a Starbucks Card or the service in a Starbucks store. Less than two percent of the total volume of customer contacts related to Starbucks social responsibility. Consistent with prior years, the areas of social responsibility that customers asked about most often pertained to Starbucks recycling policies and our ethical sourcing of coffee. Starbucks is devoted to acting responsibly in all areas of our business practices and we appreciate that our customers share our concerns. To learn more about Starbucks ongoing environmental efforts or the way we source and purchase coffee, please see pages 54 and 16 respectively.

### Customer Feedback

Through various channels, customers also expressed their interest in other CSR-related issues in fiscal 2006, including: our support of the U.S. military; our policy on supporting rodeos; the presence of rBGH in our dairy products; the caffeine content in our coffee; and our marketing practices related to youth and Starbucks liqueur products. A summary of Starbucks policies on each of these issues is provided in this section.

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

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

Starbucks and our partners have consistently demonstrated support of U.S. military personnel in a number of ways. We were honored to receive a 2006 Freedom Award from the Department of Defense. For specific information about the Freedom Award and our ongoing efforts with the American Red Cross to support U.S. military personnel, please visit Starbucks.com.

### *rBGH-free Dairy*

We are actively working with our suppliers to secure an adequate milk supply that is rBGH-free. rBGH is a synthetic growth hormone given to dairy cows to stimulate milk production. See page 32 for more information about our efforts to require our core dairy products to be rBGH-free.

### *Starbucks Affiliation with Rodeos*

As a member of the communities we serve, and as a way to share the joy of coffee, Starbucks often supports local activities or events. We frequently donate coffee or host coffee seminars, free of charge, with no expected recognition in return. These community efforts are not a sponsorship nor an endorsement of any event or activity. They are simply a way for Starbucks to lend a helping hand and support the community. It is in this way that Starbucks has been affiliated with rodeo events in Texas, Wyoming and Calgary, Canada. We have never sponsored a rodeo event. Our goal is always to support, not offend, our community of neighbors.

### *Caffeine Content in Starbucks Coffee*

We select the finest quality *arabica* coffees from around the world and roast them to our signature Starbucks Roast.® No matter how carefully or precisely we roast our coffee, not every cup of Starbucks coffee will contain exactly the same amount of caffeine. Many variables contribute to caffeine content from cup to cup, including where the beans were grown and roasted, the brewing method, grind, and type of coffee beverage purchased. We recognize that some people are sensitive to caffeine. For customers concerned about caffeine content, we offer several decaffeinated coffees, teas and other beverages, including Frappuccino® blended beverages, in most markets. Information about the health effects of caffeine is available online at [www.coffeescience.org](http://www.coffeescience.org) or [www.ico.org/caffeine.asp](http://www.ico.org/caffeine.asp).



## Marketing to Youth

Starbucks customers include people of every ethnicity, income, and age group with varying tastes and interests. In addition to our beverages and food items, Starbucks offers products meant to educate and entertain all age groups. We also seek out philanthropic opportunities, including event sponsorships, to support the activities and programs that are important to the communities in which we operate.

Some of our product offerings and community activities may appeal to young people. We are extremely mindful of connecting with youth in a responsible manner.

## Responsible Marketing of Liqueurs

Starbucks and Jim Beam are committed to the responsible marketing of Starbucks™ Cream Liqueur and Starbucks™ Coffee Liqueur. The pricing, branding, packaging and marketing are specifically designed to target mature consumers. Additionally, Starbucks partners who manage our liqueur brands are trained on the Distilled Spirits Council of the United States (DISCUS) Code of Responsible Practices for Beverage Alcohol Advertising and Marketing.

Both products are available only in locations licensed to sell distilled spirits and are not sold in Starbucks retail locations.

## Customer Surveys

Customer surveys offer another mechanism to obtain feedback about the quality of our customers' experience. We recently altered our research methods, moving beyond surveying for satisfaction and focusing instead on identifying factors that influence our customers' experience and their connection to the Starbucks brand.

In fiscal 2006 Starbucks launched a new survey tool to gather ongoing input from coffee consumers and our customers, including those who had visited Starbucks within 30 days of the time of the survey.

When customers were surveyed between May and August 2006 and asked whether they would recommend Starbucks to a friend or family, 87 percent responded that they were extremely or very likely to recommend Starbucks.

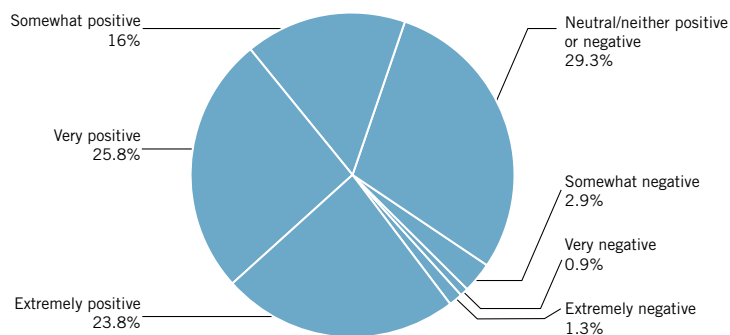
Our recent surveys also have found that the majority of respondents are unaware of the company's socially responsible initiatives, including Starbucks support for community activities such as local education programs and clean water projects. Awareness among our customers was greater than among the general population, with 38 percent associating Starbucks with good corporate citizenship, although we strive to do a better job informing customers about our efforts to be socially responsible in all aspects of our global business operations.

To gauge customer acceptance of Starbucks in their neighborhoods, we recently asked survey respondents, specifically those who presently live near a Starbucks, what their overall feeling was about having a Starbucks coffee shop near their home. We found that 66 percent had positive feelings about having a Starbucks store in their neighborhood, while five percent indicated negative feelings. When we asked other respondents, those who do not currently live near a Starbucks, how they would feel about having a Starbucks coffee shop open near their home, 53 percent indicated positive feelings and 10 percent indicated negative feelings. (See pie charts.)

The level of positive consumer acceptance that already exists for Starbucks is encouraging, particularly given our plans for future growth. We believe Starbucks demonstrated commitment to social and environmental responsibility matters to consumers and, if we are successful in increasing awareness, will help us continue to gain acceptance in local communities and among our neighbors.

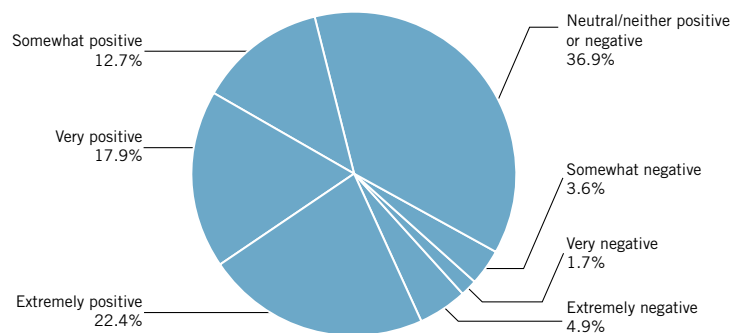
### Q: What is your overall feeling about having a Starbucks coffee shop near your home?

*Respondents who presently have a Starbucks near home.*



### Q: How would you feel about a Starbucks coffee shop opening near your home?

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



## Public Policy and Government Affairs

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

Presently, Starbucks does not have a Political Action Committee established for our partners to make political contributions, nor did the company make any corporate political contributions in fiscal 2006.

### Public Policy Focus Areas

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

- **Tax Policy** – Sound tax policy will continue to play a key role in the competitiveness of U.S.-based companies. Starbucks closely monitors tax policy developments and has advocated for a tax structure that maintains incentives for increased productivity.
- **Trade Policy** – Starbucks supports bilateral and multilateral trade agreements that help to create opportunities for investment in emerging markets. We provide input to U.S. and foreign governments on specific trade agreements that help to reduce barriers to U.S. exports, provide safeguards for intellectual property and trademarks and promote transparency on both sides of the trading relationship. In fiscal 2006, our advocacy efforts related to Peru and Colombia Free Trade Agreements as well as general market access issues.
- **Healthcare** – Providing healthcare benefits to our eligible full- and part-time partners is a commitment Starbucks stands by. However, we are greatly concerned about the impact rising healthcare costs will have on our long-term ability to sustain these benefits. In fiscal 2006, we focused on identifying and prioritizing the macro issues that we believe will help to solve Starbucks current healthcare challenges, which we are using to inform our objectives and action items for fiscal 2007.

## OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP

**Starbucks commitment to contribute positively to the environment is a Guiding Principle of our company. Ever since 1992, when we established Starbucks Environmental Mission Statement, we have been expanding our definition of what environmental responsibility means within the context of our growing and increasingly more complex business.**

In this section we describe the initiatives we have undertaken to be good environmental stewards, and report on our performance in this area. Specific topics covered include:

- Starbucks climate change mitigation strategy
  - Purchasing renewable energy
  - Saving energy
  - Joining together with others to raise awareness of climate change
- Reducing the environmental impacts of our cups
- Understanding and improving our environmental footprint
  - Greening the store through design
  - Greening store operations
    - Waste and recycling
- Looking to our supply chain: sustainable packaging
- Portrait of a typical Starbucks store
  - Energy and water use

### Addressing Climate Change

The potentially disruptive changes in the earth's climate due to an increase in greenhouse gases (GHG) in the atmosphere is a major concern for our company, our customers, our business partners and other stakeholders. We agree with the consensus of the scientific community that climate change could pose an enormous threat to the future of our planet.

