




**Beyond the cup.**

CORPORATE SOCIAL RESPONSIBILITY  
FISCAL 2005 ANNUAL REPORT





A close-up photograph of a Starbucks employee, a young woman with brown hair, smiling warmly at the camera. She is wearing a black Starbucks polo shirt and a green Starbucks apron with the Siren logo. The background is a blurred Starbucks store interior.

Starbucks white cup has come to  
symbolize premium coffee.  
But Starbucks represents more  
than a cup of coffee. We are  
a place where neighbors visit,  
an innovative business  
and a company that tries to  
make a difference in people's  
lives and in the world.

To truly understand  
Starbucks, don't just look  
inside the container –  
*go beyond the cup.*



Dear Stakeholders,

Some of our most rewarding moments have been during visits with farmers who are extremely proud of the superb coffee they produce. Carlos Francisco Blanco (pictured on the cover) is one of thousands of farmers around the world who sell their high-quality coffee to Starbucks. His coffee is sold through Coopronaranjo, a coffee cooperative in Costa Rica where he is a member. Like many farmers, Carlos Francisco depends on getting an equitable price for his crops and having a consistent buyer year after year. Starbucks strives to understand what farmers need to sustain their livelihoods, just as we appreciate how vital they, as our suppliers, are to the sustainability of our business. Our approach to buying coffee has taken this into account.

This approach eventually led to the implementation of Coffee and Farmer Equity (C.A.F.E.) Practices, which seek to instill sustainable practices along our coffee supply chain. Since its introduction in 2004, C.A.F.E. Practices caught the attention of our coffee suppliers and has been recognized as a comprehensive model by many within our industry. Pioneering this new endeavor has been as rewarding as it has been challenging. We provide details on our progress later in this report.

Starbucks iconic white paper cup is also on the cover of this report, something we might not have featured so prominently in the past because we had yet to identify ways to mitigate the environmental impacts of these cups. But after pressing for an alternative to traditional hot beverage paper cups made with 100 percent virgin fiber, our efforts have begun to pay off. In 2006 Starbucks will begin using the first-ever hot beverage cups comprised of 10 percent post-consumer recycled content. This measure represents a first step in our ongoing efforts to explore innovations that will help reduce the overall environmental impacts related to our cups.

Reflecting on 2005, we take much pride in these achievements, and many others. At the same time, we recognize that corporate social responsibility (CSR) extends beyond groundbreaking initiatives and needs to permeate every aspect of our business. In this respect, Starbucks must continually strive to ensure that CSR is effectively integrated within all divisions of our company. This is our highest priority for CSR.

We recently updated the company's long-range strategic plan and identified key business objectives. While the company is strongly positioned for continued growth, we instinctively know that our future success depends on deepening our commitment to CSR and then effectively communicating to our stakeholders what we do. Through Starbucks Emerging Issues Council (EIC), a number of our senior leaders have helped to ensure that we are managing risks, supporting the company's business objectives and meeting the expectations of our stakeholders as part of our CSR efforts. Obtaining more transparency and traceability in our global supply chain and addressing climate change have been identified by the EIC as two areas of focus.

In broader terms, Starbucks is a place where our partners (employees) work, customers gather and suppliers engage in business. We truly believe that what makes Starbucks attractive is the company's abiding commitment to treat people with respect and dignity, which is the essence of Starbucks culture. To sustain this legacy, we must continue to meet our partners' need for health care coverage, maintain our high standards for quality products and exceptional customer service and conduct our business responsibly. These are basic tenets of Starbucks social responsibility that are articulated in our Mission Statement and Guiding Principles.

*(continued on page 2)*



Finally, we recognize that Starbucks exists and operates within the global society. Through the process of producing an annual CSR Report for the past five years, we have gained a better understanding of our global impacts and the importance of increased transparency. We remain committed to this type of open communication. We also will continue to engage our key stakeholders on issues material to our business, as well as participate in civic and global forums that inspire a sense of shared accountability. One such effort is our participation in the United Nations Global Compact, which is a means to work collaboratively across sectors on 10 universal environmental and social principles.

We think you will find this report worthy of your time and interest. As always, your feedback is very important to us and we encourage you to refer to the back page for information on how you can submit your remarks. In doing so, please accept our deepest appreciation.

Sincerely,



A handwritten signature in black ink that reads "Howard Schultz".

Howard Schultz  
chairman



A handwritten signature in black ink that reads "Jim Donald".

Jim Donald  
president and chief executive officer

## STARBUCKS MISSION STATEMENT AND GUIDING PRINCIPLES

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

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

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



## ABOUT THIS REPORT

### Scope

This report includes information on Starbucks U.S. and Canada company-operated retail and global supply chain operations, the areas representing 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 2005 (October 4, 2004–October 2, 2005), unless otherwise noted.

### Currency

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

### Previous CSR Reports

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

### 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 2, 2005. External verification is provided by Moss Adams LLP. See page 72.

### \*Global Reporting Initiative

Starbucks was influenced by the Global Reporting Initiative (GRI) in determining relevant content and performance metrics to include in our report. While Starbucks has not chosen to report in full accordance with the GRI, its principles and indicators help to provide a basis for our reporting. Information about GRI is online at [www.globalreporting.org](http://www.globalreporting.org).

### GRI indicators key

EC – economic  
EN – environmental  
LA – labor practices  
HR – human rights  
SO – society  
PR – product responsibility

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STARBUCKS CORPORATE SOCIAL RESPONSIBILITY

**KEY PERFORMANCE INDICATORS**

**SUMMARY AND HIGHLIGHTS FOR FISCAL 2005**

	INDICATOR	2004	2005	2006 TARGET
COFFEE				
Coffee and Farmer Equity (C.A.F.E.) Practices	Pounds of coffee purchased from C.A.F.E. Practices approved suppliers	43.5 million pounds (goal: 30 million pounds)	76.8 million pounds (goal: 75 million pounds)	150 million pounds
	Percentage of total coffee purchases	14.5%	24.6%	
Fair Trade Certified™ coffee	Pounds of coffee purchased from Fair Trade Certified™ cooperatives	4.8 million pounds	11.5 million pounds (goal: 10 million pounds)	12 million pounds
	Percentage of total coffee purchases	1.6%	3.7%	
COMMUNITY				
Charitable contributions	Total cash and in-kind contributions	\$14.6 million	\$30.3 million	Do not currently set targets for future charitable contributions.
	Percentage of pre-tax earnings	2.3%	3.8%	
Volunteerism (Make Your Mark)	Number of hours volunteered by partners and customers in the U.S. and Canada	214,000	299,000	375,000
ENVIRONMENT				
Greenhouse gas emissions	Metric tons of CO <sub>2</sub> equivalents	Conducted a baseline climate inventory of our 2003 emissions which totaled 376,000 <sup>1</sup> metric tons of CO <sub>2</sub> equivalents.	Did not schedule a climate inventory for 2005.	Purchase renewable energy certificates for 20 percent of the energy for our U.S. and Canada company-operated stores.
Electricity	Kilowatt hours per square foot of retail space	6.21 <sup>1</sup>	6.40	Target has not been established.
Water	Gallons per square foot of retail space	23 <sup>1</sup>	24	Target has not been established.
Paper	Percentage of post-consumer fiber (not including hot cups)	46.5%	49.5% (goal: 48%)	50%
	Percentage of unbleached fiber (not including hot cups)	86.3%	85.9% (goal: 90%)	86.5%
WORKPLACE				
Partner satisfaction	Percentage of satisfied or very satisfied partners	82% <sup>2</sup>	87%	Our goal is to maintain or improve our scores on these survey metrics.
Partner engagement	Percentage of engaged partners	73% <sup>2</sup>	73%	
Health and safety	Injury rate per 200,000 hours worked – retail	7.85 <sup>3</sup>	6.68	6.5
DIVERSITY				
Women	U.S. executives (vice presidents and above)	31%	34%	While Starbucks values diversity and inclusion, we do not currently set targets for representation by race and gender.
	U.S. workforce	63%	65%	
People of color	U.S. executives (vice presidents and above)	15% <sup>4</sup>	14%	
	U.S. workforce	30% <sup>4</sup>	30%	
Suppliers	Amount spent with certified minority- and women-owned businesses in U.S.	\$114 million (goal: \$95 million)	\$166 million (goal: \$140 million)	\$206 million

<sup>1</sup>Information has been updated to reflect new data.

<sup>2</sup>Results from Starbucks fiscal 2003 Partner View Survey. No survey was conducted in fiscal 2004.



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.

2005 HIGHLIGHTS	MORE INFORMATION
<ul style="list-style-type: none"> <li>Increased the number of approved coffee suppliers who participated in C.A.F.E. Practices.</li> <li>Increased the number of approved and trained C.A.F.E. Practices verifiers.</li> </ul>	Pages 18–22
<ul style="list-style-type: none"> <li>Introduced Café Estima Blend™ — Starbucks new Fair Trade Certified™ coffee.</li> <li>Began distributing Fair Trade Certified™ coffee through Costco stores in the U.S. and Canada.</li> </ul>	Pages 23–24
<ul style="list-style-type: none"> <li>Directed \$1.4 million for South Asia tsunami relief efforts, and committed \$5 million toward immediate relief and long-term rebuilding efforts related to Hurricane Katrina.</li> <li>Pledged \$5 million to launch the China Education Initiative which will support local educational programs.</li> </ul>	Page 38
<ul style="list-style-type: none"> <li>Starbucks supported designated nonprofit organizations, where partners and customers volunteered their time, with matching grants totaling \$1.5 million.</li> </ul>	Page 39
<ul style="list-style-type: none"> <li>Established a climate change mitigation strategy that includes purchasing renewable energy.</li> </ul>	Pages 52–53
<ul style="list-style-type: none"> <li>Approved Project Green BELT to begin testing energy and water conservation measures in a cross-section of our stores.</li> </ul>	Pages 58, 60–61
<ul style="list-style-type: none"> <li>Completed a test of a new paper cup made with 10 percent post-consumer recycled fiber and scheduled rollout for fiscal 2006.</li> </ul>	Pages 56–57, 61
<ul style="list-style-type: none"> <li>Increased the percentage of partners who participated in our fiscal 2005 Partner View Survey.</li> <li>Continued to see a high level of engagement among our partners.</li> </ul>	Page 65
<ul style="list-style-type: none"> <li>Launched a slip-resistant shoe program for retail partners.</li> </ul>	Page 65
<ul style="list-style-type: none"> <li>Completed a test of new anti-slip mats in our California company-operated stores and made plans to continue installing the mats in our company-operated stores in the U.S. and Canada.</li> </ul>	Page 71
<ul style="list-style-type: none"> <li>Conducted a 360-degree diversity assessment for Starbucks top senior leaders to identify their strengths and areas needing improvement.</li> <li>Designed an Executive Diversity Learning Series for vice presidents and above to help build their diversity competencies and overall leadership skills.</li> </ul>	Page 67
<ul style="list-style-type: none"> <li>Provided training to our key internal stakeholders about Starbucks goals for, and process related to, supplier diversity.</li> </ul>	Page 31

<sup>3</sup>Fiscal 2004 information has been retroactively adjusted to reflect new claims that were filed after the fiscal year ended.

<sup>4</sup>Data has been recast using fiscal 2005 methodology.



## STARBUCKS COMPANY PROFILE

Starbucks Corporation is the leading retailer, roaster and brand of specialty coffee in the world, with more than 10,000 company-operated and licensed locations in North America, Latin America, Europe, the Middle East and the Pacific Rim. 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.

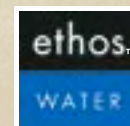
Starbucks Corporation is incorporated in Washington State, in the United States. The Company's common stock is traded on the National Market tier of The NASDAQ® Stock Market, Inc. ("NASDAQ"), under the symbol "SBUX." As of December 1, 2005, there were approximately 563,000 registered and beneficial shareholders of record.

### Company Data

FISCAL YEAR	2003	2004**	2005
<b>Total net revenues</b>	<b>\$4.1 billion</b>	<b>\$5.3 billion</b>	<b>\$6.4 billion</b>
U.S. company-operated retail stores	\$3.0 billion	\$3.8 billion	\$4.5 billion
U.S. specialty (licensing, foodservice and other)	\$507 million	\$690 million	\$795 million
International company-operated stores	\$484 million	\$657 million	\$853 million
International specialty (licensing, foodservice and other)	\$119 million	\$146 million	\$182 million
<b>Net earnings</b>	<b>\$265 million*</b>	<b>\$389 million*</b>	<b>\$494 million</b>
<b>Earnings per common share – diluted</b>	<b>\$0.33*</b>	<b>\$0.47*</b>	<b>\$0.61</b>
<b>Shareholders' equity</b>	<b>\$2.1 billion</b>	<b>\$2.5 billion</b>	<b>\$2.1 billion</b>
<b>Total income taxes</b>	<b>\$167 million*</b>	<b>\$232 million*</b>	<b>\$302 million</b>
<b>Cash paid for income tax expense</b>	<b>\$140 million</b>	<b>\$173 million</b>	<b>\$228 million</b>
U.S. federal and state	\$134 million	\$163 million	\$219 million
International	\$6 million	\$10 million	\$9 million
<b>Effective tax rate</b>	<b>38.6%*</b>	<b>37.3%*</b>	<b>37.9%</b>
<b>Number of countries where Starbucks stores are located</b>	<b>32</b>	<b>34</b>	<b>37</b>
<b>Total retail stores</b>	<b>7,225</b>	<b>8,569</b>	<b>10,241</b>
U.S. company-operated stores	3,779	4,293	4,867
International company-operated stores	831*	972*	1,133
U.S. licensed stores	1,422	1,839	2,435
International licensed stores	1,193*	1,465*	1,806
<b>Number of partners (employees)</b>	<b>74,000</b>	<b>97,000</b>	<b>115,000</b>

\* Numbers have been restated to reflect certain business acquisitions occurring in fiscal 2005 as well as adjustments for lease accounting, both described in more detail in our 2005 Annual Report to Shareholders.

\*\* Fiscal 2004 included 53 weeks. For further information about our financial performance, please see our 2005 Annual Report to Shareholders, available online at [www.starbucks.com/aboutus/investor.asp](http://www.starbucks.com/aboutus/investor.asp).





# Integrating Corporate Social Responsibility (CSR)

Howard Schultz, Starbucks chairman, sums it up best when he says, “Success is not an entitlement. It must be earned every day.” This is the prevailing attitude at Starbucks and defines the way we approach our relationships with stakeholders (customers, partners, suppliers, shareholders, communities and others) and how we conduct our business. Our inspiration also emanates from Starbucks six Guiding Principles, which combine our commitment to social responsibility with our drive to create shareholder value.