Starbucks core business is high-quality coffee, an agricultural product that flourishes in tropical microclimates around the globe. Climatic conditions influence the yield and quality of coffee crops. We are concerned that climate change could threaten the production of high-quality coffee crops and ultimately impact our business.

Starbucks believes that governments, organizations and individuals have a responsibility to take meaningful action to reduce GHG emissions, regardless of the scale of their contribution to the issue. We have been working to better understand the risks of climate change for our business, and identify measures we can take to mitigate those risks.

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

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

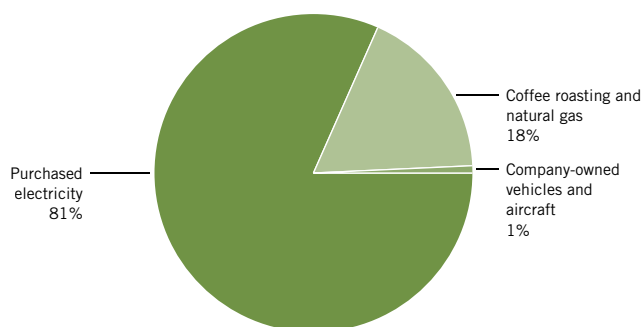
1. Purchasing renewable energy
2. Focusing on energy conservation
3. Advocating the need for collaborative action

We selected these areas by analyzing our greenhouse gas footprint and identifying the points of greatest leverage in our own operations and in the global community. We are now in the second year of implementing the strategy. Our progress is described throughout this section.

### *Starbucks Greenhouse Gas Emissions*

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

2003 Baseline Greenhouse Gas Emissions – Scope 1 and 2



## Powered by Wind

During fiscal 2006, we quadrupled our renewable energy purchase to equal 20 percent of the energy used in our U.S. and Canada company-operated stores. According to Starbucks GHG inventory more than 80 percent of the emissions within our direct control result from these store operations.

An energy resource is considered renewable if it can be naturally replenished. For our renewable energy purchases, we worked through the World Resources Institute's Green Power Market Development Group to buy 100 percent wind renewable energy certificates\*, offsetting 124 million pounds (56,000 metric tons) of CO<sub>2</sub>. Pooling our purchasing power with other companies has helped us obtain favorable rates for our renewable energy – less than a two percent premium over our average rate for conventional electricity.

Starbucks is also a member of the U.S. Environmental Protection Agency's (EPA) Green Power Partnership. The size of our renewable energy purchase in fiscal 2006 ranked Starbucks sixth overall among other participating companies, and second in the retail sector. On October 24, 2005, Starbucks was recognized by the EPA with a 2005 Green Power Leadership Award.

Our plan is to begin offering Starbucks suppliers the opportunity to purchase renewable energy certificates through our contract, at a “Starbucks preferred pricing” rate. In 2007, we will extend this offer initially to 388 of our major suppliers in the U.S.

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

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## My Starbucks –

Our reliance on fossil fuel sources for energy is contributing to the rapid acceleration of global climate change.

It's imperative that we transition to cleaner and renewable forms of energy to help contain environmental damage. Working with community-based groups involved with renewable energy projects, I've seen how difficult it can be to convince businesses to invest in environmentally sound forms of energy. The fact that some companies – such as Starbucks – are willing to step forward and support renewable energy development is notable – and extremely important to the future of our planet.

Jeff Paulson, principal

Jeff Paulson & Associates, a law firm specializing in community-based renewable energy projects

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## Energy Consumption

Saving energy is often the cheapest, cleanest and most effective way to cut GHG emissions. During fiscal 2006, we continued to upgrade store equipment to more energy-efficient versions, and installed more efficient technology at our coffee roasting plants.

We also updated a performance tool geared for store managers to emphasize the importance of managing the environmental aspects of store operations, and highlighted both the positive and negative impacts their actions can have on the bottom line and the environment.

### FUTURE GOALS

In fiscal 2007, Starbucks will launch three interrelated initiatives designed to improve the energy and environmental performance in our stores. These include:

- Our work with the U.S. Green Building Council to develop LEED (Leadership in Energy and Environmental Design) standards for the retail sector. These standards set out best practices for environmentally sound design of new stores, and provide a basis for third-party certification to ensure the standards are met. In 2007, we will complete our participation in the pilot of these standards.
- We will use a representative sample of stores as a “test bed” to monitor energy and water usage as part of a comprehensive audit. This audit will provide us with baseline information on how and when our stores use energy and water in order to determine conservation opportunities.
- A complementary program is also being planned to provide approximately 350 store managers in six regions with “resource report cards” that give feedback on store energy and water use, as well as trend data and comparisons to benchmark operations. The goal of this program is to help partners identify ways to use water and energy more efficiently and reduce costs. Based on experience with the first group of stores, the program will then be rolled out to all U.S. and Canada company-operated stores on a voluntary basis.

## Joining Forces

Climate change is believed to be the greatest environmental threat of our generation. We believe Starbucks can play a key role by helping to increase awareness of climate change, and encouraging collective action among multiple parties. Some of the steps we took in fiscal 2006 included:

- Placing six full-page advertisements in *The New York Times* that highlighted the need for collective action on this issue. The advertisements discussed the problem; highlighted Starbucks emission reductions activities; provided simple, high-impact actions readers could take to contribute to solutions; and informed readers of our partnership with Global Green USA, a nonprofit organization founded by former Soviet President Mikhail Gorbachev ([www.globalgreen.org](http://www.globalgreen.org)).
- Continuing to educate partners about the issue through Starbucks internal communications.
- Supporting and participating in organizations that are taking effective action on the issue, including the World Resources Institute’s Green Power Market Development Group ([www.wri.org](http://www.wri.org)); The Climate Group, an international organization dedicated to advancing business and government leadership on climate change ([www.theclimategroup.org](http://www.theclimategroup.org)); and Global Green USA.
- Acting as a local leader. In Seattle, Washington, the home of Starbucks global headquarters, Starbucks former ceo Orin Smith co-chaired Mayor Greg Nickles’ Green Ribbon Commission, which resulted in the company serving as a founding member of the Seattle Climate Partnership. Company staff also chaired the Seattle Chamber of Commerce Business Sustainability Committee.

## Greening the Cup

As the country’s leading specialty coffee retailer, Starbucks goes through a lot of cups – purchasing 2.3 billion in fiscal 2006. The Environmental Defense paper calculator tool estimates that Starbucks move in 2006 to use new hot cups with 10 percent post-consumer recycled fiber will achieve the following environmental improvements in the first year alone:

Resource savings	Equivalency
11,300 fewer tons of wood consumed	about 78,000 trees
58 billion BTUs of energy saved	enough to supply 640 homes for a year
47 million gallons (178 million liters) of wastewater avoided	enough to fill 71 Olympic-sized swimming pools
3 million pounds (1 million kilograms) of solid waste prevented	equivalent to 109 fully loaded garbage trucks

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

## Paper Hot Beverage Cups

Paper cups provide a convenient way to serve Starbucks hot beverages, but they also result in some environmental impacts.

Paper cups account for nearly nine percent of typical in-store waste by volume, although most cups are disposed of outside the store after their use. Our efforts to reduce environmental impacts of our disposable cups began in the mid-1990s. Over the last decade, we have taken several actions, including:

- Eliminating most double-cupping by utilizing corrugated hot beverage sleeves made of 60 percent post-consumer recycled fiber.
- Offering customers a \$0.10 discount when they use their own reusable cups. Customers in the U.S. and Canada took advantage of this offer more than 17 million times in fiscal 2006, keeping 674,000 pounds (306,000 kilograms) of paper from going to the landfill.
- Introducing hot beverage paper cups made with 10 percent post-consumer recycled content. These cups, which are the first direct contact food packaging containing post-consumer recycled content to receive a favorable safety review by the U.S. Food and Drug Administration (FDA), were introduced in our U.S. and Canada stores in 2006.

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

## Understanding and Improving our Environmental Footprint

When a customer comes into a Starbucks store, we look at it as an opportunity to exceed their expectations. The customer may come for a cup of coffee, but we know they also take an interest in our how we run our business, including our environmental performance.

We continually strive to understand our environmental footprint and reduce our impacts. We are launching initiatives in fiscal 2007 that we believe will help us achieve a consistent, high level of environmental performance across our operations and the life cycle of our products.

## Greening the Store

Both the design and the operation of our stores affect their environmental performance (See “Portrait of a Starbucks Store” on page 62). For several years, we have led a group of retailers and worked collaboratively with the U.S. Green Business Council (USGBC) to explore green building opportunities in our sector. The USGBC has developed a widely used and highly regarded set of standards called Leadership in Energy and Environmental Design (LEED). Buildings that meet the standards receive LEED certification, signifying that their buildings use environmentally superior materials and incorporate energy- and water-efficient systems.

Because we have many stores that generally use similar materials and building strategies, the process of certifying each individual store separately would be costly, repetitive and time-consuming. During fiscal 2006, we registered our prototype Single Tenant Building<sup>1</sup> with the USGBC LEED Retail Pilot. This represents a new certification model for the USGBC and has the potential to multiply the impact of green building throughout the retail sector globally.

Our focus is not just on validating the store building process through certification, but also on a comprehensive approach to reduce our environmental impacts. For several years, we have incorporated sustainable building materials, furnishings, and energy- and water-efficient fixtures to our stores. For example, we require that the wood used to make our hardwood furniture is certified by the Forest Stewardship Council (FSC), a nonprofit organization that ensures the wood is produced in a sustainable manner. We also convened a meeting between our major furniture suppliers and the FSC to explore ways to expand the use of FSC-certified wood in products we buy. In addition, the cabinets in our stores use a core made of 100% post-industrial content.