## 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. We believe our strong commitment to CSR benefits both Starbucks and our 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 usual 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 has historically been led by strong ethical and governance principles, one of which is to comply with applicable laws and regulations, including the Sarbanes-Oxley Act of 2002. Starbucks board of directors holds management accountable to operate and manage the company according to our principles. The board currently has the maximum

allowed 12 members, nine 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 12 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 2005, one independent member of the board retired, two new independent members were elected, and Starbucks president and ceo Jim Donald assumed the board position vacated by Orin Smith, Starbucks former president and ceo, who retired in March 2005.

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. In 2005, our board requested that the Nominating and Corporate Governance Committee once again consider the merits of a declassified board. Based on the Nominating and Corporate Government Committee’s recommendation, the board has approved an amendment to our Articles of Incorporation, which will provide for the annual election of all directors. The board formally recommended that shareholders approve adoption of this change at the 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.

## CORPORATE ETHICS

Upholding our strong ethical corporate culture is paramount to Starbucks success. Starbucks Business Conduct and Corporate Compliance program provides our partners with ethical business conduct guidelines, which are published in the Standards of Business Conduct. The Standards emphasize the company’s expectations for conducting business in a manner that is consistent with our Mission Statement and Guiding Principles and in compliance with laws and government regulations. For several years Starbucks U.S. and Canadian partners at the director level and above have been required to formally acknowledge that they have read,



understood and agreed to comply with Starbucks Standards of Business Conduct. In September 2004, Starbucks released an international version of the Standards of Business Conduct for partners outside of North America, which continues to be introduced to partners in company-owned markets.

Some topics in the Standards of Business Conduct include:

- Compliance with Laws and Regulations
- Conflicts of Interest
- Gifts and Entertainment
- Antitrust and Fair Competition

### Reporting Ethical Violations

Partners are urged to report any concerns involving ethics, legal issues or potential violations of Starbucks Standards of Business Conduct or company policies through the Business Conduct Helpline, which is handled by an independent third party. All concerns are taken seriously and information provided to the Helpline is treated in a confidential manner. Partners may also choose to remain anonymous.

Starbucks does not tolerate retaliation against any partner who raises concerns or questions regarding any possible violation he or she reasonably believes to have occurred.

Starbucks also maintains an Auditline for third parties, such as vendors, investors and customers, to report possible accounting and/or auditing irregularities.

### FUTURE GOAL

The Business Conduct and Corporate Compliance program will focus on three areas in fiscal 2006: developing and providing further job-specific compliance training; designing and implementing companywide ethics training; strengthening our communications on ethics and compliance that are geared for our partners.

### MANAGING CSR

The day-to-day management of Starbucks corporate social responsibility initiatives is handled by a team of partners who report to the senior vice president of CSR. Some CSR-related programs and initiatives are managed and implemented at the business unit, division or department level. Our CSR organizational chart is below.

Currently there is no committee of the Starbucks board dedicated to CSR, although issues related to CSR are periodically presented and discussed at the board level.

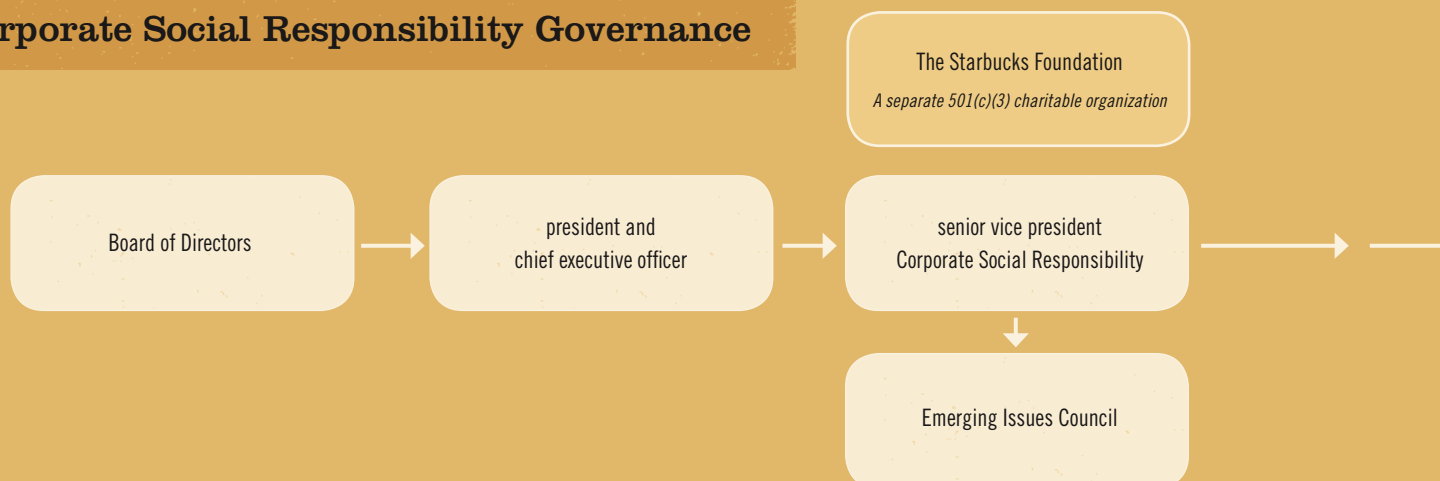
### FUTURE GOAL

In fiscal 2006, Starbucks will form a CSR Executive Committee to set CSR-related policies and provide guidance for our CSR strategy.

### Emerging Issues Council (EIC)

In 2005, the EIC, a cross-functional team of 18 Starbucks executives, helped the company identify and proactively address several issues, such as our customers' concerns about nutrition; our purchasing practices related to cocoa; and Starbucks impact on climate change. The EIC also initiated several stakeholder engagement sessions that allowed us to gain feedback on issues of significance to the company.

## Corporate Social Responsibility Governance





## Stakeholder Engagement

Our stakeholders include customers, partners, suppliers, shareholders, community members, environmental groups, activists and many others. We have benefited greatly from engaging our stakeholders in dialogue, listening to their concerns and asking for their feedback.

Starbucks hosted one such session in Lausanne, Switzerland, home of the company's coffee buying operations, in June 2005. We invited a cross-section of European policymakers, nongovernmental organizations (NGOs) and trade groups representing a multitude of interests and perspectives. Topics broadly centered on global issues that could have an effect on the coffee industry as a whole, such as industry collaboration, equity for coffee farmers, coffee quality and the environment. Starbucks also shared our current CSR activities and initiatives and asked for feedback on sustainability issues we should consider in Europe and within our global operations.

Several examples of our other stakeholder engagement efforts are highlighted throughout this report.

## 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 2005.

- Calvert Social Index™
- Citizens Index®
- Domini 400 Social Index™
- 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
- KLD Broad Market Social Index, KLD BMS™
- KLD Large Cap Social Index, KLD LCS™
- KLD NASDAQ Social Index

Corporate Giving

Civic and Community Affairs

Business Practices  
(Supply Chain)

Environmental Affairs

International CSR

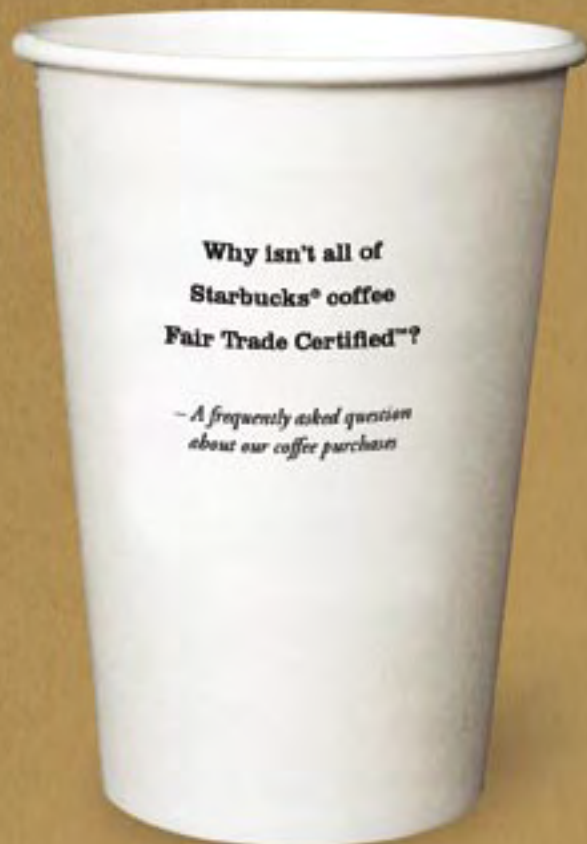
Public Policy and  
Government Affairs

Stakeholder and  
Partner Engagement


Transparency and Reporting



# OUR WORLD OF PRODUCTS







Starbucks is committed to purchasing our coffee in an ethical and sustainable manner, regardless of labels and certifications. The Fair Trade system only certifies cooperatives of small-holder, family-owned farms, a system that currently produces about two percent of the world's coffee supply. The majority of the high-quality coffee Starbucks purchases is grown by farmers outside this system, many of whom are small-holders. Fair Trade Certified™ coffee is one source of supply for our global coffee purchases.

(More information begins on page 16.)

*Manuel Antonio Barrantes works in his family's business, a coffee farm located in the Costa Rican province of Alajuela. The 99-acre (40-hectare) farm, the Herbazu Estate, was named after the family's patriarch, Hermanos Barrantes Zúñiga. Herbazu is an approved supplier under C.A.F.E. Practices, Starbucks socially responsible coffee buying guidelines. All 10 of Manuel Antonio's siblings live, work and raise their families on the estate. Manuel Antonio and his daughter, Hazel Maria, are pictured here.*





## Progress Report on Our Performance – PURCHASING PRACTICES

TOPIC	WHAT WE SAID IN 2004	WHAT WE DID IN 2005	SELF-RATING	FOR MORE INFORMATION
Coffee <i>C.A.F.E. Practices</i>	Purchase 75 million pounds (34 million kilograms) of coffee from approved suppliers in fiscal 2005.	Purchased 76.8 million pounds (34.8 million kilograms) of coffee under C.A.F.E. Practices, representing 24.6 percent of our total coffee purchases.	●	Page 18
Coffee <i>C.A.F.E. Practices</i>	Continue to provide extensive C.A.F.E. Practices training for verifiers, farmers, suppliers and Starbucks partners.	Increased the number of verifiers and farmers in Latin America trained on C.A.F.E. Practices. Integrated C.A.F.E. Practices information into barista training materials, advanced Coffee Education classes and Coffee Masters program materials for our partners.	●	Page 21
Coffee <i>C.A.F.E. Practices</i>	Seek ongoing feedback from farmers and nongovernmental organizations (NGOs) on ways we can improve C.A.F.E. Practices.	Surveyed farmers and verifiers on various aspects of C.A.F.E. Practices. Also shared the C.A.F.E. Practices model with industry peers and invited their feedback.	●	Page 19
Coffee <i>C.A.F.E. Practices</i>	Work with Conservation International (CI) and other third parties to develop regional indicator supplements and small-holder farmer guidelines.	Continued collaborating with CI to create regional guidance documents for Latin America. Began regionalizing indicators for C.A.F.E. Practices, a process that will continue in 2006. Also created a supplement to make C.A.F.E. Practices relevant for small-holder farmers and cooperatives.	◐	Page 19
Coffee <i>C.A.F.E. Practices</i>	Make additional efforts to implement C.A.F.E. Practices in Africa and Asia.	Signed a three-year agreement with African Wildlife Foundation to assist us in East Africa. Began initial efforts to extend C.A.F.E. Practices to East African coffee farmers and cooperatives.	◐	Page 22
Coffee <i>C.A.F.E. Practices</i>	Develop tools and systems to measure the financial impacts and the benefits of C.A.F.E. Practices.	Began an initial study with 100 coffee farmers in Costa Rica to better understand farmers' costs/benefits of participating in C.A.F.E. Practices.	◐	
Coffee <i>Fair Trade</i>	Purchase 10 million pounds (4.5 million kilograms) of high-quality coffee from Fair Trade Certified™ cooperatives.	Purchased 11.5 million pounds (5.2 million kilograms) of high-quality Fair Trade Certified™ coffee, representing 3.7 percent of our total coffee purchases.	●	Page 23
Coffee <i>Fair Trade</i>	Increase our channels of distribution and product offerings of Fair Trade Certified™ coffee in the U.S. and Canada.	Introduced Café Estima Blend™ Fair Trade Certified™ coffee in our U.S. and Canada retail stores. Increased our Fair Trade Certified™ coffee offerings to our foodservice accounts, including colleges and universities. Began selling Fair Trade Certified™ coffee in Costco stores, a significant channel of distribution for Starbucks.	●	Page 24
Manufactured goods <i>Supplier Code of Conduct</i>	Increase training on Starbucks Supplier Code of Conduct for our global procurement team and our suppliers.	Conducted an internal procurement workshop to review and gain feedback on Starbucks initial efforts of implementing our Supplier Code of Conduct. Although we did not train any of our suppliers, we began developing a broader, more sustainable approach to support our procurement practices.	◐	Page 27
Supplier diversity	Enhance our tools and the training provided to our buyers and business unit managers so we can increase our total purchases from diverse suppliers.	Initiated a new project to improve tracking of suppliers in our accounting system, a process that will enable Starbucks to report our purchases with diverse suppliers in greater detail. Conducted internal presentations on our supplier diversity process.	◐	
Supplier diversity	Join national supplier diversity organizations that enable us to network and develop relationships with diverse suppliers.	Joined the National Minority Supplier Development Council and the Women's Business Enterprise National Council.	●	Page 31

KEY: ● ACHIEVED ◐ MAKING PROGRESS ○ DID NOT ACHIEVE



## OUR WORLD OF PRODUCTS

In the early days of Starbucks, our business was fairly straightforward. We sold high-quality whole bean coffee through a small network of company-operated retail locations and via some wholesale accounts. Coffee continues to be our core product and accounts for the majority of Starbucks revenues. But today Starbucks 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/or sells, a commitment to quality is upheld. This commitment stems from our Guiding Principle that compels us to apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.