## Greening Operations

To gain a deeper understanding of how energy and water is used in our stores, it is our intention in fiscal 2007 to conduct an energy and water audit that will help us implement strategies to use both more efficiently.

We also plan to provide stores in six regions (approximately 350 stores) with “resource report cards” that give feedback on each store’s energy and water usage, as well as trend data and comparisons to benchmark operations. The goal of this program is to help store operators identify ways to use water and energy more efficiently and reduce costs. Depending on the results of the first group of stores, the program will be rolled out to all U.S. and Canada company-operated stores on a voluntary basis.

<sup>1</sup> A Single Tenant Building is a free-standing building (coffee house) built from the ground up.

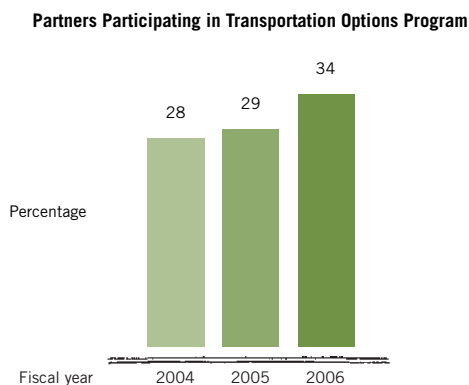


These efforts build on ongoing initiatives to install more energy- and water-efficient equipment at our stores globally. For example, Starbucks Japan stores began using electric signs that require less energy to operate and last longer. Our team in Japan also installed water-saving faucets and began recycling the water used to cool ice cube dispensers as wash water.

In the UK, severe droughts showed that environmental trade-offs are sometimes needed. Stores in the worst-affected areas offered customers paper cups rather than ceramic mugs to reduce the water used for dishwashing. While the use of paper cups increased the volume of waste generated, the practice helped to address the immediate threat of a water shortage.

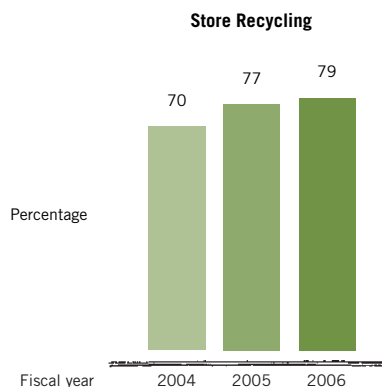
We also have initiatives to address transportation energy use. We collaborated on Business for Social Responsibility's Clean Cargo Working Group and used the Group's Environmental Performance Survey to assess the performance of our ocean transporters.

At our Starbucks Support Center (SSC) in Seattle, our worldwide headquarters, we encourage partners to use a variety of transportation options to cut solo commuting. In fiscal 2006, 34 percent of our partners at the SSC took advantage of these options.



## Closing the Loop – Recycling and Waste Reduction

Starbucks policy for company-operated stores is that where both space and recycling services are available, stores are expected to recycle. During fiscal 2006, 79 percent of stores in the U.S. and Canada recycled where Starbucks controls waste and recycling of one or more items, including cardboard, paper, milk jugs, and organic wastes.



## New Life for Old Grounds

At a typical Starbucks store, coffee grounds make up more than a third of the waste stream by weight (see “Portrait of a Starbucks Store” on page 62). That’s why we introduced the *Grounds for Your Garden* program, which offers complimentary five-pound (2.27-kilogram) bags of used coffee grounds to customers to add to their soil. The program has spread to a variety of locations including Chile, Greece, Australia, Hong Kong, Canada, the UK and Korea.

Since 2004, Starbucks Taiwan has encouraged all of its stores to implement the program. In fiscal 2006, customers and the general public were welcome to pick up coffee grounds from their most convenient store.

Some locations in China offered the program in fiscal 2006, and it will be promoted throughout Starbucks Greater China region in fiscal 2007.

In Winnipeg, Canada, partners took the *Grounds for Your Garden* approach a step farther, and are sending their organic waste, including Starbucks paper cups, to the Wiggler Wrench, a local worm composting facility.

### *Other Waste Reduction and Recycling Initiatives*

The waste our stores generate varies by location. So do the ingenious solutions our partners devise to handle the waste. Examples of this include:

- Starbucks Chile donated 30,000 milk boxes to Un Techo para Chile, an organization in Chile that builds small houses for homeless people. The organization used the boxes to cover the floors of the houses.
- More than 100 Starbucks UK stores participated in waste segregation programs for cardboard and plastics, recycling an average of 35 percent of their general waste.
- Starbucks Hong Kong ran a “Mooncake box” recycling program, where the company offered beverage coupons to customers who returned their used Mooncake boxes. The program resulted in the return of approximately 5,000 boxes.
- Starbucks Japan is working with suppliers to recycle 20 percent of store food waste by March 2007 in response to the Law for the Promotion of the Utilization of Recyclable Food Resources.

### *New Life for Old Mats*

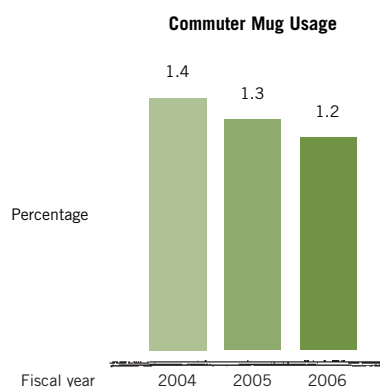
The work areas behind the counters of our stores are equipped with rubber mats designed to help partners work more comfortably and safely. Since 2005, all new stores in the U.S. have been equipped with upgraded mats that have been shown to reduce slip-type accidents. During fiscal 2006, we also replaced the mats in more than 3,400 existing stores. The easiest course of action would have been to throw away the old mats. But with an estimated 315,000 pounds (143,000 kilograms) of usable material involved, we decided to recycle them instead. This required setting up a system for our delivery drivers to pick up the mats from the stores, collect them at consolidation points and ship them to a recycler for shredding. The recycled rubber was used for gaskets and expansion joints in concrete, among other things, extending the life of the material and reducing waste.

### *Involving Our Customers*

Our customers share our interest in reducing waste. To help them help us, we offer a discount of 10 cents in the U.S. and Canada to encourage customers to use their own “commuter” mugs for their beverages. Customers can also request that their beverage be served in a ceramic mug if it’s a “for-here” order. The discount is also offered in Japan (¥20), the UK (10P), several business units in Mainland China (2 RMB) and Hong Kong (HK\$1).

On Earth Day 2006, Starbucks Canada promoted the commuter mug program by inviting customers to enjoy a complimentary cup of Fair Trade Certified™ Café Estima Blend™ coffee when they used their own mug. Nearly 9,000 customers took advantage of the offer, increasing commuter mug usage by 14 percent compared to the same day the previous year. The promotion also increased the sales of commuter mugs.

During fiscal 2006, customers in the U.S. and Canada used commuter mugs for their beverages 17 million times. Although this represents a significant achievement, on a percentage basis, commuter mug usage actually decreased slightly from 2005. We will continue to evaluate additional ways to encourage customers to use commuter mugs.



## Looking to Our Supply Chain

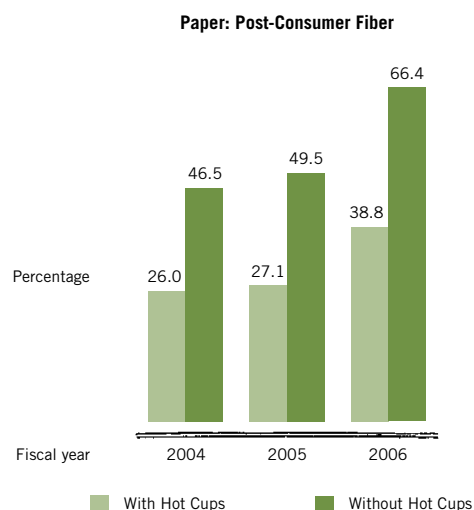
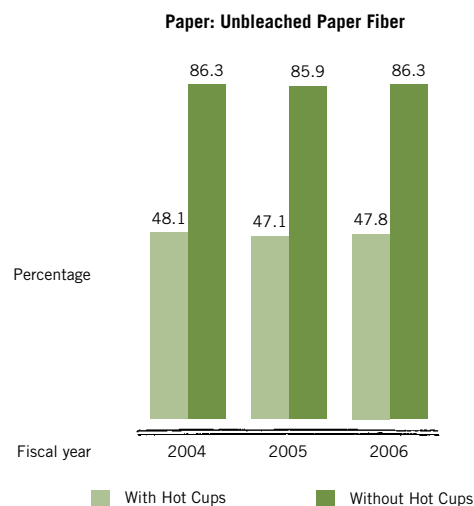
Beyond our own stores and operations, we have the opportunity to positively influence the environmental practices of our suppliers. In other sections of this report, we discuss our work with coffee suppliers to encourage environmental stewardship (page 16), our sustainable sourcing policies (page 29), our approach to water sourcing (page 34) and our standards for purchasing manufactured goods (page 33). Through our membership in the Sustainable Packaging Coalition, we are exploring more sustainable alternatives to conventional packaging and also methods for analyzing material choices. Our efforts to “green the cup” described earlier in this section are an example of this approach.

We also consider environmental impacts when purchasing paper and have tracked the recycled fiber and unbleached fiber content of our paper purchase for six years (see charts). Starbucks recognizes that the environmental footprint of paper goes beyond post-consumer recycled and unbleached fiber. To that end, we have been active participants in the Paper Working Group, a group of diverse companies led by the nonprofit organization Metafore. The Paper Working Group developed the Environmental Paper Assessment Tool (EPAT), designed to help paper buyers consider all major environmental impacts over the life cycle of paper. The group defines environmentally preferable paper in terms of a set of seven interconnected desired outcomes. They include:

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

Key environmental indicators for these outcomes are measurable and within the normal range of attributes monitored by the pulp and paper industry.

In 2007, we will test the tool with our top two suppliers of paper products. We will review the results of the pilot and determine how to best incorporate the tool into our paper procurement decision processes.



*Starbucks tracks the percentage of unbleached paper fiber and post-consumer fiber contained in our annual paper purchases.*

## Earthwatch Expeditions

### *Making Connections in the Rain Forest*

In the Costa Rican rain forest, Starbucks customer Arlene Guterman worked side by side with scientists, Starbucks partners and other customer volunteers to replant areas where farming had devastated the native forest. The experience was transforming. "I cherish what I saw," Arlene said. "It opened me up."

The reforestation project is taking place in southern Costa Rica in the region of La Amistad Biosphere Reserve, established to protect the rich biodiversity of the area. Sixteen sites, most owned by Costa Rican farmers, are part of a long-term research project to find ways to accelerate the reforestation of formerly farmed lands. The project area, once completely forested, is now less than 10 percent forested. This has impoverished the soil and reduced habitat for the abundance of wildlife that thrives in rainforests. Deforestation poses a particular challenge because, once cleared, it is difficult to re-establish natural rain forest.

The project seeks not only to research the dynamics of reforestation but also to establish a model of sustainable use of tropical forests. One aspect of this is supporting the local coffee cooperative in its efforts to use sustainable farming practices and to set up a coffee mill that will allow it to capture more of the value of coffee production locally.

A diverse group of people participate in the project, including academic researchers, students, farmers of coffee and other crops, community members and volunteers provided by the Earthwatch Institute ([www.earthwatch.org](http://www.earthwatch.org)), a nonprofit organization that places volunteers with environmental research and restoration projects around that world.

Starbucks has worked with Earthwatch since 2000. In that time, Starbucks has sent partners on a variety of environmental expeditions around the globe. Our partners have come back from these expeditions with a new understanding of the world around them as well as Starbucks commitment to the environment.

In 2006, Starbucks enabled 19 customers and 11 partners to participate in the Costa Rica expedition. The customers and eight of the partners were winners of a sweepstakes and an essay contest, respectively, while the other three partners went as escorts. The volunteers planted, measured and analyzed trees, and woke before dawn to capture, count and identify birds. Several volunteers from the 2006 trip, along with some volunteers from previous years, became so interested in the coffee cooperative's mill project that they have continued to support it in various ways, including documenting it on a website: [www.unatazacompartida.org](http://www.unatazacompartida.org).

The scientists running the project have found the volunteers' help invaluable in extending their research resources. The volunteers have also been affected. Arlene Guterman, for example, has started composting, recycling more, driving less

and seeking out locally produced foods. "It's never too late," Arlene said. "Be positive. Plant a tree."

In 2006, Starbucks also sponsored volunteers for an Earthwatch Expedition to Brazil through the Urban Coffee Opportunities program, a joint venture between Starbucks and Johnson Development Corporation (JDC). Five college scholars, a Starbucks partner and a JDC representative participated in an expedition to the Pantanal, the world's largest wetland, researching and analyzing amphibians and bat habitat.

In 2007 Starbucks will be working with Earthwatch on a project that takes place where Starbucks is purchasing coffee. This will deepen our relationship with Earthwatch because the research will directly affect Earthwatch scientists, Starbucks and the coffee-buying world. Our partners and customers will have the opportunity to work on coffee farms that have been verified as using C.A.F.E. Practices and learn how this has improved their growing practices.

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### *My Starbucks -*

On June 10 I left for the 17-hour journey to San Jose, Costa Rica, and met up with seven other partners from North America. We continued our journey to the little town of Aqua Buena in the southern rain forest bordering Panama, where we got to know our fantastic hosts, the Corderos, a family of coffee farmers. They would get many opportunities to laugh at our Spanish!

Over the next two weeks we worked with Dr. Karen Holl and her team at Earthwatch, planting trees and gathering scientific data on rain forest regeneration in afforested areas. For the farmers it's a win/win situation. They lease the land they don't use to others so that in potentially five years they can let the coffee grow back within the new forest - thus growing premium organic shade grown coffee.

When you see trees that have grown almost 30 feet tall after three years, you begin to see how easy it can be with dedication and commitment. That is what Starbucks is willing to do, and the eight of us were glad to be a part of this crucial project.

Rain Weigel, Starbucks store manager  
Maida Vale (#12436), London

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## Portrait of a Starbucks Store

At the end of fiscal 2006, there were 12,440 Starbucks stores in 37 countries. Though there are local variations, the stores operate similarly around the world. A look at a typical Starbucks store provides a better understanding of Starbucks environmental profile and challenges.

Though the store may be located on a busy street or in a bustling mall, it is appointed with furnishings and artwork in a style that lets someone know instantly they are in a Starbucks. Less obvious are some of the environmental features of materials we use in our new stores, and include as stores are updated: high-efficiency lighting, flooring containing recycled material, and furniture made from wood certified as sustainably harvested by the Forest Stewardship Council, for example.

Out of sight is an area where materials are delivered to the store. These include food (coffee and other beverages, pastries, sandwiches, salads, etc.), packaging (cups and other containers), disposable items (napkins and coffee stirrers), and merchandise for sale (coffee mugs and brewers, CDs, etc.) This is the area where many of our stores have containers for recycling.

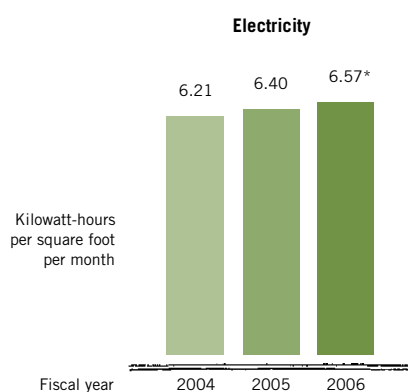
The store gets its electricity, water and other utilities from local service providers. On average, it uses about:

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

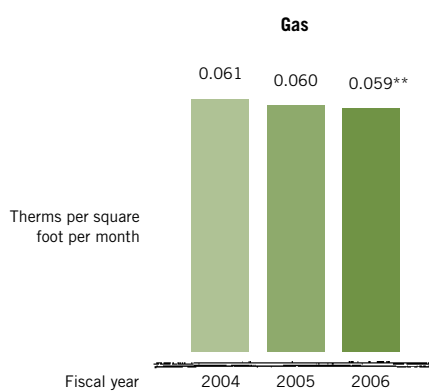
As we continue to integrate sustainable practices into our store design, development and operations, we will work to drive these numbers lower, reducing our overall environmental footprint per store.

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

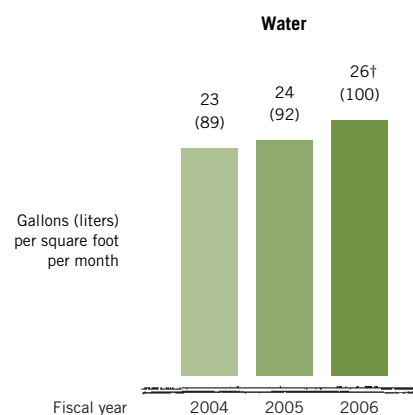
By Volume	By Weight
<ul style="list-style-type: none"> <li>• 32% cardboard</li> <li>• 15% milk jugs</li> <li>• 9% paper cups</li> <li>• 8% pastry boxes</li> <li>• 7% other dairy cartons</li> <li>• 29% other waste</li> </ul>	<ul style="list-style-type: none"> <li>• 37% coffee grounds</li> <li>• 12% cardboard</li> <li>• 7% newspaper</li> <li>• 6% food waste</li> <li>• 38% other waste</li> </ul>
Source: Starbucks 2002 Waste Audit	



\* Based on data from 4,900 stores.



\*\* Based on data from 2,305 stores.



† Based on data from 2,052 stores.

## Providing a Great Work Environment

When our customers enter a Starbucks store, they expect and deserve a great cup of coffee. But their *Starbucks Experience* goes beyond the coffee – it is also based on the connection they have with their barista at their local Starbucks. Earning and maintaining the trust and respect of our more than 145,000 employees – whom we call partners – means improving our customers’ experience and our success as well. Our goal is to create the best possible workplace environment for our partners, one that attracts and retains the most talented individuals and is regarded by them as a great place to work.

In this section we describe what we are doing to:

- Gather ongoing feedback from our partners
  - Partner View Surveys
  - Mission Review
  - Business Ethics and Compliance Program
- Offer comprehensive and competitive benefits
  - Partner benefits in the U.S. and Canada
  - Partner benefits internationally
- Support our partners’ health and well being
  - Outreach to newly covered partners
  - Thrive Wellness Initiative
  - Advocating for healthcare reform
- Recognize our partners’ efforts
- Maintain a CUP (Caring Unites Partners) Fund
- Provide training and career development opportunities
- Uphold our workplace policies and respect for partners’ rights
- Ensure a safe and healthy work environment

## Starbucks Employment Profile – Fiscal 2006

<b>Number of partners globally</b>	<b>145,800</b>
U.S. partners – retail	116,100
U.S. partners – nonretail	7,500
International partners – retail	21,200
International partners – nonretail	1,000
<b>Net jobs created (Starbucks partners) in fiscal 2006</b>	<b>31,000</b>
<b>Total wages and benefits paid to U.S. and Canada partners*</b>	<b>\$2.5 billion</b>
<i>*Includes salaries, bonuses, vacation, payroll taxes, healthcare benefits, workers’ compensation and 401(k) match</i>	

### STARBUCKS HONORED AS A GREAT PLACE TO WORK IN 2006

#### **FORTUNE 100 BEST COMPANIES TO WORK FOR IN AMERICA**

Starbucks was named one of the “100 Best Companies to Work For” in 2006 by *Fortune* magazine. This marks the eighth time Starbucks has received this prestigious recognition.