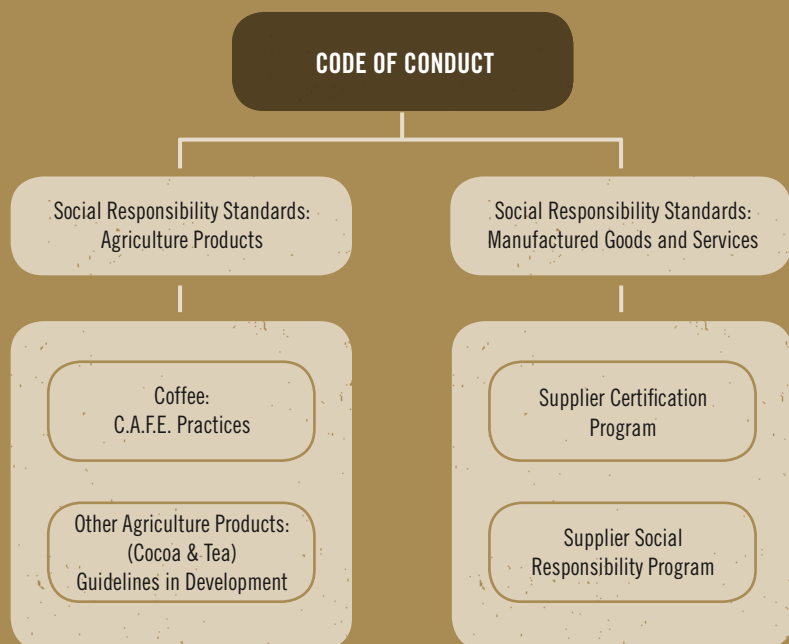
In this section we explain Starbucks approach to sustainable trade. We report the progress we're making to implement this approach and indicate where improvement is needed. Specific topics include:

- Our integrated approach to sustainable coffee production
- Social responsibility standards for manufactured goods
- Sustainable practices for agricultural products, including cocoa and tea
- Consumer products – Ethos™ water, Starbucks™ Liqueurs and Hear Music™ CDs
- Supplier diversity

### 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.





# OUR WORLD OF PRODUCTS

Starbucks trading relationships span the globe. This map indicates where our coffees, teas, botanicals and cocoa are grown and where Ethos™ water is sourced.



## QUICK FACTS – FISCAL 2005

### COFFEE

- Global production: 15 billion pounds<sup>1</sup> (7 billion kilograms).
- Starbucks purchased 312 million pounds (142 million kilograms), which represents two percent of world production.
- Starbucks coffee was grown in 27 countries, the majority being Guatemala, Costa Rica and Indonesia.

See page 16.

### TEA/BOTANICALS\*

- Global tea production: 7.1 billion pounds<sup>2</sup> (3.2 billion kilograms).
- Starbucks purchased 3.2 million pounds (1.4 million kilograms) of teas and botanicals.
- Tazo® teas and botanicals are grown in 25 countries.

See page 29.

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





## COCOA

- Global production: 7.2 billion pounds<sup>3</sup> (3.3 billion kilograms).
  - Starbucks purchased 12.4 million pounds (5.6 million kilograms).
  - The cocoa used in Starbucks products is produced in eight countries.
- See page 28.

## WATER

- In 2005, Ethos™ water was sourced from two U.S. locations – Palomar Mountain range, California, and Pennsylvania's Pocono Mountains.
- See page 30.

<sup>1</sup>October 2004–September 2005, International Coffee Organization

<sup>2</sup>2004 figures, International Tea Committee Annual Bulletin of Statistics 2005 provided by Tea Association of the USA, Inc.

<sup>3</sup>October 2004–September 2005, LMC International, Ltd., LMC Cocoa Bulletin



# STARBUCKS COFFEE SUPPLY CHAIN

## FARMERS/PRODUCERS

C.A.F.E. Practices suppliers are asked to provide a copy of an invoice or receipt for the coffee delivered to the processor or exporter. If the farmer represents a large estate, we also request wage and salary transparency to determine whether farm workers are receiving fair compensation for their labor.

**Estates** are medium- to large-scale farms that typically employ workers to help with harvesting and processing. Estates usually have their own processing facilities on-site.

**Small farms** are typically family-run, growing coffee on less than 30 acres (12 hectares) along with other food crops. Small-holder farmers deliver their harvested coffee crops to a collection point and then sell to an intermediary or a processor. Farmers are self-employed and might hire workers as well as rely on their families to help during the harvest season.



### Cooperatives

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

## PROCESSORS

For C.A.F.E. Practices suppliers, evidence must be furnished indicating payments up and down the supply chain, including payments made to farmers, and receipts from exporters. Documentation is also required indicating the costs of processing.



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



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

*\*The level of transparency varies depending on supply chain realities. For example, some documentation can only be traced to the cooperative level and not to the end-producer (farmer).*

## Our Integrated Approach to Sustainable Coffee Production

The world coffee market has historically been susceptible to price fluctuations, which are linked to global supply and demand. In 2001, green (unroasted) coffee prices hit a 30-year low, adversely affecting many coffee farmers. Regardless of market fluctuations, Starbucks has always been committed to purchasing high-quality coffee in a socially responsible manner. But when this most recent and dramatic downturn occurred, we reviewed our entire approach to buying coffee and adopted a more integrated and sustainable model that is based on six fundamental principles:

- Paying premium prices to help farmers make profits and support their families
- Encouraging participation in C.A.F.E. (Coffee and Farmer Equity) Practices, our social and environmental guidelines for producing, processing and buying coffee
- Purchasing conservation (shade grown) and certified coffees, including organic and Fair Trade Certified™
- Providing funds for farmers to access credit
- Investing in social development projects in coffee producing countries
- Collaborating with coffee producers globally on coffee quality, production, processing and research through our team of experts at the Starbucks Coffee Agronomy Company, located in Costa Rica



The value chain that extends from farmer to customer includes coffee growers, farm workers, mill workers, exporters and roasters. At every stage our quality standards must be met, as well as our requirement for economic transparency, which helps to ensure farmers receive equitable prices for their crops.

## EXPORTERS

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

**Exporters** receive or buy green coffee beans from mills, farmers and cooperatives. They contract and arrange for shipment of the green coffee and sell the coffee to importers or roasters.

Exporters are either independent agents in the supply chain or, in many cases, have their own wet and dry mill facilities. And some farms do it all – grow and process the coffee and serve as exporters. The exporter can be a local company or part of a large corporation with importing offices around the world. Starbucks uses exporters because they provide value-added services and reduce risk for both Starbucks and farmers through services such as quality management, sampling of coffee, providing pre-crop financing and preparing documentation of finished coffee for export and delivery.



## STARBUCKS COFFEE COMPANY

### 1 Importer

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



### 2 Roaster

Green coffee is then transported to one of our plants and roasted to Starbucks flavor profiles.



### 3 Distributor

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

### 4 Retailer

Starbucks sells coffee in more than 10,000 stores worldwide.

## Paying Premium Prices

The success of the farmers with whom we do business is intrinsically linked to the sustainability of our business. Our commitment to pay premium prices for high-quality coffee underlies all of our relationships with farmers. Paying premium prices has also helped to stimulate the production of high-quality coffee, and helped farmers increase their incomes, reinvest in their farms and plan for their futures. The visible impact of paying higher prices is often referred to as the *Starbucks Effect*, a phrase coined and used by some of the farmers and suppliers who sell coffee to Starbucks.

“The *Starbucks Effect* is clearly being felt in Colombia,” said Carlo Frigerio, president of Carcafé, the Colombian division of global coffee exporter, Volcafé, “and it is putting tremendous pressure on others to do something similar.”

In fiscal 2005, Starbucks purchased 312 million pounds (142 million kilograms) of coffee and paid an average price of \$1.28 per pound, which was 23 percent higher than the average New York “C” (the worldwide reference used by coffee traders) market price during the same time frame.



## 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 \$70 billion in retail sales worldwide.\* Furthermore, the coffee industry provides a livelihood for an estimated 25 million people\* (coffee farmers and their families) in more than 70 tropical coffee-producing countries.

There are two commercially viable species of coffee – *robusta* and *arabica*. High-quality *arabica* coffee is grown on all kinds of farms that range from very small, family-run parcels to large-scale estates located between the Tropics of Cancer and Capricorn, and typically situated at higher elevations. These elevations provide optimal climatic conditions needed to grow the type of coffee that is considered specialty grade. When more care is taken in growing, harvesting and processing the beans, the result is higher-quality coffee. Starbucks only purchases the highest-quality *arabica* coffee beans. These coffees are sold under the Starbucks®, Seattle's Best Coffee® and Torrefazione Italia® brands.

*Arabica* coffee is traded in two ways:

- The majority of *arabica* coffee is traded as a commodity on the highly volatile New York “C” market. As global supply rises and falls, so do “C” prices. The average “C” price for a pound of coffee during fiscal 2005 was \$1.04.
- Higher-quality *arabica* beans are sold as specialty coffee, which represents 10 percent\*\* of total worldwide coffee purchases. Prices for specialty coffee are often negotiated at higher prices than the “C” offers in order to compensate farmers for quality. Coffee can be purchased from exporters, brokers, cooperatives and in some cases, farms.

\*International Coffee Organization

\*\*Specialty Coffee Association of America

## C.A.F.E. Practices

In 1998, Starbucks began to integrate conservation principles in our coffee buying practices through our partnership with Conservation International (CI). Three years later, we collaborated with CI to create and pilot Starbucks Preferred Supplier Program (PSP) that was based on a set of socially and environmentally responsible coffee buying guidelines. These early efforts laid the groundwork for what eventually became Coffee and Farmer Equity (C.A.F.E.) Practices. Formally introduced in fiscal 2004, C.A.F.E. Practices was designed to assure high-quality coffee is grown and processed with environmental sensitivity and social equity throughout our coffee supply chain. Program improvements were made in fiscal 2005 by Scientific Certification Systems (SCS), a third-party evaluation and certification firm retained by Starbucks for the development, training and auditing of C.A.F.E. Practices.

### OUR GUIDELINES FOR C.A.F.E. PRACTICES

C.A.F.E. Practices helps ensure that Starbucks purchases coffee that is grown and processed in a sustainable manner by evaluating the social, environmental and economic aspects of coffee production. The guidelines include 28 indicators against which suppliers (farmers, cooperatives, processors and exporters) are evaluated. With the exception of the indicators for quality and economic transparency, which are prerequisites, all other indicators have been assigned a minimum and a maximum number of points.

Suppliers need to earn the minimum points in each scored area, representing social and environmental criteria. Final scores are determined by independent, third-party verifiers, a process monitored by SCS. Starbucks looks at the points earned in each section to decide each supplier's status.

In fiscal 2005, Starbucks purchased 76.8 million pounds (34.8 million kilograms) of coffee from C.A.F.E. Practices suppliers in seven countries. There are three status levels for C.A.F.E. Practices suppliers: Strategic, Preferred, and Verified. Starbucks buys on a preferential basis from C.A.F.E. Practices approved suppliers.

Of the C.A.F.E. Practices coffee we purchased in 2005, the percentage from each supplier group is as follows:

- Strategic (score of 80% and higher in social and environmental areas): 27%
- Preferred (score of 60% and higher in social and environmental areas): 11%
- Verified (score of less than 60% in social and environmental areas): 62%

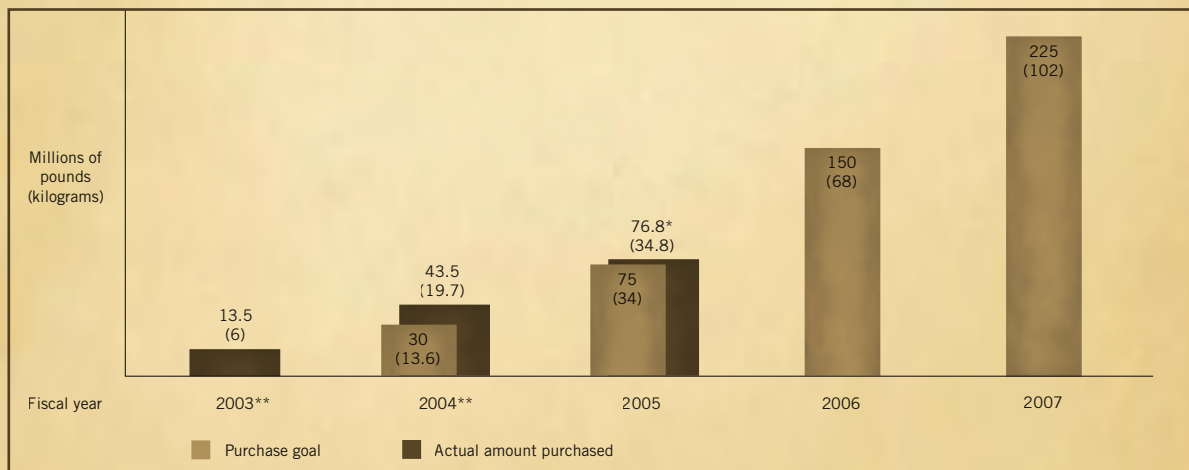


## C.A.F.E. PRACTICES TIMELINE

### Evolution of Starbucks socially responsible coffee buying guidelines

<b>1998–2000</b>	<b>Conservation Principles for Coffee Production</b>	
	Developed through multistakeholder collaboration between nongovernmental organizations (NGOs) and industry associations in response to declining coffee prices. These principles influenced Starbucks coffee buying guidelines.	
<b>2001</b>	<b>Starbucks Preferred Supplier Program (PSP)</b>	
	Created in collaboration with Conservation International to ensure the sustainable production of high-quality coffee. The program was based on a set of quality, social, environmental and economic guidelines.	
<b>2002–2003</b>	Conducted a two-year pilot of the program with coffee farmers, processors and exporters. Feedback was solicited and used to improve the program, including the introduction of more relevant and specific guidelines and a third-party verification process.	
<b>2004</b>	<b>C.A.F.E. Practices</b>	
	PSP program was enhanced with guidance from Scientific Certifications Systems and renamed Coffee and Farmer Equity (C.A.F.E.) Practices.  Economic transparency became a prerequisite and defining component of C.A.F.E. Practices.  Opened Starbucks Coffee Agronomy Company (Farmer Support Center) in Costa Rica to work more closely with farmers and suppliers worldwide who are implementing the guidelines for C.A.F.E. Practices.	
<b>2005</b>	Continued to improve guidelines based on feedback from farmers, cooperatives, suppliers and NGOs.  Created a supplement to the guidelines for small-holder farmers and cooperatives.  Increased the number of verifiers and farmers trained on C.A.F.E. Practices in Latin America.	
<b>2006 AND BEYOND</b>	Explore opening a Farmer Support Center in Asia and begin introducing C.A.F.E. Practices to our local suppliers.  Work with African Wildlife Foundation to develop regional guidance documents so C.A.F.E. Practices can be extended to East African coffee farmers and cooperatives.  Plan to work with farmers and suppliers to provide the evidence we request for economic transparency.	

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



\*Represents 24.6% of Starbucks total coffee purchases.

\*\*Coffee purchased under Preferred Supplier Program guidelines.



## COMPARING C.A.F.E. PRACTICES TO COFFEE CERTIFICATION SYSTEMS

Starbucks admires the efforts other organizations are making to address the inequities coffee farmers face and to protect the environment that sustains them. Over the years, many of these organizations have developed certification systems for coffee producers, with a range of objectives, each focused on a specific area of sustainability. For example, Fair Trade Certified™ coffee guarantees small producers in democratically organized cooperatives a minimum price for their product. Rainforest Alliance's Sustainable Agriculture Network (SAN) and the Smithsonian Migratory Bird Center's "Bird Friendly®" Coffee Program emphasize environmental stewardship.