#### **FINANCIAL TIMES 50 BEST WORKPLACES IN UK**

Starbucks UK was recognized in the *Financial Times* as one of the 50 Best Workplaces in the UK. The award, sponsored by the Great Place to Work® Institute UK, is based on employee surveys of the level of trust and the quality of relationships that exist within the company.

#### **CHEERS MOST SOUGHT AFTER ENTERPRISE – TAIWAN**

In 2006, Starbucks earned ninth place in a study of the most “sought after enterprise” in Taiwan among 100 private enterprises and 50 state-owned enterprises. *Cheers* magazine sponsored the competition.



## Listening to Our Partners

Our workplace culture is firmly rooted in our first Guiding Principle: “Provide a great work environment and treat each other with respect and dignity.” This is a deeply held value that has inspired and driven our workplace practices for nearly two decades. This is the basis of our belief that our partners’ opinions should be heard and valued. We act on our belief by inviting partners to give us their feedback through a variety of channels. We then use partner input to shape our actions and enhance the partner experience. One method we use to get feedback is by conducting Partner View Surveys.

### Partner View Surveys

Starbucks conducts a Partner View Survey approximately every 18-24 months to solicit anonymous feedback from partners around the globe. The survey touches on many facets of the partner experience, including development, communication, senior leadership, coffee knowledge and work/life effectiveness. By participating in the survey, partners point out what Starbucks is doing well, and they identify issues at all levels of the company that need closer attention. We use this feedback to make adjustments and improvements in order to increase our partners’ satisfaction and engagement – the connection our partners have to their store or work group and to our company. Through this process, our partners are given a voice in shaping and enhancing their own workplace experience.

The most recent survey was conducted in March 2006. All partners who work in company-operated stores, support offices and roasting plants or warehouses in the following countries were invited to participate: Australia, Canada, Costa Rica (Farmer Support Center), Germany, Hong Kong, Ireland, the Netherlands, Singapore, Switzerland, Thailand, United Kingdom and the United States. This was a significant expansion over past Partner View Surveys in both its global reach and response – 101,800 partners participated, an 84 percent response rate.

### Partner View Survey Results – Fiscal 2006

Partners’ overall satisfaction rate and level of engagement remained high – see chart at right. The survey called out specific areas where Starbucks is succeeding in creating a great work environment, including training and development opportunities and the focus on promoting coffee knowledge.

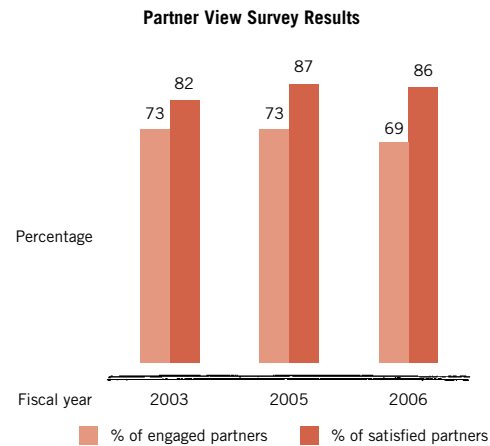
Partners identified several areas that called for attention by the company:

- Pay and benefits
- Communication within and between groups
- Future job opportunities

Starbucks began to address these issues in fiscal 2006.

Specifically, we:

- Increased wages for the majority of hourly store partners in all U.S. markets
- Are working to improve our online tools, and consolidate publications where appropriate
- Are designing a global “Look Internal First” sourcing strategy for filling all jobs



\* We did not conduct a survey in fiscal 2004.

### FUTURE GOALS

In fiscal 2007, additional steps will be taken to respond to the survey results. We will:

- Complete a study of pay for international store partners.
- Share the success of the company, consistent with our philosophy, through additional incentive and benefits programs.
- Look at new ways to communicate pay and benefits information to our partners, including a new online training module for store partners.
- Develop tools to enable internal talent sourcing and improve career opportunity access and preparation for partners.

## Other Channels for Partner Feedback

In addition to the Partner View Survey, several other resources offer partners the opportunity to communicate concerns, provide input about our business practices, and report matters that appear inconsistent with the company's Mission Statement and Guiding Principles and/or legal and ethical objectives. These include Mission Review and the Business Conduct Helpline, as well as frequently held Open Forums.

### *Mission Review*

Mission Review allows partners a way to voice concerns when they believe company policies or practices are inconsistent with Starbucks Mission Statement and Guiding Principles, and to offer suggestions on how the company can do better. Mission Review comments have helped shape and continue to influence a variety of programs: Tuition Reimbursement, Recognition, Risk Management's Shoes for Work and the Barista-Level Training Program are a few examples. Currently, the Mission Review team handles between 350 and 500 comments each month. In fiscal 2006, our Mission Review team recorded more than 4,600 contacts from partners.

Each partner submission receives a personal and timely follow-up, either by someone knowledgeable about the issue or topic raised or a member of the Mission Review team. Executives receive a monthly summary of the volume and types of issues raised through Mission Review, so that emerging issues can be identified and addressed.

We are working to improve partner access to Mission Review. Electronic submissions through Starbucks website were successfully tested in selected stores in fiscal 2006. Our goal is to make this capability available to all North American company-operated stores in fiscal 2007. Some of our international markets also have embraced this concept and provide similar feedback forums to their partners. Efforts are currently underway to connect and coordinate these programs.

### *Business Ethics and Compliance*

Starbucks Business Ethics and Compliance (BEC) program develops and distributes Starbucks *Standards of Business Conduct*, facilitates legal compliance and ethics training, investigates sensitive issues including potential conflicts of interest, and provides mechanisms for partners to voice concerns.

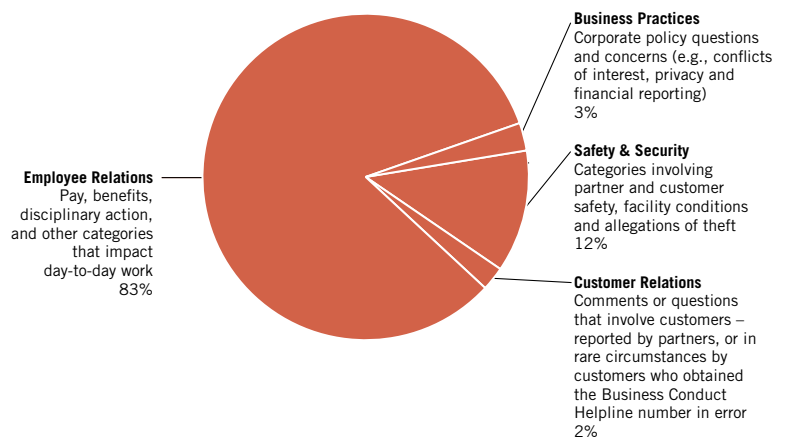
The following channels are available for partners to raise any questions or concerns, including potentially sensitive matters they are uncomfortable reporting elsewhere:

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

The majority of reports received by the BEC program involve employee relations issues, a trend which is consistent with other companies – retail or otherwise – that provide alternative reporting mechanisms as part of a comprehensive ethics and compliance program. Starbucks does not limit the types of issues or concerns that partners may report to the BEC program through these communication methods. We welcome any and all concerns that partners are not comfortable reporting to others or do not know how to report to others. By providing these means of reporting, the program helps to ensure that Starbucks continues to provide a great work environment for partners and to remain an employer of choice.

Our comprehensive efforts to ensure an ethical workplace are detailed in Starbucks *Standards of Business Conduct*, which can be reviewed in the "About Us" section of Starbucks.com.

**Categories of Partner Concerns Reported to Starbucks Business Ethics and Compliance Program**



## Providing Benefits to Our Partners

Starbucks Total Pay package is the cornerstone of our pledge to treat partners with respect and dignity. The Total Pay package varies by country to make sure it is locally relevant. The components may include competitive base pay, bonuses, comprehensive health coverage, income protection, vacation, stock options, a savings program, adoption benefits, tuition reimbursement and partner perks, including a discount on merchandise in our stores.

Pay at Starbucks reflects the knowledge, skills and experience required for a specific job. We regularly consult industry salary surveys to determine competitive rates, and pay accordingly. Partners are also eligible for merit pay increases based on performance.

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

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 percent of health coverage costs for partners and 60 percent for dependents. In Canada, 73 percent of costs were paid for partners and 45 percent for dependents.	Once initially eligible, full- and part-time partners who are paid a minimum of 240 hours per calendar quarter and their eligible dependents, including spouses, domestic partners and children. In fiscal 2006, 65 percent of U.S. partners and 61 percent of Canadian partners were eligible for these benefits.*
Bean Stock – Starbucks stock option plan (eligible partners in the U.S., Canada, UK, Hong Kong, Netherlands, Switzerland, Germany, Australia, Costa Rica, China, Thailand, Singapore, Chile, Republic of Ireland and Puerto Rico)	The board of directors determines annual stock option grants based on company performance up to 14 percent of our partners' eligible base wages. Every partner through the director level receives the same percentage of his or her fiscal-year wages. For fiscal 2006 performance, the basis for stock option grants was 14 percent.	Full- and part-time partners up through director level who have been employed by Starbucks since April 1 and have been paid for at least 500 hours from the first of the fiscal year through March 31 or from April 1 through the end of the fiscal year. (Eligibility requirements may vary slightly by country.) More than 70,000 partners qualified for Bean Stock for fiscal 2006 performance.
S.I.P. – Stock Investment Plan (U.S. and Canada), Share Incentive Plan (UK)	Partners can purchase company stock at a discounted price on a quarterly basis (U.S. and Canada) or a semiannual basis (UK).	Partners who have worked as a regular Starbucks partner for at least 90 days and have been paid for an average of 20 hours a week during the three months preceding the offering. No hours requirement in the UK. In fiscal 2006, 32 percent of eligible U.S. and Canadian partners participated in S.I.P.
Future Roast – Starbucks 401(k) Plan (U.S.), RRSP – Registered Retirement Savings Plan (Canada)	Starbucks matches from 25 percent to 150 percent (based on the length of service from the partner's most recent date of hire) on the first four percent of pay that partners contribute to the U.S. 401(k) Plan. Eligible Canadian partners receive a 25 percent match on the first four percent of pay that they contribute to the RRSP.	U.S. partners age 18 or older may participate after the completion of 90 days of service. Canadian partners are eligible after one year of service. In fiscal 2006, 21 percent of eligible U.S. partners participated in Future Roast. Sixteen percent of eligible partners in Canada participated in the RRSP.
*With approximately four company-operated stores opening daily in the U.S. and Canada, we have a large number of partners in their eligibility waiting period, typically three months.		

### Partner Benefits – Internationally

While specific benefits differ between regions and countries, all of our international business partners share Starbucks Total Pay philosophy. Below are several representative examples of benefits received by Starbucks partners outside North America.

- **Japan:** All partners who work 30 hours per month or more are eligible for health insurance including annual medical checkup. Stock and annual leave (vacation) are also offered.
- **Chile:** All partners are eligible for health insurance, paid vacation and sick leave, among other benefits.
- **Greece:** All partners are eligible for health insurance, paid vacation and sick leave, among other benefits.
- **China:** All eligible partners receive health insurance, sick leave and maternity leave.
- **Australia:** Bean Stock, paid vacation, sick leave and career training are among the benefits offered.

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### My Starbucks —

When I joined Starbucks in 1994 I began acquiring Starbucks stock through Bean Stock and S.I.P., and invested in my future through Future Roast - Starbucks 401K plan. A couple years ago, I sold my Starbucks stock to buy a car and a house in Mexico for my parents. Today I am a new mom and am buying my first home.

When my sister joined Starbucks in 1996, I encouraged her to take full advantage of these benefits. She told me this advice is the best gift a sister could give.

-Noemi Guevara, Starbucks store manager in Missouri City, TX

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## Focusing on Healthcare and Wellness

Starbucks remains committed to providing healthcare benefits to eligible full- and part-time partners, despite rapidly rising costs. Starbucks U.S. and Canada healthcare plans are self-insured, which means healthcare providers are paid with Starbucks funds, as well as the money our partners personally contribute toward their coverage. In fiscal 2006, we did not increase healthcare premiums to partners. Starbucks is working in a variety of ways to ensure the continuation of our health coverage plan, and assist our partners in their efforts to reach and maintain their optimal health.

### *Outreach to Newly Covered Partners*

In fiscal 2006, Starbucks began testing a novel outreach effort to newly enrolled partners. Partners receive a welcome call from our health plan administrator who can answer questions about their health coverage – from how to select a physician to how to find weekend or after-hours care. This approach is being tested in 10 locations in the U.S. We hope to find that through a simple welcome call we can improve partners' health, and encourage efficiencies in the use of healthcare resources.

### *Thrive Wellness Initiative*

Starbucks commitment to the health and wellness of our partners – and our customers – is evident in many of our programs and policies. One very direct effort to care for our partners' health is the Thrive Wellness Initiative, which combines education, communication and participation to help our partners live healthy lives. Over 15,000 partners have registered on the Thrive website since its inception. Below are some of the components of the program.

- A web-based health risk assessment that creates a personal "health map" for each partner.
- Online programs for fitness, smoking cessation and improvement of eating habits.
- Health club discounts at contracted fitness facilities.
- Partner Connection subsidies for up to 50 percent of fees for clubs or sports teams that include three or more active partners.
- Anti-slip work shoes at a discounted price online to help reduce the risk of slip and fall injuries.

Kinetix, the newest benefit in the Thrive Wellness Initiative, was piloted in fiscal 2006 and launched in October 2006 at no cost to partners in our support offices in Seattle, Washington, the location of Starbucks global headquarters. Kinetix is a comprehensive wellness program that teaches proper nutrition and exercise through an interactive website, classes and workshops, an eight-week session with a personal trainer and phone and e-mail support to keep partners on track to reach their personal fitness goals.

## *Advocating for Healthcare Reform*

Rising healthcare costs and other challenges of providing healthcare benefits have led Starbucks to advocate for a more affordable and efficient U.S. healthcare system. For the past several years, we have focused our efforts on building public awareness about the seriousness of escalating healthcare costs, and seeking reform of the healthcare system generally.

In fiscal 2006, we worked to become more strategic in our efforts. First, we analyzed the greatest challenges that Starbucks faces in delivering affordable, accessible healthcare. We then identified the following areas where we will focus efforts: access, technology, innovation, quality and lifetime solutions. In fiscal 2007, we will highlight specific initiatives in these key areas. Through our efforts, we hope to alleviate healthcare challenges for Starbucks and our partners, and all other U.S. companies and employees whose healthcare benefits are threatened.

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### *My Starbucks –*

Sean Couture, a Starbucks store manager in Williston, Vermont, saw golf as a great team-building activity for fellow partners and managers in his region, but wondered whether the expensive golf fees could be put to better use. When Sean learned about Starbucks Partner Connection program, he found a way to combine his passion for golf with his desire to bring together a group of partners for camaraderie and a good cause.

Sean formed a Starbucks Partner Connection Golf Team and put out a call to the three stores in his region, asking partners if they'd like to join. For their first outing, the team participated in a Muscular Dystrophy Cornerstone Cup Tournament that raised a total of \$12,000 for the Muscular Dystrophy Association (MDA). In addition to contributing half of the team's entry fees, Starbucks also donated cups and coffee to the event. The team has teed up for other good causes including the local Chamber of Commerce and Chill, an intervention program for disadvantaged kids. According to Sean, "Once you get a team set up, it's easy. It's a great way for partners to get to know each other better, get closer, feel more like a team and also contribute to a great cause."

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## Recognizing Our Partners

Starbucks success reflects the quality, imagination and initiative of our partners. We developed the Starbucks Partner Recognition Program to honor our partners' contributions. Currently there are 18 formal recognition programs that partners can use as tools to reward and inspire one another. They range from company awards for leadership and exceptional service to "on the spot" awards given by co-workers for a job well done.

In recognition of our outstanding performance as a company, Starbucks shared a special cash award with more than 100,000 partners in May 2006.

### DEPARTMENT OF DEFENSE FREEDOM AWARD

Starbucks was honored by the U.S. Department of Defense with the 2006 Secretary of Defense Employer Support Freedom Award for outstanding support of activated partners who serve in the National Guard and Reserve. The Freedom Award is the highest award bestowed by the Department of Defense in recognition of an employer. Starbucks partner Matt Parkinson nominated Starbucks for the award after serving 15 months in Iraq. Starbucks supports partners, like Matt, by making up the difference between partners' military and civilian pay as well as continuing benefits. Partners are able to continue medical, dental and vision coverage for up to 24 months of active duty and to continue Starbucks life and disability insurance for up to 12 months.

## The CUP Fund

Since 1999, the CUP (Caring Unites Partners) Fund has assisted partners with financial support as a result of an unexpected event such as the death of a partner or family member, fire or natural disaster. Starbucks partners support the CUP Fund with personal contributions. All Starbucks partners are eligible to apply for assistance. In total, the CUP Fund provided more than \$1.4 million in direct financial assistance to more than 1,600 partners in fiscal 2006.

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### *My Starbucks -*

*Starbucks CUP Fund rescued my family from a difficult financial situation. We were drowning financially, due primarily to tens of thousands of dollars in medical expenses. My family is so thankful for the small but regular contributions that many Starbucks partners make to the CUP Fund. These partners embody the truth that "we are a people company that sells coffee." In addition, the partners that I spoke with about the CUP Fund were kind, compassionate and timely in their response to our request. In times of need, it's nice to know Starbucks partners provide each other a lifeline through the CUP Fund - caring really does unite partners.*

*Dave Mahoney, barista, Memphis, TN*

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## Partner Training and Career Development

Starbucks continually invests in training programs and career development initiatives to help partners grow and advance their careers at Starbucks.

All store partners receive comprehensive training. Baristas receive two weeks of initial training to become experts in the preparation and delivery of our products. After 90 days on the job, they receive additional training to deepen their coffee knowledge and build their confidence. When a barista moves into another retail position, he or she receives four weeks of training as a shift supervisor, eight months of development as an assistant store manager, eight weeks as a store manager and 15 weeks as a district manager trainee. In total, in fiscal 2006, our U.S. and Canadian retail partners received an estimated 4.9 million hours of training, in addition to practice hours.

In fiscal year 2006 Starbucks added two new career development programs for store managers:

- Store Manager 200 offers over 50 hours of in-place training to develop leadership and other key managerial skills.
- Store Manager 301 is a year-long mentorship and development program that helps high-potential store managers build the competencies necessary for the next level in their careers.