Starbucks has drawn from the experience of many of these systems in the development of C.A.F.E. Practices, including the work of organizations that contributed to the

Conservation Principles for Coffee Production – upon which C.A.F.E. Practices is based. C.A.F.E. Practices includes many of these focus areas and ensures that suppliers to Starbucks are addressing a range of sustainability issues. C.A.F.E. Practices' comprehensive sustainability criteria include aspects ranging from coffee quality to social, environmental and economic responsibility.

A number of industry-developed initiatives have also been launched to address certain aspects important to their business or to include producers from specific countries or farm types. For example, Utz Kapeh certification has been adopted by several multinational brands. We believe these efforts contribute to the promotion of a sustainable coffee industry and we appreciate the benefits that each has brought to coffee-producing communities. A comparison between several established certification systems and C.A.F.E. Practices is available in the table below.

Coffee Certification Systems Compared to C.A.F.E. Practices				
PROGRAM	MISSION	FOCUS AREAS	LABEL	FOR MORE INFORMATION
<b>Fair Trade</b>	Sustainable development of disadvantaged small-holder farmers of democratically organized cooperatives.	Minimum price, social premium, labor and environmental standards		<a href="http://www.fairtrade.net">www.fairtrade.net</a>
<b>Rainforest Alliance</b>	Integrate productive agriculture, biodiversity conservation and human development.	Sustainable farm management, including social, labor and environmental responsibility, and continual improvements		<a href="http://www.rainforest-alliance.org">www.rainforest-alliance.org</a>
<b>Smithsonian Bird Friendly®</b>	Conduct research and education around issues of neo-tropical migratory bird populations, promoting certified shade coffee as a viable supplemental habitat for birds and other organisms.	Shade grown coffee		<a href="http://www.si.edu/smbc">www.si.edu/smbc</a>
<b>Organic</b>	Produce organic food by farmers who emphasize the use of renewable resources and the conservation of soil and water to enhance environmental quality for future generations. Organic food is produced without using most conventional pesticides; fertilizers made with synthetic ingredients or sewage sludge; bioengineering; or ionizing radiation.	Soil health		<a href="http://www.ams.usda.gov/nop">www.ams.usda.gov/nop</a>
<b>Utz Kapeh</b>	Implement a worldwide baseline standard for socially and environmentally responsible coffee production and sourcing.	Environmental and social responsibility, good agricultural practices, traceability and basic food safety issues		<a href="http://www.utzkapeh.org">www.utzkapeh.org</a>
<b>C.A.F.E. Practices</b>	Ensure the sustainable production of high-quality coffee by addressing social, environmental and economic responsibility throughout the coffee supply chain.	Coffee quality, social, environmental and economic responsibility		<a href="http://www.scs-certified.com/csrpurchasing/starbucks.html">www.scs-certified.com/csrpurchasing/starbucks.html</a>



## ECONOMIC TRANSPARENCY

For all the coffee Starbucks buys, our goal is to pay premium prices that help farmers sustain their business. We purchase coffee from a variety of suppliers, including individual farms and farmer-run cooperatives, or through exporters who buy from farms. Starbucks wants assurance that the farmer receives a fair and profitable share of our purchase price. This is why we began inserting economic transparency provisions into our coffee contracts, essentially requiring that our suppliers provide credible evidence, usually in the form of receipts, that indicates how much each party in the coffee supply chain was paid. In fiscal 2005, 93 percent of our coffee contracts included an economic transparency clause requesting documentation of payments made to various participants in the supply chain. In 87 percent of these contracts, economic transparency was required to the producer level. (See pages 16 and 17 for economic transparency requirements.)

While we are encouraged by the progress our suppliers have made to provide economic transparency, institutionalizing this new practice continues to present enormous challenges. When coffee suppliers provide economic transparency, they present various forms of financial documents as evidence. These can range 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. Moreover, these documents not only differ in quality, they reflect variations in currency, units of measure and are prepared in many different languages.

Starbucks goal is to verify the submitted evidence and reach a high level of assurance that farmers received an equitable portion of the purchase price. Given the realities mentioned above, the complexities of our coffee supply chain and the circumstances of a producing country, we anticipate this undertaking to be an ongoing challenge.

## THE VERIFICATION PROCESS – WHAT WE ARE LEARNING

Suppliers interested in participating in C.A.F.E. Practices must agree to an inspection by an independent third-party verifier. Verifications are usually conducted annually and involve field inspections, face-to-face interviews with workers, document reviews and desk audits. Completed reports are submitted, reviewed by a Starbucks committee and granted a status.

During fiscal 2005, Scientific Certification Systems trained 100 individual verifiers representing 14 organizations from seven countries who can evaluate and score against C.A.F.E. Practices' comprehensive criteria. We are continually working to increase the pool of qualified verifiers.

Through the verification process, Starbucks has come to appreciate that regional guidance documents are needed to accommodate local supply chain realities.

## Rainforest Alliance: Profile of a C.A.F.E. Practices Verifier



Everlay Méndez Martínez of Pronatura, an affiliate of the Rainforest Alliance, conducts a coffee farm's independent third-party field inspection against C.A.F.E. Practices.

The Rainforest Alliance is dedicated to protecting the earth's ecosystems and has been a champion and catalyst for sustainable agricultural practices. In conjunction with the Sustainable Agriculture Network (SAN), a coalition of leading conservation groups, the Rainforest Alliance developed its own guidelines for sustainable agriculture and created a certification seal for products, including coffee, which are grown and produced in accordance with its guidelines.

The Rainforest Alliance and some of its SAN co-members serve as verifiers for C.A.F.E. Practices. In fiscal 2005, these parties carefully verified 16 applications, which included measuring performance on farms and mills. They used a verification process that was audited by Scientific Certification Systems (SCS), a standard practice for all newly approved verifiers. In some cases this past year, suppliers appealed their scores to SCS. After a thorough review, SCS determined that the Rainforest Alliance and SAN verifiers had properly measured performance and that the scores were indeed correct.

Guillermo Belloso, a verifier on the Rainforest Alliance/SAN team in El Salvador, shared his perspective on C.A.F.E. Practices. "Like any standard, C.A.F.E. Practices is a challenge to implement with consistency. We need to make sure it is driving real, continuous improvements and that small producers have access to the training and resources they need to comply with the requirements." Verifiers such as the Rainforest Alliance are continually providing meaningful feedback to Starbucks and thus helping to strengthen C.A.F.E. Practices.



## STARBUCKS RECOGNIZED FOR C.A.F.E. PRACTICES BY THE WORLD ENVIRONMENT CENTER

The 2005 Gold Medal Award from the World Environment Center was presented to Starbucks, recognizing the company's leadership in the development of C.A.F.E. Practices. President Oscar Berger of Guatemala presented the prestigious award to Howard Schultz, Starbucks chairman, in Washington, D.C., in May 2005.

**Q: Why should I invest in C.A.F.E. Practices now that coffee prices have gone up and I am already earning more for my crops?**

– Hugo Davila, Las Carmelitas Farm, Nicaragua

**A:** Market prices for coffee have always been volatile, rewarding farmers during the good times but hurting them when prices fall. To address the need for stability and to ensure a sustainable supply of high-quality coffee for Starbucks, we developed C.A.F.E. Practices. Starbucks gives preference to C.A.F.E. Practices suppliers by paying premium prices that help farmers sustain their businesses and by potentially signing long-term contracts. In other words, approved C.A.F.E. Practices suppliers have more security because they know that they have a buyer for their future crops – and that long-term buyer is Starbucks.



Peter Torrebiarte (right), general manager of Starbucks Coffee Agronomy Company in Costa Rica, recently visited the Santa Eduvigis farm, an approved C.A.F.E. Practices supplier, and met with its foreman, Porfirio Obregon Ruiz.

## GOING FORWARD

While much progress has been made implementing C.A.F.E. Practices, instituting such a pioneering effort is not easy. For instance, obtaining credible economic transparency for all of our coffee contracts may take years.

Given the volatility of world coffee prices, some suppliers may question whether it makes sense to invest in the type of sustainable measures required to participate in C.A.F.E. Practices. We encourage farmers to consider the benefits of building long-term relationships with Starbucks through their participation in C.A.F.E. Practices, and to focus on improving the quality and sustainability of their coffee. By doing so, we believe they are better protected from fluctuating prices.

Starbucks has set aggressive goals for C.A.F.E. Practices, reflected in the amount of coffee we plan to purchase from participating suppliers. (See page 19.) To meet this particular goal, we need a larger base of approved suppliers and more trained verifiers.

Our motivation for opening Starbucks Coffee Agronomy Company (Farmer Support Center) in Costa Rica two years ago was to work more closely with coffee farmers and suppliers from all over the world, implement the guidelines for C.A.F.E. Practices and help farmers maintain and improve the quality of their coffee. Having a presence there has also allowed us to have closer relationships with suppliers and gain greater insight into the production of high-quality, sustainable coffee.

We will continue to extend C.A.F.E. Practices to East African coffee farmers and cooperatives. Additionally, Starbucks recently aligned with the African Wildlife Foundation to work jointly with coffee cooperatives in Kenya to provide coffee quality training and encourage the adoption of sustainable coffee practices.

*More information on C.A.F.E. Practices, including the guidelines and scoring system, can be found online at [www.scs-certified.com/csr/purchasing/starbucks.html](http://www.scs-certified.com/csr/purchasing/starbucks.html).*



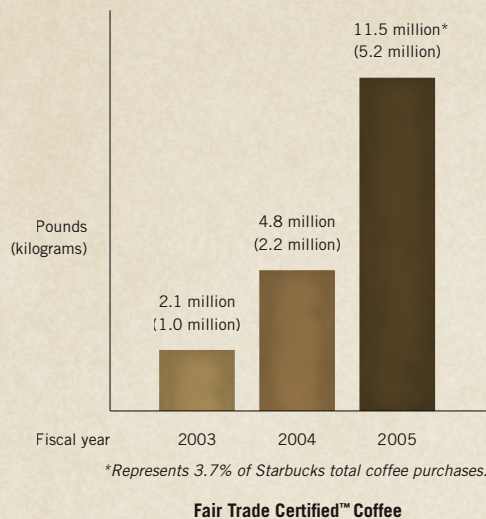
## Starbucks and Fair Trade

Starbucks and the Fair Trade movement share a common goal: to help ensure that farmers receive a fair price for their coffee and strengthen their farms for the future. We also focus on cultivating long-term, stable relationships with farmers, providing supplemental funding through social premiums, and providing them access to affordable credit.

In fiscal 2005, Starbucks exceeded the 10 million pound (4.5 million kilogram) goal we had previously set with purchases of 11.5 millions pounds (5.2 million kilograms) of Fair Trade Certified™ coffee. This represents approximately 10 percent of global Fair Trade Certified™ coffee imports. Twenty-one percent of the Fair Trade Certified™ coffee imported into the U.S. in fiscal 2005 was purchased by Starbucks, making us the largest purchaser of Fair Trade Certified™ coffee in North America.

### FUTURE GOAL

In fiscal 2006, Starbucks plans to increase sales of our newly introduced Fair Trade product offerings and purchase 12 million pounds (5.4 million kilograms) of Fair Trade Certified™ coffee.



### What Is Fair Trade Certified™ Coffee?

Fair Trade certification guarantees that a minimum price\* of \$1.26 per pound (\$1.41 per pound for organic) was paid to the farmer cooperative that produced the coffee. Certification also requires criteria be met by coffee cooperatives, including fair labor conditions, freedom of association and certain environmental standards. To be certified as Fair Trade, the coffee can only be grown by small-holder farmers who belong to farmer-owned, democratically run coffee cooperatives listed on the Fair Trade registry. An estimated three percent of the world's coffee farmers participate in the Fair Trade system.

*\* These established prices set by the Fairtrade Labelling Organizations International 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, Fair Trade prices are adjusted accordingly to be at least \$0.05 above the "C" price. According to TransFair USA, approximately 70 percent of the price paid to the Fair Trade registered cooperatives goes to coffee farmers, and the rest goes to operational and overhead costs.*

### EXPANDING OUR COMMITMENT TO FAIR TRADE CERTIFIED™ COFFEE

Our first relationship with a Fair Trade 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. Every year since, we have increased our purchases of Fair Trade Certified™ coffee and worked to strengthen our relationships with Fair Trade producers and licensing organizations around the world.

When Starbucks purchases Fair Trade Certified™ coffee, we are assured by the Fair Trade organizations that it was grown by small-holder coffee farmers, purchased for a set price via registered Fair Trade cooperatives, and that certain social and environmental standards were upheld. The price we pay for Fair Trade Certified™ coffee includes a social premium, which totaled approximately \$575,000 in fiscal 2005. The Fair Trade co-ops we purchased from used these funds for community improvements, such as local schools and health clinics.

We have also helped to empower Fair Trade producers by providing them with technical assistance needed to improve the quality of their coffee; sharing best practices on sustainability and business operations; and funding several nonprofit organizations that provide Fair Trade registered cooperatives with pre-harvest financing credit. (See page 26.)



## CASE STUDY: EMPOWERING FARMERS IN EAST TIMOR

On the tiny island of East Timor, coffee provides a livelihood for more than 25 percent of the population. Over the past decade, farmer-owned Cooperativa Café Timor (CCT) has virtually reinvented Timor's coffee industry, earning farmers five times more than before. Where CCT's 17,600 members once hand-processed inferior, over-fermented beans for meager-paying local buyers, they now produce specialty grades for international markets through the co-op's centralized mills and drying fields.

Since 1995, Starbucks has consistently bought half or more of CCT's coffee and paid at least 30 percent above prevailing market rates, even before CCT was admitted to the Fair Trade registry a few years back. Through direct grants and Fair Trade premiums, Starbucks has also helped fund community development initiatives, such as a rural water system and a network of primary health clinics. These centers provide local residents with a defense against extreme levels of infant and maternal childbirth deaths.

Initially backed by U.S. government funding, CCT pursued organic and later Fair Trade certifications to protect members against fluctuating markets. But Director Sam Filiaci doubts whether these steps alone will be enough

to sustain the co-op's future. He is therefore interested in C.A.F.E. Practices, Starbucks coffee buying guidelines that reward sustainability with premium prices and the possibility of long-term contracts. "Starbucks is more central to how we'll grow in the future than foreign aid, Fair Trade or anything else," he says.



At the Cooperativa Café Timor in Dili, East Timor, workers rake wet coffee beans across the drying field.

*More profiles from the farmers' perspective are available online at [www.starbucks.com/farmerstories](http://www.starbucks.com/farmerstories).*

These steps have helped to stimulate a steady supply of quality Fair Trade Certified™ coffee, which has enabled Starbucks to create additional Fair Trade Certified™ products, develop new distribution channels, and locally promote Fair Trade Certified™ coffees to our customers around the world.

As a result of our efforts, in fiscal 2005, we:

- Introduced Café Estima Blend™, our new Fair Trade Certified™ offering, in our U.S. and Canada company-operated and licensed stores as both whole bean coffee and "Coffee of the Week" every other month.
- Provided three Fair Trade Certified™ coffee blends to college and university accounts.
- Worked with Costco to offer Fair Trade Certified™ coffee blends under its well-established Kirkland Signature brand, which is sold through Costco stores. This has the potential of becoming one of the largest global distribution channels for Fair Trade Certified™ coffee.
- Continued to offer four Fair Trade Certified™ coffee blends through our Seattle's Best Coffee® brand.
- Continued to be the only company licensed to sell Fair Trade Certified™ coffee in 23 countries.

## GOING FORWARD

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

- Promote our Fair Trade Certified™ coffee blends to increase customer demand and sales of these products.
- Continue to work with regional Fair Trade organizations to introduce additional Fair Trade Certified™ coffee products globally.
- Urge TransFair USA to be a stronger advocate for farmer equity by helping to institutionalize economic transparency within the coffee industry.
- Continue to encourage Fair Trade producers to embrace C.A.F.E. Practices as another means toward ensuring the sustainability of their businesses.
- Strengthen our internal systems so we can ensure Fair Trade Certified™ coffee is consistently available in our stores to meet our customers' requests.



## Certified Organic and Conservation (Shade Grown) 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 below for amounts purchased.)

Starbucks purchased considerably more certified organic coffee in fiscal 2005 than in the previous year. Starbucks offers two types of certified organic coffee, and Seattle's Best Coffee sells seven varieties.

Our shade grown coffee is purchased through Conservation International's (CI) Conservation Coffee<sup>SM</sup> program, a relationship that began in 1998. Starbucks and CI formed an alliance to encourage farmers to use ecologically sound growing practices that help protect biodiversity in environmentally sensitive areas and stimulate the production and sale of high-quality coffee grown under the canopy of bird-friendly shade trees.

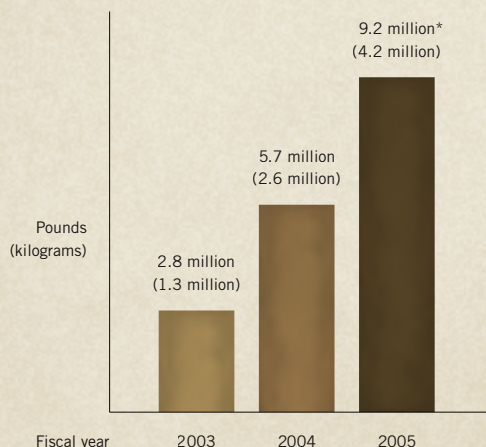
Recently, CI realigned its priorities, focusing more of its resources on its core mission of protecting biodiversity and strengthening local partnerships in countries with Conservation Coffee<sup>SM</sup> projects. CI reports that farmers participating in the program increasingly recognize the environmental value of incorporating Conservation Coffee<sup>SM</sup> Best Practices, and that through local partnerships they are able to sell coffee to other buyers beyond Starbucks. This is especially important when Starbucks is unable to purchase all of the coffee produced through this program. Such was the case in fiscal 2005, when Starbucks received less shade grown coffee through this channel.



Santiago Arguello (left), formerly of Conservation International, and Roberto Silvino Hernández of the Comon Yaj Nop Tic coffee cooperative in Chiapas, Mexico, examine the quality of these shade grown coffee beans. This is the area where Starbucks Organic Shade Grown Mexico coffee is produced.

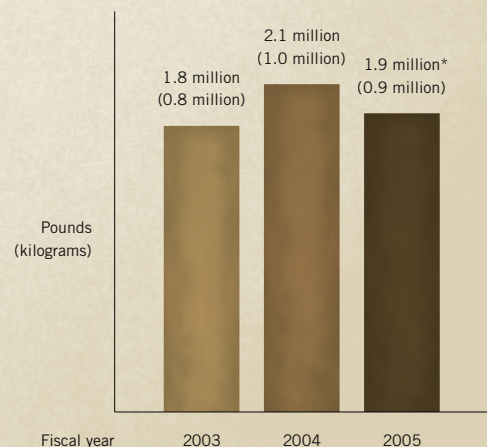
CI and Starbucks have continued to develop tools and resources for C.A.F.E. Practices, including the Small-holder Supplement, and collaborated to engage the broader coffee industry around sustainability efforts through CI's Center for Environmental Leadership in Business. A progress update on our joint endeavors is available on [www.starbucks.com/csrannualreport](http://www.starbucks.com/csrannualreport).

### ORGANIC AND CONSERVATION (SHADE GROWN) COFFEE PURCHASES



\*Represents 3.0% of Starbucks total coffee purchases.

**Certified Organic Coffee**



\*Represents 0.6% of Starbucks total coffee purchases.

**Conservation (Shade Grown) Coffee**

*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 exploitative individuals called coyotes, who charge high interest rates and pay low prices. This inevitably cuts into farmers' profits and sets up a similar scenario for the next year.

Starbucks works with several organizations to make credit available to coffee growers, which enables them to postpone

selling their crops until the price is favorable. In fiscal 2004, Starbucks committed \$1 million to Calvert Foundation, \$2.5 million to Verde Ventures, managed by Conservation International, and \$2.5 million to EcoLogic Finance for loans to coffee farmers. An additional \$2.5 million was provided to EcoLogic Finance in fiscal 2005, not only to extend loans to coffee farmers but also to cocoa farmers. Information on the impact of these loans is available at [www.starbucks.com/csrannualreport](http://www.starbucks.com/csrannualreport).



Rogelia Figueroa Guevara is a member of the Central de Cooperativas Agrarias Cafetaleras de Cuzco (COCLA), a Fair Trade Certified™ coffee cooperative in Peru.

### CASE STUDY: SUPPORTING COFFEE FARMERS THROUGH AFFORDABLE CREDIT

Rogelia Figueroa Guevara (pictured above) cultivates shade grown coffee in the highland jungles of the Peruvian Andes. She is one of 8,500 members of the Central de Cooperativas Agrarias Cafetaleras de Cuzco, known as COCLA, a Fair Trade Certified™ cooperative that applied to C.A.F.E. Practices in 2005 and is providing Starbucks with high-quality coffee.

Starbucks works with EcoLogic Finance, a nonprofit lender to sustainable businesses in environmentally sensitive areas, to provide the financing needed for COCLA to purchase coffee from cooperative members like Rogelia. Through its multifaceted network, which includes extensive support from USAID, EcoLogic Finance bundled resources from the Calvert Social Investment Foundation and the Rudolf Steiner Foundation (RSF) to extend \$1 million in credit to COCLA in 2005.

Known as “pre-shipment trade credit,” the financing helps COCLA cover expenses during the six-month “cash gap” between the harvest and their receipt of payment for the crop. In the four years since COCLA began receiving financing from EcoLogic Finance, membership has increased 60 percent and coffee production has expanded 30 percent. More than 90 percent of its production is now certified (i.e., Fair Trade, organic, Rainforest Alliance, or Utz Kapeh certified). Certified coffee price premiums enable COCLA to provide training to farmers, offer a microcredit program, set aside forestland for habitat preservation, and provide a viable alternative to growing coca, the basis for cocaine.

“We all want to improve the quality of our coffee, but before we lacked the economic means because of low coffee prices or not having a good market for our coffee,” Rogelia said. “Now we have buyers who will give us a better price so we have an incentive to keep improving the quality of our coffee.”\*

*\*from RSF Quarterly, September 30, 2005*



## Social Investments in Coffee Communities

The majority of high-quality coffee is grown in remote communities located in developing countries. These areas have historically faced a devastating range of social, environmental and economic challenges. We work with coffee farmers, cooperatives, mills, exporters and local communities to build schools, health clinics and other projects that strengthen the social infrastructure and benefit nearby residents.

Social investments are not only made through our philanthropic contributions, but they are also funded in two other ways:

- Social premiums that are included in coffee contracts to provide additional funds for community projects.
- Financial awards given to farmers who produce a specific coffee that is selected as part of Starbucks Black Apron Exclusives™ program. In these cases, \$15,000 is awarded to each farm and earmarked for a community project.



In fiscal 2005, Starbucks contributed \$10,000 toward the construction of the Centro Escolar Caserio La Joya school in Tacuba, El Salvador. Our coffee exporter and the local community provided additional funds. Starbucks plans to provide more funding in 2006 through a social premium added to our coffee contract to help with completion of the school. The new school will serve up to 90 local children.

In fiscal 2005, Starbucks invested \$1.5 million in 40 social projects that ranged from education programs in Nicaragua to a hospital renovation in Papua New Guinea. (More information on Starbucks investments in coffee-growing communities is on page 40.)

## Starbucks Social Responsibility Standards – Manufactured Goods

While Starbucks core business is coffee, a segment of our revenues comes from manufactured products and merchandise that range from mugs to coffee brewing machines. We also purchase supplies, equipment and furniture for our stores.

Starbucks Supplier Code of Conduct was introduced in 2003 along with Starbucks Social Responsibility Standards for Manufactured Goods and Services. The Code and Standards include provisions for social conditions, treatment of workers and environmental responsibility. Since then the company has communicated our Code and Standards to our suppliers and conducted a series of internal briefings to our buyers and others.

For the past two years, Starbucks has been exploring ways to ensure our suppliers are complying with the company's expectations. By benchmarking and dialoguing with other companies, we now realize that strictly policing and monitoring suppliers' compliance to a respective Code of Conduct does not necessarily lead to sustained changes in behavior. This awareness has led us to question some of our earlier assumptions and consider a much broader approach.

In fiscal 2005, Starbucks developed the initial concept and objectives for a Sustainable Procurement Program that seeks to

- ensure supply chain transparency;
- support sound procurement decisions through an infrastructure for supplier screening and development; and
- focus on creating supplier performance improvement that can be aligned with Starbucks values, and sustained over time.

In 2005 we reviewed our internal procurement practices and identified the countries of origin for our branded manufactured goods. We contracted with Sustainability Management Group to conduct an assessment of our global supply base in order to guide the decisions of our buyers.

Starbucks goal is to have a procurement program that adds value and helps sustain the company's growth while ensuring that relationships with our suppliers, and with the workers who actually produce our manufactured goods and materials, are in keeping with the company's values. We recently created an internal Sustainable Procurement Steering Committee and working groups to begin implementing the concept phase of this initiative. The group conducted an initial workshop in July 2005 with the assistance and support of Verité, an independent, nonprofit training, social auditing and research organization that will help guide the process.

### FUTURE GOAL

In 2006, Starbucks will implement a policy and structure for Starbucks Sustainable Procurement Program.

More information about Starbucks Code of Conduct is available online at [www.starbucks.com/csr](http://www.starbucks.com/csr).



## Procurement Practices for Sustainable Agriculture

In addition to C.A.F.E. Practices for coffee, guidelines are in development for other agricultural products, including cocoa and tea.

### COCOA

Chocolate is an important ingredient in Starbucks products. Cocoa is used in some of our coffee beverages and bakery items, and the chocolate bars sold in our stores.

Worldwide cocoa production for the 2004/2005 crop year was 7.2 billion pounds\* (3.3 billion kilograms), of which approximately 40 percent was produced in the Ivory Coast, West Africa. In fiscal 2005, Starbucks purchased 12.4 million pounds (5.6 million kilograms) of processed cocoa from our suppliers.

Over the past year, Starbucks Emerging Issues Council determined that we needed to address the lack of transparency related to our cocoa purchasing. Reports of human rights violations in some African cocoa-producing regions further highlighted a critical need for information and expertise in this area. As a result, Starbucks engaged external stakeholders to expand our knowledge of cocoa-related issues and to get feedback on our future direction. Several significant steps were subsequently taken to develop our Socially Responsible Cocoa Sourcing Program.

### Stakeholder Engagement

In December 2004, Starbucks hosted a gathering of international NGOs, industry experts and USAID (U.S. Agency for International Development) to exchange information and engage openly about the social, environmental and economic issues related to the cocoa industry and its supply chain. The session was facilitated by Business for Social Responsibility (BSR), an independent organization that consults with companies on corporate social responsibility.

Since then, Starbucks has been updating forum attendees on our progress and inviting their additional feedback as we work to strengthen our business practices in this area. A full report on this stakeholder discussion, including a list of the participants, is online at [www.starbucks.com/cocoa](http://www.starbucks.com/cocoa).

### Socially Responsible Cocoa Sourcing Program

Starbucks assembled an internal cross-functional team to refine our approach for purchasing processed cocoa. In May 2005, Starbucks issued a Cocoa Sourcing Request for Information to six companies, including our existing supplier. Our objectives were to screen potential suppliers



Local cocoa farmers in Africa's Ivory Coast sort through their harvest of cocoa bean pods.

and determine their ability to address social issues in the supply chain, including forced child labor, and to outline a plan for price transparency to the farmer. A scoring matrix was used to evaluate and rate vendors on social, environmental and economic criteria.

Starbucks selected two companies to work with, including our existing supplier. Both suppliers are now working together through established cocoa cooperatives in the Ivory Coast to ensure that the cocoa used in Starbucks products is cultivated, harvested and processed without the use of forced child labor, and that verifiable price transparency can be traced back to cocoa farmers.

In 2006, Starbucks will begin developing cocoa buying guidelines, building on our experience with C.A.F.E. Practices. Our goal is to ensure that the cocoa used in our various products is purchased under the guidelines of Starbucks Socially Responsible Cocoa Sourcing Program. We will share our progress in subsequent CSR Reports.

*\*October 2004–September 2005, LMC International Ltd., LMC Cocoa Bulletin*

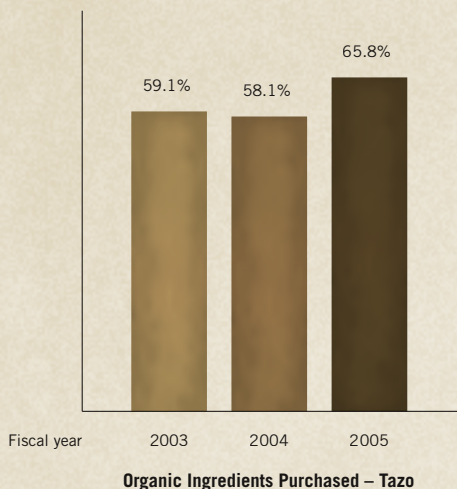


## TEA

Tazo Tea is one of several brands within Starbucks Corporation's portfolio. Its teas are comprised of fresh single-estate teas, the finest botanicals and flavorful spices, blended in small batches at Tazo's headquarters in Portland, Oregon.

When Starbucks assessed our environmental footprint in 2000, we included a metric to track our purchases of certified organic tea ingredients. While our purchases of certified organic tea ingredients rose significantly in fiscal 2005, much of this increase was influenced by our purchases of certified organic sugar cane that is used in our liquid tea products. A reformulation of several of our tea liquid products is currently underway and will eventually lead to the removal of organic sugar cane from Tazo's products. (See graph below for organic tea ingredients purchased.)