We believe in looking internally first and offering our partners opportunities to grow and advance. Partners receive information about career advancement opportunities on [mypartnercareer.com](http://mypartnercareer.com), and through partner and leadership communications.

The following figures reflect internal promotions for certain positions in fiscal 2006:

- 86% of shift supervisor positions were filled by Starbucks baristas.
- 67% (approximately) of assistant and store managers were filled by internal partners.
- 54% of district manager positions and over 70% of regional director positions were filled by internal partners.

### STARBUCKS NAMED TO THE TRAINING MAGAZINE TOP 100 LIST IN 2006

For the third year in a row, Starbucks has been named to the *Training* magazine Top 100 list. This recognition is based on an evaluation of the company's training and development programs and resources. Starbucks training programs noted in this award include those for career development, coffee education, leadership and front-line manager training.

## Workplace Policies and Respecting Partners' Rights

Starbucks workplace policies provide for 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. We follow all laws regarding the employment of minors. The current standard minimum age of employment at Starbucks is 16, although it may be higher or lower in some locations as required by local regulations.

Starbucks also recognizes our partners' right to organize. We have always focused on providing a great workplace environment and a comprehensive Total Pay package. (See page 66 for information about Total Pay.) At the end of fiscal 2006, 129 Canadian partners in two cities were the only Starbucks partners who had certified union representation.

In March 2006 Starbucks entered into an informal settlement agreement with the National Labor Relations Board (NLRB), resolving all outstanding unfair labor practice charges filed by the International Workers of the World (IWW) Local 660. The charges originally were filed in connection with a May 2004 petition by the IWW, which it subsequently withdrew, to unionize one Starbucks store in New York City. The settlement agreement provided that Starbucks admitted no wrongdoing or liability, but allowed Starbucks to resolve all charges without the distraction of a long and expensive hearing process.

This settlement and the underlying claim have generated some national and international press attention. We understand that the press coverage stems from a belief that employees should be treated fairly, with dignity and respect. This is a value very much shared by Starbucks.

Starbucks has always sought to provide a great place to work for all our partners, while staying true to our Mission Statement and Guiding Principles. Starbucks is committed to following any and all labor laws in a fair and consistent manner. We do not take action or retaliate against partners who express their views about unions or who take part in union activity.

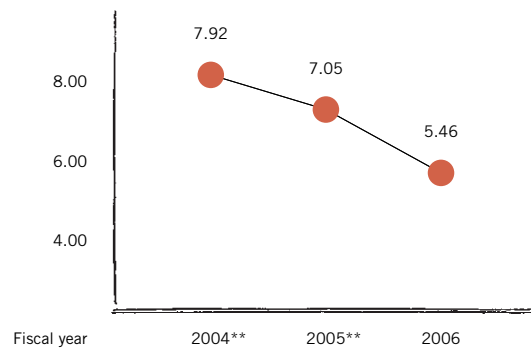
## Health and Safety

Starbucks is committed to creating a safe environment for our partners and customers by reducing the risk of injuries. Safety programs for Starbucks stores and roasting plants are designed to meet or exceed the most stringent regulatory standards wherever we do business.

Partner and customer safety is a primary consideration in the development and selection of all Starbucks products and equipment in an effort to engineer out as many causes of injury as possible. Where potential risks of injury are identified in our stores and production facilities, specific programs are implemented to remove or mitigate those risks through design, engineering, equipment or materials changes that further protect partners and customers from common causes of injury such as hot liquids, repetitive stress, lifting or falls. In addition, the company stresses partner awareness of Starbucks safety standards and potential risks in the work environment, and reinforces awareness through partner training, safe work procedures, regular communication, inspections and audits.

The Interstate Experience Modification Factor, a metric provided in this report in previous years, has been removed going forward to ensure that we accurately report our partner injury experience. Starbucks has chosen to become self-insured for Workers' Compensation insurance in a number of states, and the Experience Modification Factor – which is calculated by an outside agency and does not take into account Starbucks injury experience in self-insured states – does not accurately reflect the company's partner injury experience. The Injury Rate per 200,000 Hours Worked continues to be the best measure of Starbucks workplace injury experience. (See graph.)

Injury Rate Per 200,000 Hours Worked – Starbucks Retail Stores\*



\* Injury rate per 200,000 hours worked is an average for all U.S. full- and part-time store partners, the majority of whom are baristas.

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

## FOSTERING DIVERSITY AND INCLUSION

**At Starbucks, we “embrace diversity as an essential component in the way we do business.” This is a Guiding Principle of the company and one of our core values.**

**As we expand throughout the world, Starbucks is recruiting and operating within a broad range of multicultural, multilingual, and multiracial environments. Not only must Starbucks actively prepare to embrace and navigate diversity across the globe, we must tailor our efforts to each unique area of the world.**

Our continued success compels us to create a business that, at all levels, reflects the communities in which we operate, the customers and marketplaces we serve, and the shareholders who invest in our company. Featured in this section are our companywide efforts to embrace diversity, which include the following:

- Diversity and inclusion in the workplace
- Supplier diversity
- Urban Coffee Opportunities: Bringing the *Starbucks Experience* to diverse communities

### STARBUCKS MAKES *DIVERSITYINC* TOP 50 LIST

Starbucks was recognized as one of the Top 50 Companies for Diversity in 2006 by *DiversityInc* magazine, which reports and analyzes diversity issues and their impact on business in the U.S. Starbucks also ranked in the Top 10 Companies for *DiversityInc*'s Latinos sub list. The application process for the Top 50 list entails an in-depth analysis of a company's diversity management, leadership and marketing.

### CORPORATE EQUALITY INDEX

In 2006, Starbucks achieved a score of 85 out of 100 on The Human Rights Campaign (HRC) Foundation's Corporate Equality Index (CEI), a nationally recognized measure of gay, lesbian, bisexual and transgender (GLBT) workplace equality. This index is the principal method of evaluating diversity efforts toward GLBT employees and consumers. Scores are based on a voluntary survey of company policies as well as independent research by HRC.

To achieve a higher score, Starbucks must first have a written nondiscrimination policy covering gender identity and expression. We are currently working on updating our nondiscrimination policy and hope to achieve a higher HRC score in the future.

## Diversity and Inclusion in the Workplace

At Starbucks, our diverse workforce includes men and women of various ages, races, national origin, religious affiliations, sexual orientation, physical and mental attributes, and differing levels of education, skills and experiences. Our partners also come with their own ideas, opinions and communication styles. We respect the differences our partners bring to the workplace. We view their differences as assets that can help us to be more creative and innovative in our approach and products, more competitive globally and more attractive as an inclusive employer wherever we do business.

We implemented the following initiatives and programs in fiscal 2006 in an effort to reach our diversity and inclusion workplace goals and objectives.

- A “Diversity and Inclusion Scorecard” was created for our ceo and his direct reports, which includes key metrics for diversity and inclusion in the workplace. The scorecard establishes benchmarks related to workforce representation, diversity leadership competencies, workplace environment, supplier diversity and customer experience.
- Partner Network Groups were initiated to bring partners together voluntarily to partner with the business in an advisory capacity. Additionally, these groups provide personal and professional networking opportunities, address issues of concern and opportunity, and provide mutual advocacy to help the company achieve our diversity and inclusion goals. The program was piloted with three groups: The Pride Alliance Network: (lesbian, gay, bisexual, transgender), Partners with Disabilities Network, and Emerging Workforce, a group of partners that is working to develop flexible workplace solutions in order to achieve both their business and personal goals. The Partner Network Groups are currently available to partners at the Starbucks Support Center (SSC), the company's global headquarters in Seattle.
- Diversity and Inclusion Leadership Teams were organized to identify strengths, gaps and opportunities within specific business units and regions as well as to create structures to foster sustainable, robust diversity and inclusion strategies throughout the company. Team members are partners from all levels of the company bringing cross-functional expertise in efforts to drive ownership of the diversity and inclusion strategy within Starbucks. In fiscal 2006, two regional teams were launched in the U.S. and seven were launched within specific business units or functions at the SSC.

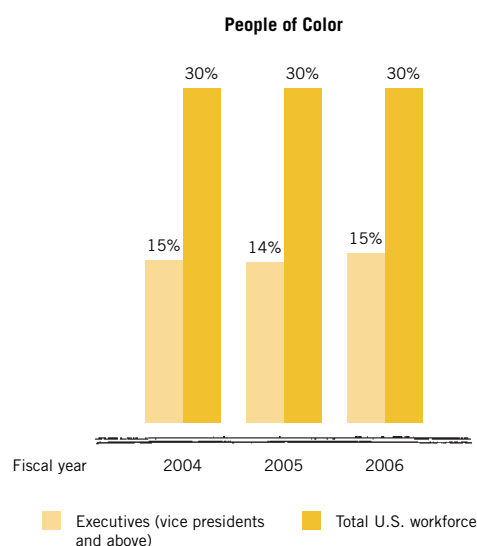
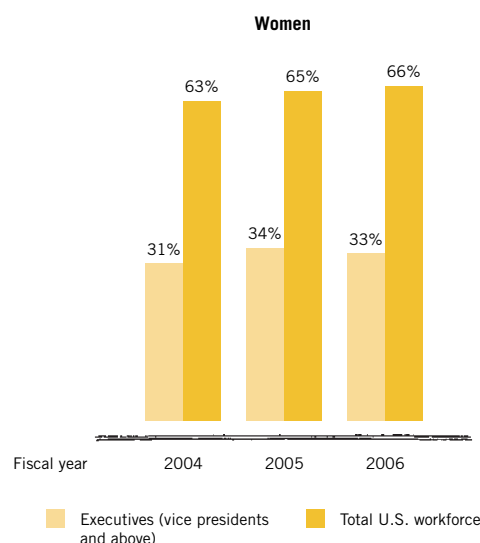
- The Disability Standard Assessment, a comprehensive tool that addresses disability, access and accommodation as it affects every aspect of our company, was initiated. Starbucks is undertaking the Assessment in partnership with the Employer's Forum on Disability, an organization that provides guidance on all aspects of disability, access and accommodation as a business and an equal rights issue. We will complete the assessment in fiscal 2007 and use the results to guide the development of a comprehensive plan.
- Executive diversity education was researched and designed in fiscal 2006, with plans to pilot and integrate it into a comprehensive educational plan for partners in fiscal 2007. Diversity and inclusion education at Starbucks includes integration into existing and developing programs, stand-alone offerings and experiences that extend beyond the classroom, such as forums, facilitated discussions and reciprocal mentoring.
- Several partner training programs, focused on workplace disability matters, were enhanced or developed at many levels. Additionally two new workshops were created and piloted: "Best Practices: Creating a Deaf Friendly Work Environment" and "Best Practices: Disability 101."