Tazo believes the purchase of certified organic tea ingredients is only one measure of sustainability. Therefore, Tazo is in the process of developing a broader strategy to more closely align our tea purchasing practices with the company's commitment to sustainability. This holistic approach will build on the social investment strategy that Tazo has established for tea-growing communities through a partnership with Mercy Corps. (More on page 40.)



## DAIRY AND BAKERY PRODUCTS

For all our food and beverage products, Starbucks upholds our standards for high quality and ensures our products are safe for consumption. In our U.S. stores a small percentage of customers request organic and/or rBST-free dairy products. (rBST is a growth hormone given to dairy cows to increase milk production.) In 2005, Starbucks continued to offer organic milk as an option for our customers upon request.

In 2004, Starbucks surveyed our dairy and bakery suppliers to determine their current sustainability practices and whether they could comply with more stringent standards, should they be imposed. We gleaned more from the responses our dairy suppliers provided than what we learned from our bakery suppliers. Some findings from our dairy supplier survey were:

- Dairy cooperatives supply most of the raw milk used to produce the dairy products we purchase. The involvement of these co-ops will be key to the success of any future initiatives.
- Very few co-ops can assure that their dairy products were rBST-free because milk is co-mingled from a variety of dairies. Moreover, cooperatives vary in their policies regarding rBST.
- The only way to absolutely ensure rBST-free is to purchase certified organic dairy products. The cost of using only certified organic milk would be significant and lead to higher prices for our customers.

### Stakeholder Engagement

In August 2005, Starbucks met with representatives from As You Sow, a nonprofit organization that promotes corporate accountability, and Trillium Asset Management Corporation, a socially responsible investment firm. We shared the results of our dairy survey and explained the lack of customer demand for the certified organic dairy products that are currently offered in our stores. Starbucks agreed to continue to raise the issue of genetic modification with our suppliers; update our website with more information about genetic modification; and contact two of the company's joint venture partners, the Pepsi-Cola Company and Dreyers Grand Ice Cream, Inc., regarding usage of genetically modified ingredients. Starbucks is in the process of meeting these commitments.



## Consumer Products

### ETHOS™ WATER

In April 2005, Starbucks acquired the Ethos Water brand from a privately held bottled-water company. Ethos was founded in 2002 by two entrepreneurs, Jonathan Greenblatt and Peter Thum, to help children around the world get clean water. The two former business school classmates were inspired to start a company to raise awareness of the global water crisis and enable consumers to make an impact in solving this problem. Thus, Ethos offered a premium bottled water that linked consumption and cause. Based on their sales, the company made donations to help children in need get clean water.

Starbucks acquired Ethos Water because of its unique social mission and the brand synergies. Ethos™ water is currently sold in Starbucks company-operated stores in the U.S. and through other premium retail outlets. For each bottle sold, Starbucks contributes five cents toward integrated and sustainable programs that bring clean water to children and their communities around the world. We aspire to raise at least \$10 million over the next five years to invest in this effort. (For more information about the Ethos Water Fund, see page 45.)



Jonathan Greenblatt (second from left) and Peter Thum (far right), co-founders of Ethos Water, visited Choluteca, a village of about 150 residents in Honduras. The village is benefiting from the installation of a new gravity-fed water system, which was partially funded by Ethos. Also pictured are village residents Noel David Lopez (far left) and Nelson Portillo (center).

### STARBUCKS HEAR MUSIC

Founded in 1990, and acquired by Starbucks in 1999, Hear Music is the Sound of Starbucks. Hear Music is dedicated to creating a new and convenient way for consumers to discover, experience and acquire all genres of great music through its unique curatorial voice, CD compilations, music programming for Starbucks retail stores worldwide and its innovative collaborations with artists and music labels to produce, market and distribute great music.

Hear Music has a history of collaborating with artists and the music industry to give back to communities through cause-related marketing efforts. For example, in response to the tremendous devastation caused by Hurricane Katrina, Hear Music and two record labels, Work Song and Rhino Records, who earlier teamed up to release the *I Believe to My Soul* CD, turned the venture into a benefit for recovery efforts. The three parties committed to donate to the Red Cross \$10 of the purchase price of every *I Believe to My Soul* CD sold in Starbucks company-operated stores in the U.S. and Canada. In other retail channels, \$3 of the purchase price of every CD sold will be donated to these efforts. (For more information about how Starbucks responded to the hurricanes, see pages 38 and 70.)





## STARBUCKS™ LIQUEURS

Starbucks™ Coffee Liqueur was introduced for U.S. distribution in February 2005, the result of a development and distribution agreement between Starbucks and Jim Beam Brands. Eight months later we introduced another product, Starbucks™ Cream Liqueur. These products are not sold in Starbucks retail locations and are only available in locations licensed to sell distilled spirits.



### Responsible Marketing

Starbucks and Jim Beam are committed to the responsible marketing of our liqueurs. The products' pricing, branding, packaging and marketing have all been specifically designed to target mature consumers. Furthermore, Starbucks partners (employees) who manage our liqueur brand have been trained on the Distilled Spirits Council of the United States (DISCUS) Code of Responsible Practices for Beverage Alcohol Advertising and Marketing.

Prior to the initial product launch, Starbucks reached out to several advocacy groups to assure them of our commitment not to market our liqueur to consumers who are younger than the legal purchase age (21 and older in the U.S.). We have

continued working with organizations such as The Century Council (TCC) to help prevent underage drinking. In 2005, Starbucks provided underwriting for the distribution of TCC's *ask. listen. learn. kids and alcohol don't mix.*, a program that provides information to help parents talk to kids about the dangers of underage drinking.

We will continue to look for ways to integrate responsible practices into the Starbucks® Liqueurs business, including incorporating recycled paper into our packaging and exploring the possible use of recyclable bottles.

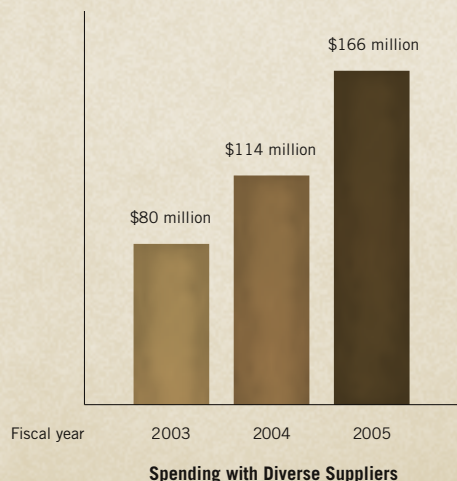
### Socially Responsible Investment Funds

In fiscal 2005, Starbucks™ Coffee Liqueur represented less than one percent of Starbucks total revenues. We reported this information to several socially responsible investment (SRI) funds that wanted to know what percentage of the company's revenues was attributed to liqueur sales. While some SRI funds have standards disallowing them from investing in companies that derive any revenue from alcohol, other SRI funds have thresholds as a percentage of revenue. Pax World Funds, an investment advisor, has a policy that it will not invest in companies that derive any revenue from alcohol, and therefore divested itself of Starbucks stock after the introduction of Starbucks™ Coffee Liqueur. This amounted to approximately 0.09 percent of Starbucks outstanding shares.

## Supplier Diversity

To operate and grow our business, Starbucks depends on a broad network of suppliers that range in size and scope. As we expand to more ethnically diverse markets, it's essential that we continue to grow the segment of our supplier base comprised of women- and minority-owned businesses. 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 not only intended to provide 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 2005, Starbucks did \$166 million in business with first tier\* women- and minority-owned businesses, a 19 percent increase over the goal we previously set for 2005.

### FUTURE GOALS

#### Our goals for fiscal 2006 include:

- Spending \$206 million on purchases from certified diverse suppliers
- Exposing Starbucks buyers and procurement directors to more opportunities for doing business with diverse suppliers
- Increasing our level of participation in organizations such as the National Minority Supplier Development Council and Women's Business Enterprise National Council

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

*\*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 spend.*



# SOCIETY







Starbucks doesn't rely on a "one size fits all" mold for our stores. When opening a new Starbucks store, we are respectful of a neighborhood's desire to preserve its look and feel, its historic buildings and/or its unique architectural attributes. Starbucks goal is to create local gathering places that appeal to our customers and contribute to the vitality of an individual community.








(More information begins on page 36.)

*Shanghai's beautiful and historic Yu Yuan Garden area is the location of one of the first Starbucks in China, which opened in October 2000. This area is where Shanghai's international and modern society of today intersects with the cultural and architectural traditions of China's past.*





## Progress Report on Our Performance – SOCIETY

TOPIC	WHAT WE SAID IN 2004	WHAT WE DID IN 2005	SELF-RATING	FOR MORE INFORMATION
Building relationships with local communities	Engage with local community groups before we open new stores to discover how Starbucks can best contribute to their neighborhoods.	Expanded our civic and community affairs team and concentrated more of our efforts on building and strengthening local relationships. Joined U.S. Conference of Mayors to better understand local municipal issues and how Starbucks can add to the economic vitality of a particular community.		Page 36
Store closing in the Hamilton Heights section of Harlem, New York	Identify a more suitable location in Hamilton Heights that will enable us to serve the community and run an economically sustainable store.	Pursued several possible sites, but have yet to find one that is completely suitable and meets our need. We will continue to explore potential new sites.		
The Starbucks Foundation's mission	Review The Foundation's current mission and determine its future direction and focus.	Completed the review and launched a global effort to improve access to clean water. Also introduced <i>Giving Voice</i> , a new local grants program.		Page 45
Nutrition and wellbeing	Continue to introduce new food and beverage products that meet the wide variety of our customers' needs.	Introduced new food and beverage items and brought back some favorites to accommodate our customers' desire for more menu options considered to be better for you.		Page 46
Stakeholder engagement – nutrition	Host a nutrition and wellness stakeholder engagement session in fiscal 2005.	In October 2005, Starbucks hosted a Health and Nutrition stakeholder engagement session, facilitated by Business for Social Responsibility (BSR), to get feedback on important health and nutrition issues and future concerns.		
Marketing to youth	Commit to not sell our products in schools for grades K-12.	Developed a formal policy on marketing to youth to ensure our marketing and communications are not specifically aimed at young consumers.  Verified that our national distribution partners are not selling Starbucks products in K-12 schools.		Marketing to Youth policy is online at Starbucks.com.
Advocating for healthcare reform	Engage federal policymakers on the issue of healthcare reform.	Starbucks chairman Howard Schultz and other Starbucks executives reached out to federal legislators and advocated the need for a meaningful solution to the U.S. healthcare crisis.  Howard Schultz also participated on a healthcare reform panel as part of CNBC's annual Washington, D.C., summit in September 2005.		Pages 47, 69

KEY:  ACHIEVED  MAKING PROGRESS  DID NOT ACHIEVE



# BEING RESPONSIBLE TO OUR COMMUNITIES

Starbucks success in new and established markets hinges on our ability to cultivate meaningful relationships with our customers, local community leaders and neighbors – relationships that are built on trust. We know trust is earned when we keep our promises and uphold our commitment to contribute positively to our communities and our environment, a Guiding Principle of the company.

In this section we provide an update on some of the company's initiatives to be a responsible neighbor, to serve our customers and to be a respected global corporate citizen. Specific topics include:

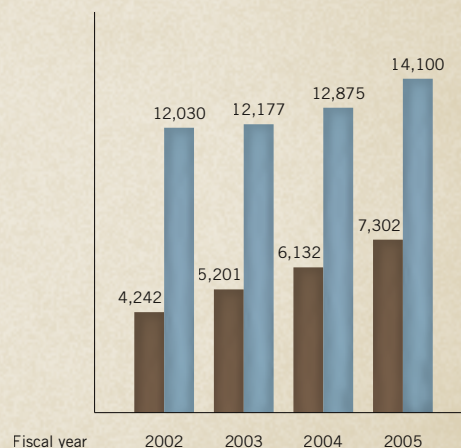
- The impact of our growth
- Investing in our communities
- Meeting our customers' needs
- Participating in public policy and global affairs

## Starbucks Growth

Starbucks established a retail presence for the first time in the Bahamas, Ireland and Jordan in fiscal 2005 and ended the year with nearly 10,250 stores globally. Over the next few years, we plan to continue opening stores at an accelerated pace, adding locations for the first time in Egypt, Russia, Brazil and eventually in India. We will continue to focus on expanding our existing store base across current markets, with a particular focus on China.

In the U.S., Starbucks growth strategy is primarily focused on opening stores in smaller markets, creating more drive-thru and off-highway locations and bringing the *Starbucks Experience* to diverse communities through Urban Coffee Opportunities, LLC (UCO). For information about UCO, see page 37.

Over the past 15 years, Starbucks has introduced millions of consumers to the pleasures of specialty coffee by bringing the coffeehouse experience – or the “third place” – to many communities. As we have grown our network of Starbucks stores, thousands of independent coffeehouses have also sprung up. With more than 21,000 coffeehouses in the U.S., of which about one-third are Starbucks, consumers can choose from a wide variety. “The great thing about coffee is that individual entrepreneurs can certainly compete with the larger chains because people relish having ‘their’ coffee bar, someplace that’s special to them,” said Bruce Milletto, president of the consulting firm Bellissimo Coffee InfoGroup Inc.



Coffeehouses in the U.S.

- Total Starbucks stores in the U.S. (company-operated and licensed)
- Number of smaller chain and independent coffeehouses in the U.S.\*

\*The NPD Group/ReCount®



## OPENING NEW STORES

For nearly all of the 574 U.S. company-operated stores Starbucks opened in fiscal 2005, we received a warm and positive reception from customers, neighborhood businesses and the communities. In several instances, a less than welcoming atmosphere ensued around the opening of a new Starbucks store. Our community affairs team approaches these

situations as opportunities to reach out to the community and engage in dialogue. In nearly all instances, common ground was achieved, by which the interests of the community and Starbucks customers will both be served. However, in some instances we respectfully withdrew plans to open new stores because we questioned whether Starbucks was a good fit for the locale.



Traci Moriarty (left), store manager of the Durango, Colorado, Starbucks and store partner Jenny Aponowicz create each coffee beverage according to their customers' preferences.

## CASE STUDY: STARBUCKS – DURANGO, COLORADO

Durango has 15,000 residents and is a destination for outdoor enthusiasts. The local community has taken steps to preserve Durango's charm and sustain its vitality as a wonderful place to live and great place to visit.

Prior to opening in April 2005, we heard that some residents were not supportive of Starbucks locating on Durango's Main Street. After opening, the store was protested and later vandalized. Local press coverage captured the deep divide between those who worried that Durango's local appeal was threatened and those who saw Starbucks as a symbol of economic vitality. As the vandalism picked up, many community residents and local businesses condemned the acts and expressed support for Starbucks. They argued that if someone doesn't like Starbucks, they could patronize another local coffeehouse.

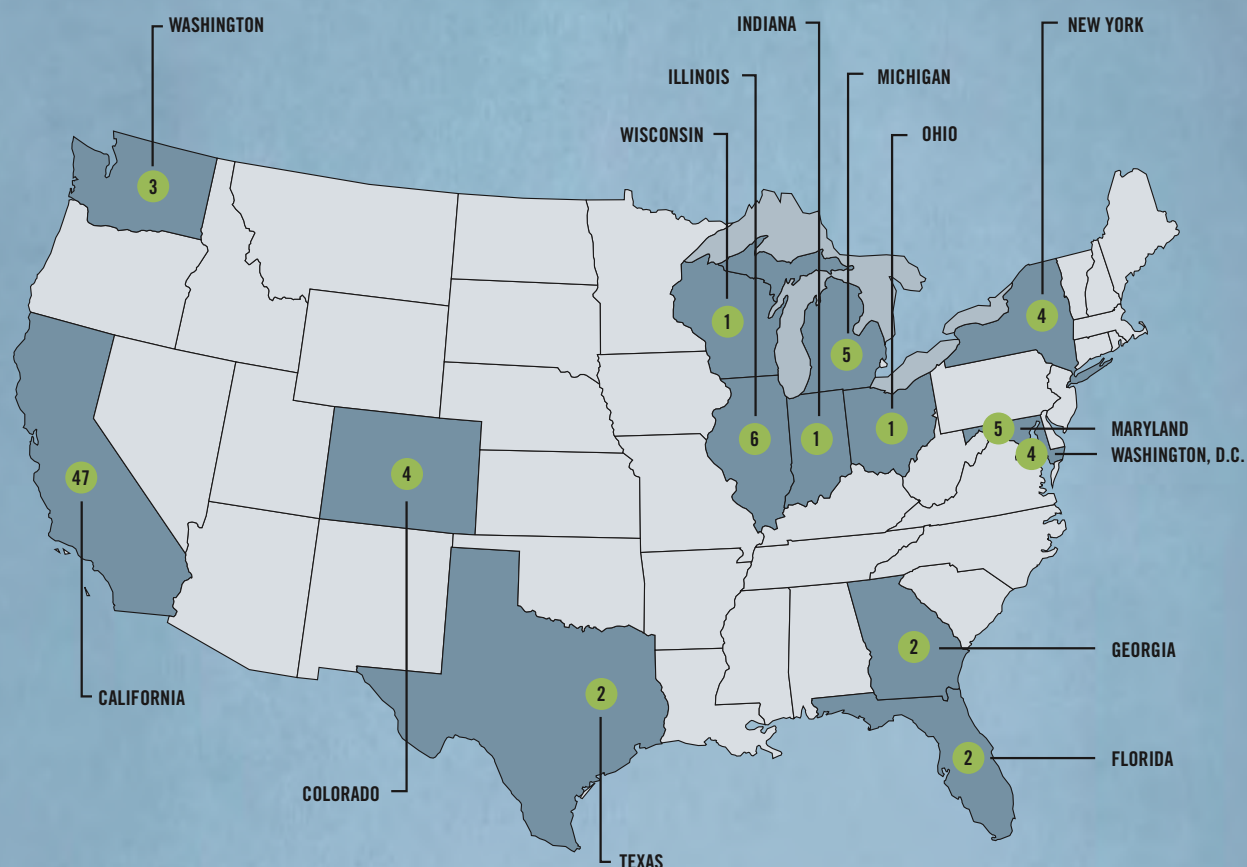
The experience in Durango was not typical. However, it revealed the intense emotions some people feel toward corporate retailers. Starbucks is cognizant of this and works hard to demonstrate our sincere respect for every community and its local residents.

Starbucks seeks to contribute positively to every community in which we operate. Most often, our store partners are local residents. We encourage them to engage locally, which they did in Durango. In 2005, our Durango store partners volunteered for several local organizations and developed a special relationship with Community Connections, an organization that trains physically and mentally challenged individuals and places them in jobs. One of our Durango partners was hired through Community Connections.

By the end of fiscal 2005, things had settled down in Durango. Business was brisk over the summer and the store cultivated many new regular customers. Given what happened, our local store manager, Traci Moriarty, has been most surprised by the flood of résumés she receives. "It was hard not to take things personally in the beginning," Traci said. "But now I'm thrilled that so many people think of Starbucks as a place they would want to work."



## STARBUCKS URBAN COFFEE OPPORTUNITIES STORES



● Indicates number of Urban Coffee Opportunities store locations

### Urban Coffee Opportunities

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 14 new UCO stores in fiscal 2005 and ended the year with a total of 87. (See map above.) Over the long term, we plan to establish 125 UCO stores in the U.S.

When scouting for new UCO locations, Starbucks and JDC consider the economic vitality and long-term potential of a given market. In some communities, the arrival of Starbucks 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 2005 included:

- Providing more than 1,500 jobs in 87 UCO stores
- Paying an estimated \$24 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



## Community Investments

Whether it's helping to improve a local neighborhood park or supporting relief efforts after a natural disaster, Starbucks strives to contribute to our communities in a positive way. We do this through several channels:

- Cash contributions made at the corporate, regional and local level
- In-kind donations of Starbucks products and resources
- Partner 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 social projects
- Facilitating and encouraging customer charitable donations

In fiscal 2005, Starbucks cash and in-kind contributions were valued at \$30.3 million, or 3.8 percent of the company's earnings before income tax. (See pie chart below.) Our giving, whether it's directed to a local program or global initiative, is always intended to be locally relevant and aligned with the strategic direction of our business. During fiscal 2005, we focused most of our giving in four areas:

- Contributing to the local nonprofits that our partners personally support with their contributions of time and money
- Contributing directly to The Starbucks Foundation
- Improving the quality of life in coffee- and tea-growing communities
- Providing assistance for emergency relief efforts following natural disasters

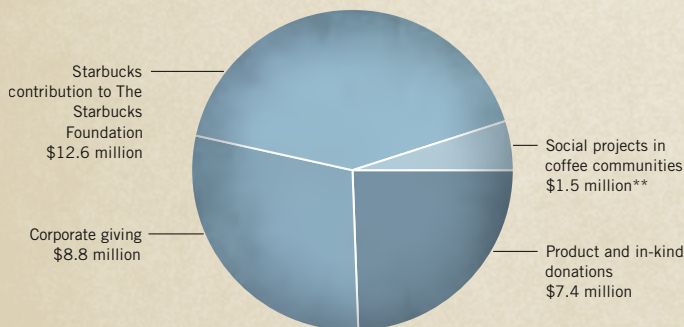
## Emergency Relief Efforts

Starbucks responded in a significant way to last year's massive earthquake and tsunami that struck South Asia, and eight months later to Hurricanes Katrina and Rita that devastated the U.S. Gulf Coast region. In both cases, our first step was to ensure the safety of our partners in the affected areas and to help address their need for basic necessities.

To support tsunami relief efforts, Starbucks company-operated stores worldwide contributed \$2 (or local currency equivalent) for every pound of whole bean Sumatra coffee sold during January 2005. We also leveraged our U.S. and Canadian retail presence by making it easy for our partners and customers to donate funds at our stores. Our international business units participated in their own fundraising programs as well. These combined endeavors resulted in \$1.4 million being raised for recovery and rebuilding efforts, and were directed to a number of organizations including CARE International.

Following Hurricane Katrina, Starbucks committed \$5 million over five years to support both the immediate relief and long-term rebuilding efforts in the affected areas. In addition, Starbucks donated ground coffee, bottles of Ethos™ water and bottled Tazo® drinks to support relief workers. Starbucks stores were again used as sites for partners and customers to make charitable gifts to the American Red Cross. And many of our partners volunteered to deliver brewed coffee, pastries, bottled water and ground coffee to rescue workers. (See page 70 for information on how Starbucks assisted our partners.)

Shortly after the hurricanes hit the Gulf Coast region, Tropical Storm Stan wreaked havoc on parts of Mexico, Guatemala and El Salvador, including some regions where coffee is grown. Starbucks responded immediately to assist with relief efforts, and then began exploring ways to help with the long-term rebuilding of the affected communities.



**Starbucks Donations Paid in Fiscal 2005\***  
Total: \$30.3 million

\* This chart represents grants and product donations paid by Starbucks Coffee Company during fiscal 2005. 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 United States.

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



## Supporting Our Partners' Community Efforts

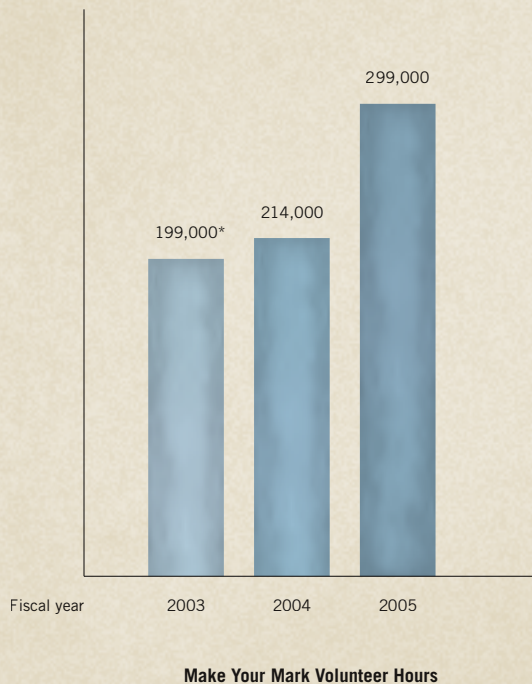
From Seattle to Shanghai, our partners have demonstrated their strong desire to engage in their local communities through volunteerism. Starbucks volunteer program in the U.S. and Canada – Make Your Mark (MYM) – was introduced five years ago as a way to encourage and support our partners' volunteer efforts. 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 792,000 hours for thousands of local community organizations. That's equivalent to about 380 people working full-time for one year. (See graphs below.)

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 2005, 2,196 of our partners' charitable contributions were matched with \$532,000 from Starbucks.



The nonprofit organization Keep Houston Beautiful not only received cash support from Starbucks in 2005, it also got help from some Starbucks partners in Houston who volunteered on Earth Day, including Maggie Suarez (left) and Mary Voorhies.

## Make Your Mark



\*Includes 110,000 hours and \$697,000 for September Make Your Mark, a unique volunteer program that took place in 2003.



## Investing in Coffee- and Tea-Growing Communities

Starbucks recognizes the positive impact our trading relationships and our commitment to environmental stewardship have on coffee- and tea-growing communities. We also invest in these communities by providing the tools and resources that strengthen local capacity and enable community residents to pursue their ambitions.

In fiscal 2005, 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 micro-lending, respectively. We also developed a new collaboration with Save the Children and deepened our relationship with Mercy Corps.



Four-year-old Maria studies her native Mayan and Spanish languages in a Guatemalan school supported by Save the Children.

### Save the Children

In developing countries, educating girls is one of the most impactful ways to improve the quality of life. In 2005, Starbucks committed \$1.5 million over four years to bring bilingual education to 20 Mayan communities in the rural highlands of Guatemala. Starbucks selected Save the Children USA, a leading international relief and development organization, to lead our Guatemala Education Initiative.

The program is designed to revive existing schools and provide quality preschool, primary and secondary education to rural indigenous children, with special emphasis on girls. Save the Children works within local school systems to introduce an effective intercultural bilingual methodology based on Mayan culture. To ensure long-term success, parents and communities are encouraged to participate in their children's education.



Villagers from Kotidhura, India, after the opening ceremony of the community hall built by the CHAI Project.

### Mercy Corps and Tazo Tea

Tazo Tea began collaborating in 2002 with Mercy Corps, a nonprofit international relief and development agency, on a project called CHAI (Community Health and Advancement Initiatives). The CHAI Project, through local partners, is proactively addressing community development needs in the Darjeeling tea-growing region of India and working to improve the quality of life for more than 12,000 people living in 24 rural communities.

Projects have included constructing more than 400 latrines, creating water supply systems, building roads, improving footpaths and constructing community halls.

Funding comes from Tazo, its tea suppliers – tea growers, traders and brokers – and Starbucks. Since 2003, \$970,000 has been contributed to the CHAI Project, including donations in fiscal 2005 of \$274,000 from Tazo and its suppliers, and \$128,000 from Starbucks. Local residents and tea management have volunteered labor, fed workers, transported goods and contributed to the cost of materials and resources. This collaborative approach has been a key success factor.

In 2005, a similar project was piloted in four remote Guatemalan communities that produce cardamom, a key ingredient in Tazo® teas. Early results indicate that the project is having a positive impact on the health and quality of life of an estimated 850 people from these communities. For more information, visit [www.mercycorps.org](http://www.mercycorps.org).

### FUTURE GOAL

Over the next two years, Tazo and Mercy Corps plan to expand the CHAI Project to Assam, India, and nine Guatemalan villages.



## Supporting Local Communities in Our International Markets

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.

Helping to improve the lives of children is a common theme in nearly all of our international community efforts. Here are some examples that represent our activities in fiscal 2005.

### ASIA PACIFIC

- **China** – Our business partners funded programs that serve AIDS-affected children through the sale of special bracelets available in some of our local stores. The proceeds included the sale of nearly 20,000 bracelets in our north and east China stores.
- **Japan** – Nearly 90 Starbucks Japan partners volunteered for the Special Olympics, competitive games geared for children with disabilities. In addition, Starbucks Japan donated 5 million yen (\$46,000) to the Special Olympics.
- **Singapore** – Our partners formed a relationship with Pathlight, a school for autistic children. They participated in the school's fundraising events and provided valuable in-kind support for Café @ Pathlight, a program that builds employable skills among the students.
- **The Philippines** – A partnership between Starbucks Philippines and UNICEF led to the creation of SparkHope, an initiative to address the pressing need for improved early childhood education, especially in the outlying barangays (villages). Starbucks stores have adopted various barangays and run in-store campaigns to heighten awareness and raise funds.

### Supporting Aboriginal Children in Taiwan

Since 1999, when there were just 25 Starbucks stores in Taiwan, we decided to support education programs for aboriginal children, a population considered to be among this country's neediest residents. Starbucks Taiwan joined forces with World Vision Taiwan after a devastating earthquake in 1999. Taiwan's aboriginal people were particularly hard hit, losing their homes and their sources of income.

Starbucks Taiwan launched an initial campaign in 1999, which has since become an annual summer fund raiser that includes collecting customer donations and selling mugs and penholders that are imprinted with the figure "ANAI" representing aboriginal children. All the funds raised have been directed to World Vision Taiwan and mostly used to pay for tuition and school supplies for aboriginal children and to fund improvements to their schools. After six years, Starbucks Taiwan has raised more than \$500,000 and helped thousands of children have the opportunity to attend school.



Located on the shore of China's Yangtze River in Shanghai, this Starbucks offers customers plenty of seating both in the store and on the outside terrace.