Starbucks is dedicated to developing our diversity and inclusion strategy globally. In fiscal 2006 we began working to define diversity and inclusion priorities by region, but we have not yet completed a global strategy.

## FUTURE GOALS

In fiscal 2007, we will strive to:

- Make Partner Network Groups a permanent diversity and inclusion program at the Starbucks Support Center.
- Design and deliver customized diversity and inclusion educational programs to our Partner Resources (HR) department.
- Audit Starbucks core educational offerings from a diversity and inclusion perspective.
- Incorporate the new Best Practices: Creating a Deaf Friendly Work Environment into our educational offerings.
- Develop a diversity and inclusion DVD in which Starbucks partners, with a facilitator, share their personal stories in an effort to increase awareness in the areas of diversity and inclusion.
- Continue the creation and implementation of business unit-specific Diversity and Inclusion Leadership Teams across the company.
- Solidify a strategic initiative to link the Diversity and Staffing organizations.



The following table represents the percentage of women and people of color holding senior positions at Starbucks:

Starbucks Senior Officers*	
	Fiscal 2006
Women	28%
People of color	22%
*Senior vice presidents and above	

## My Starbucks -

The National Braille Press honored Starbucks barista Cindy Rogers and Starbucks with its prestigious Hands On! Award in September 2006. The award recognized Cindy's outstanding work on behalf of braille literacy, and Starbucks supportive workplace environment and emphasis on literacy. Cindy shared the honor this year with First Lady Laura Bush at a Gala event in Boston.

Since June 2005, Cindy has hosted a Children's Story Hour in her Mesa, Arizona, Starbucks store to read braille storybooks to children and adults. She also has visited 75 schools in the past year, talking to children about her blindness, and passing out braille alphabet cards to help children learn letters. Cindy credits Starbucks for encouraging her to start her Story Hour series. "Starbucks inspires us to give back to our communities, so I decided to make it my mission to share my passion for braille literacy as a vehicle to transform lives," Cindy said.

## Supplier Diversity

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

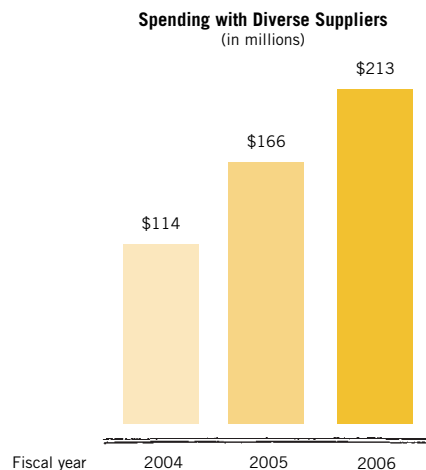
The commitment we've made to supplier diversity is intended to provide not only opportunities for diverse businesses, but also to create a positive and sustained economic impact on the local communities where these businesses are based.

In fiscal 2006, Starbucks did \$213 million in business with first tier\* women- and minority-owned businesses, exceeding our goal of \$206 million.

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

In fiscal 2006, Starbucks made the following improvements in our supplier diversity program:

- Developed a new coding system to better identify minority- and women-owned suppliers, which we plan to implement in fiscal 2007.
- Increased our presence at minority business events and diversity trainings.
- Increased our level of participation with the National Minority Supplier Development Council and Women's Business Enterprise National Council.



## FUTURE GOALS

Our goals for fiscal 2007 include:

- Spending \$250 million on purchases from certified diverse suppliers.
- Implementing a supplier diversity training program for all new buyers.
- Developing a five-year supplier diversity plan that enables Starbucks to further advance our diverse supplier base.
- Creating a supplier diversity advisory council to support the advancement of supplier diversity at Starbucks.
- Developing meaningful key performance indicators (KPIs) to help track and measure progress toward our supplier diversity goals.

More information about Starbucks Supplier Diversity program is available at [Starbucks.com](http://Starbucks.com).

## Urban Coffee Opportunities

### Bringing the *Starbucks Experience* to Diverse Communities

In 1998, Starbucks formed a joint venture with Johnson Development Corporation (JDC), which is owned by Earvin “Magic” Johnson. Together we created Urban Coffee Opportunities, LLC (UCO), bringing Starbucks stores to diverse communities. We opened 15 new UCO stores in fiscal 2006 and ended the year with a total of 102.

We are close to meeting our goal of opening 125 UCO stores in the U.S. and expect to reach the 125 store benchmark by late 2007 or early 2008.

When scouting for new UCO locations, Starbucks and JDC consider the economic vitality and long-term potential of a given market. In many of the communities where UCO stores have opened, Starbucks arrival has helped to serve as an economic stimulus with the creation of new jobs, use of local suppliers, our support for community-based organizations, and by attracting other retailers to the area. The collective economic impact that our UCO stores generated in fiscal 2006 included:

- Providing more than 2,100 jobs in 102 UCO stores.
- Paying an estimated \$29.8 million in salaries/wages and benefits to UCO partners.
- Providing healthcare benefits to eligible and participating part- and full-time store partners, their spouses, domestic partners and eligible dependent children.



## Independent Assurance Report

To the Stakeholders Starbucks Coffee Company:

We have been engaged to provide assurance on the Corporate Social Responsibility (“CSR”) Fiscal 2006 Annual Report (the “Report”) of Starbucks Coffee Company (“Starbucks”), for the fiscal year ended October 1, 2006.

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

- Key Performance Indicators Summary and Highlights for Fiscal 2006;
- Information and data provided in each area of focus of the Report (Products, Society, Environment, Workplace, and Diversity) and
- The management and reporting for the preparation of this information and data.

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

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

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

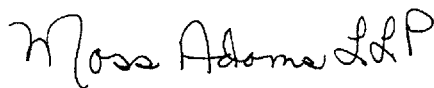
The Board of Directors of Starbucks is responsible for both the subject matter and the evaluation criteria.

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

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

- Testing the effectiveness of the internal reporting system used to collect and compile information on each area of focus in the Report;
- Performing specific procedures, on a sample basis, to validate the CSR data on site at Starbucks coffee buying operations in Switzerland; C.A.F.E. Practices operations in Costa Rica; and corporate headquarters in Seattle, Washington;
- Interviewing partners responsible for data collection and reporting;
- Interviewing partners at retail locations;
- Assessing the information gathering and compiling process of each area of focus in the Report;
- Reviewing relevant documentation, including corporate policies, management and reporting structures and
- Performing tests, on a sample basis, of documentation and systems used to collect, analyze and compile reported CSR information and data.

In our opinion, based on our work described in this report, the CSR information contained in the Report gives a fair representation of CSR performance and activities of Starbucks Coffee Company for the fiscal year ended October 1, 2006. 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 15, 2007

## Your Feedback Matters

In preparing Starbucks Fiscal 2006 CSR Annual Report, we provided a copy of our previous year's report to a broad cross-section of stakeholders, and asked for their candid feedback and advice on the ways in which we could improve transparency. We also received a great deal of feedback from readers of last year's report via an online survey, something we are doing again. This collective input provided some excellent suggestions that we incorporated into this year's report, including the changes we made to print only an abridged version focused on our most material issues and to publish the full report online.

We invite our readers to help us improve our future reporting by providing feedback on Starbucks fiscal 2006 CSR Annual Report. This can be done via an online survey at [www.starbucks.com/csrsurvey](http://www.starbucks.com/csrsurvey). Please be assured that all feedback will be thoughtfully considered and greatly appreciated.

## Verification

External verification of the data and statements made in Starbucks CSR Annual Reports began in 2002, when the company retained Seattle-based Moss Adams LLP, the 12th largest accounting and consulting firm in the U.S. The selection of Moss Adams met Starbucks criteria for a high-quality firm that had not worked with the company previously, and a firm that could develop a customized approach for verifying CSR-related data and content. (See page 76.)

## About the Paper Used for this Report

To minimize the environmental impact, this report was printed on 100 percent post-consumer recycled fiber.

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

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*This report includes forward-looking statements regarding trends in or expectations regarding store openings. These forward-looking statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties. Actual future results and trends may differ materially depending on a variety of factors including but not limited to successful execution of expansion plans, fluctuations in U.S. and international economies, the impact of initiatives by competitors, and other risks detailed in the company's filings with the Securities and Exchange Commission, including the "Risk Factors" section of Starbucks Annual Report on Form 10-K for the fiscal year ended October 1, 2006. The company assumes no obligation to update any of these forward-looking statements.*