### Expanding in China

Since 1999, Starbucks has opened 209 stores in China through a combination of licensed and joint venture business partnerships and company-owned operations. We are leveraging our existing relationships while also creating new opportunities to significantly increase our presence in this high-growth market, believing China will become one of Starbucks largest markets, second only to the U.S.

Starbucks continued expansion in China will create new jobs for local residents. Our employment practices in China include conducting periodic evaluations to ensure that Starbucks is a best place to work. To improve partner safety, we are committed to maintaining a minimum two-person team in our stores.

Starbucks commitment to contribute positively to China's local communities began at the time we opened our first stores. Starbucks has reaffirmed our commitment by pledging \$5 million (approximately 40 million renminbi) to launch the Starbucks China Education Project, which will support educational programs in China. The project, which was announced in September 2005, will be overseen by a steering committee comprising Starbucks executives, representatives of the Chinese Ministry of Education, the Soong Ching Ling Foundation, the All China Women's Federation and local community organizations.





Students at Kewena Gata High School in Daye, Ethiopia, now have access to new textbooks as a result of financial support provided by Starbucks UK.

### Starbucks UK Offers Support to Ethiopian Coffee Community

Since 2003, Starbucks UK has directly supported coffee-growing communities in the Sidamo region of Ethiopia with grants for health and education. In Bensa Ware, waterborne illness has been noticeably reduced since the introduction of a freshwater distribution system, and primary students now have access to new textbooks. The results are encouraging – Bensa's local academic ranking improved from last to second place in a single year. In nearby Daye, grants from Starbucks UK provided new books for the high school and a new library building.

### EUROPE/MIDDLE EAST/AFRICA (EMEA)

- **The UK** – Starbucks *Partners in Education* program promoted the benefits of libraries and reading to an estimated 2,200 children and parents; conducted campaigns to collect 28,000 books for children; and helped prepare 300 local youth for real-life employment situations. UK customers are also very keen on Fair Trade Certified™ coffee, so it's available in our UK stores every day.
- **Germany** – Encouraging children to read was the focus of our activities. To celebrate a nationwide *Read Out Day*, Starbucks stores hosted children for a day of reading and hot chocolate. The plan is to participate in *Read Out Day* again in partnership with Stiftung Lesen, a German foundation focused on literacy.
- **Jordan** – Starbucks Jordan provided support to one of Jordan's primary orphanages, Mabarrat Um El Hussein, and the Arab Fund Society for Child Care. Both organizations are dedicated to improving child welfare.
- **Greece** – We have built strong ties to the SOS Children's Villages, a safe refuge for orphaned or abandoned children. In addition to charitable support for the organization, each time we open a new store, our partners adopt a child that they plan outings with and also organize birthday parties for. Funds are also donated specifically for each child's school supplies, athletic gear and clothes.

### CANADA

In major cities across Canada, free summer writing camps were offered to students from inner-city schools through Starbucks support provided to Frontier College, a national volunteer-based literacy organization. In January 2005, our Canadian stores hosted "Lattes for Literacy Day" and donated a portion of the sales to Frontier College for the summer program. This effort is part of our ongoing focus to improve literacy in Canada.





Laying the first stone for a school in Chiapas are, from left to right, Arturo Pascacio and Fernanda Torres Pino of Starbucks Mexico, Pablo Arizmendi of Starbucks Latin America and Roberto Silvino Hernández of Comon Yaj Nop Tic.

### Working Together in Mexico to Improve Education

Starbucks Latin America and Starbucks Mexico have aligned with the coffee cooperative Comon Yaj Nop Tic in Chiapas, Mexico, to build the first regional school for secondary education. Members of the cooperative are small-holder farmers who produce some of Starbucks® Organic Shade Grown Mexico coffee. The cooperative provided a parcel of land for the school site and will contribute labor for the project. Starbucks Mexico donated initial funds for construction materials and will offer ongoing support. Construction on the school began in July 2005. Tecnológico de Monterrey®, a private university, and SEDESOL, a Mexican education agency, will provide teachers, infrastructure and equipment to the school.

Roberto Silvino Hernández, Comon Yaj Nop Tic Leader Representative, views the school as a great opportunity for his community. “It’s going to be a public school for everyone so we can see our children get an education. To give them this is the greatest source of pride, the greatest hope that all of us have here,” Hernández said.

### LATIN AMERICA\*

- **The Bahamas** – The premier cultural Bahamian festival of Junkanoo provided an opportunity for us to support local youth through the Junior Junkanoo program, which is administered by the country’s Ministry of Youth, Sports and Culture. The program engages Bahamian youth in after-school activities, including art, music and dance. Our local partners collaborated with Junkanoo group leaders to determine the best use of the funding provided by Starbucks Bahamas.

*\*Starbucks Latin America region includes Mexico, Central America, South America and the Caribbean.*



## THE STARBUCKS FOUNDATION

**S**tarbucks founder and 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 \$11 million to approximately 700 organizations primarily in the areas of literacy and youth education in underserved communities in the U.S. and Canada.



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 14 Starbucks senior executives and is chaired by Orin Smith, retired Starbucks president and ceo. In fiscal 2005, The Foundation made 97 grants to nonprofit organizations totaling \$1.7 million. (Note: This amount represents grants paid in fiscal 2005 and therefore is different than the grant expenses recorded in The Foundation's financial statements, which are shown on an accrual basis as required by generally accepted accounting principles (GAAP) in the U.S.)

### COMMUNITY~WORD PROJECT

The Starbucks Foundation's support has enabled Community~Word Project (CWP) to broaden its reach and effectively engage more youth in its arts-in-education program.

Last year, Starbucks stores in New York hosted student performances, and publicly displayed their art murals so that people could see and hear what these students are experiencing and expressing.

Starbucks partners also devoted their time and energy to coordinate and attend performances, work with students on art projects and assist students with their writing in CWP residency classrooms. The Starbucks Foundation has supported the Community~Word Project's arts-in-education program since 2002 with grants totaling \$45,000. For more information, visit [www.communitywordproject.org](http://www.communitywordproject.org).



Children from Community~Word Project participate in an art project.



## Broadening The Starbucks Foundation's Impact

In fiscal 2005, The Foundation's staff and board thoroughly evaluated its mission, giving strategy and focus areas to determine whether its contributions are aligned with the increasingly global nature of Starbucks business. The board also considered how to support the Millennium Development Goals (MDGs), developed by the United Nations to improve the quality of life for people around the world. One focus of the MDGs is to increase people's access to sustainable sources of clean water.

After thoughtful evaluation, The Foundation has broadened its focus to include global water issues and environmental literacy while maintaining a commitment to its core mission and partnerships with key organizations.



The Starbucks Foundation's newly established Ethos Water Fund supports projects that improve access to clean drinking water in communities where the need is great, such as this project in the Honduran village of Cholutate.

### ETHOS WATER FUND

Access to clean water is one of the most critical global issues of our time. According to the World Health Organization, 1.1 billion people worldwide lack access to safe drinking water.

Through the acquisition of the Ethos Water brand in April 2005, Starbucks embarked on a multi-year effort to fight the world water crisis and to help children and communities around the world get access to clean drinking water. For each bottle of Ethos™ water sold, five cents is donated toward Starbucks goal of contributing at least \$10 million over the next five years to help alleviate the world water crisis. The newly created Ethos Water Fund will be 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.

Prior to being acquired by Starbucks, Ethos had already established relationships with organizations involved in this work, such as UNICEF, CARE, WaterAid and Water Partners International. Funding priority will be given to integrated and sustainable water projects that positively impact the lives of children and their communities. For more information about Ethos Water, see page 30.

### SUPPORTING YOUTH:

#### ARTS AND LITERACY, ENVIRONMENTAL LITERACY

Building on its history of supporting literacy organizations, The Starbucks Foundation launched an expanded regional grant program in 2005. The new program called *Giving Voice* focuses on literacy for the 21st century, beginning with the mastery of basic skills for the purpose of personal and civic transformation. This regional program funds organizations that serve youth, ages 6–18, through programming that integrates literacy with personal and civic action in the communities where they live. As part of this expansion, The Foundation added a focus on environmental literacy and began funding organizations that help address environmental literacy and empower youth to be local champions for a sustainable environment. *Giving Voice* grants, ranging from \$5,000–\$20,000, will be awarded biannually to organizations in the U.S. and Canada. More than \$1 million in grants will be awarded in the program's first round of funding.

### KEY PARTNERSHIPS

In addition to The Foundation's continued support of two North American youth organizations – Jumpstart and America SCORES – in 2005 the *Giving Voice* grant program introduced a new partnership with Earth Day Network, an environmental education organization. Earth Day Network's mission is to broaden the environmental movement worldwide and to educate and mobilize people, governments and corporations to take responsibility for protecting our planet. The Foundation's partnership focuses on Earth Day Network's new Civic Education Project that teaches and promotes civic engagement in the classroom by highlighting local environmental issues and concerns.

*More information about The Foundation, including the new grant guidelines and a listing of grant recipients, is available online at [www.starbucks.com/foundation](http://www.starbucks.com/foundation).*



## Being Responsive to Customers

We will never take our customers for granted. To remain relevant to our customers and to continue to earn their trust, we must abide by our commitment to our Guiding Principle that calls on us to “develop enthusiastically satisfied customers all of the time.”

At the end of fiscal 2005, we were serving approximately 35 million people weekly around the world. We not only strive to meet their expectations, we constantly look for ways to exceed them.

### LISTENING TO OUR CUSTOMERS

We welcome the valuable feedback we receive from our customers, which is shared with store partners, management and others as appropriate. Several channels are available for our 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. As always, we strive to respond in a timely manner.

In fiscal 2005, Starbucks received nearly one million customer contacts including a large number that pertained to the following topics:

- Military Donations – After hearing a rumor that Starbucks does not support the military, many customers asked if it was true. The rumor is untrue.\*
- The Way I See It – To stimulate coffeehouse conversation, Starbucks invited some notable figures to express their own thoughts and opinions which we printed on our white paper cups. Some of these expressions have inspired our customers to respond about “the way they see it.” We appreciate the interchange.
- Nutrition Information – Many customers requested nutrition information for Starbucks beverages and foods (see right for more information).

### Customer Satisfaction

Customer satisfaction surveys offer another mechanism for Starbucks to receive feedback. In 2005 we evaluated our survey methods and metrics and decided to redesign our studies. Therefore, we did not measure customer satisfaction in fiscal 2005, but plan to survey in 2006 and we will report the results.

*\*An e-mail containing misinformation about Starbucks and our support of the military has been circulating on the Internet. Starbucks was able to locate the author, a Marine sergeant. He was very grateful that we contacted him and he apologized for any misunderstanding. Subsequently he sent an e-mail to his original distribution list correcting his mistake. Starbucks has continually assured our customers that we have the deepest admiration and respect for U.S. military personnel and are grateful to the men and women who serve stateside and overseas. For specific information on our ongoing support of military personnel through the American Red Cross, please visit [www.starbucks.com/csr](http://www.starbucks.com/csr).*

## Menu Choices and Nutrition Information

We appreciate our customers’ desire to make well-informed food and beverage choices. In 2005, Starbucks hired a nutritionist as part of a larger effort to address the need for a broader range of menu options and nutrition information on Starbucks food and beverage products.

Starbucks recently reintroduced several reduced-fat coffee cakes and began offering low-fat and reduced-fat breakfast sandwiches. Our regional menus often include some sugar-free, organic, soy and low-fat food offerings. And the advantage of Starbucks customized beverages is that our customers can request non-fat, organic and soy milk.



In fiscal 2005, 2.3 million customers visited Starbucks.com for nutrition information on our food and beverage products. Starbucks will continue to provide nutrition information on our beverages via an in-store brochure and online. Because of the geographic nature of our food offerings, we opted to expand the nutrition information for our food products on our website rather than through an in-store brochure. Our website will include specific data for bakery products offered in each region, and will be available as of February 2006.

### FUTURE GOAL

In 2006, Starbucks plans to begin labeling trans fats for our packaged food products and reporting trans fat information for our beverages and non-packaged foods (including our pastries) on our website.



## 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.

Starbucks did not make any political contributions in fiscal 2005.

### 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.
- **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. We are strongly advocating for policy solutions in the U.S. (More information is available on page 69.)

## 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 learning where the company can continue to strengthen our practices. For instance, in the coming year we plan to formalize Starbucks human rights policy, an important step as we continue to expand to areas of the world where human rights protections are not consistently upheld.

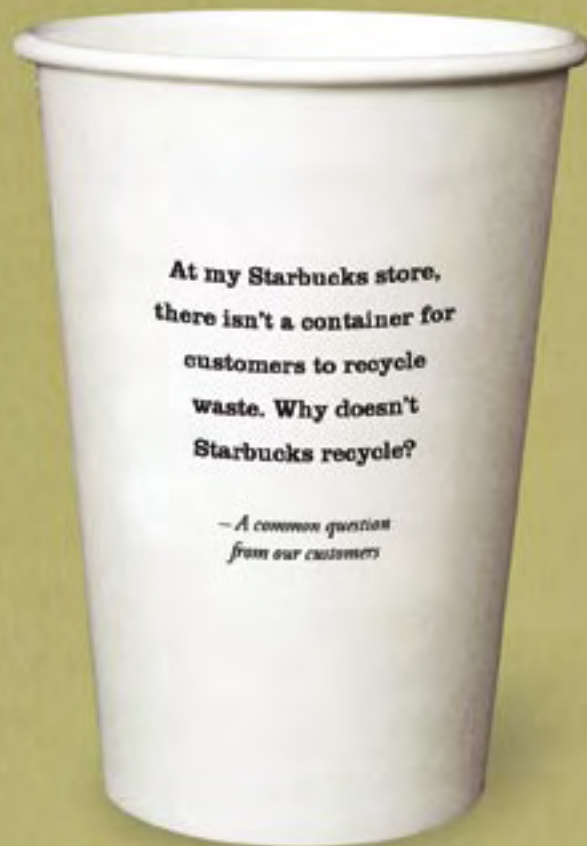
The table at right features the Global Compact's 10 principles and references to sections in this report that speak to how our priorities are aligned with each principle. We plan to report our progress annually.

### 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	18, 27, 66, 71
2. Business should ensure that they are not complicit in human rights abuses	18, 27, 66
<b>LABOR STANDARDS</b>	
3. Business should uphold the freedom of association and the effective recognition of the right to collective bargaining	66
4. Business should support the elimination of all forms of forced and compulsory labor	18, 27, 28
5. Business should support the effective abolition of child labor	18, 27, 28, 66
6. Business should support the elimination of discrimination of employment and occupation	31, 66, 67
<b>ENVIRONMENT</b>	
7. Business should support a precautionary approach to environmental challenges	18, 52, 55, 57
8. Business should undertake initiatives to promote greater environmental responsibility	48–61
9. Business should encourage the development and diffusion of environmentally friendly technologies	52, 56, 60
<b>CORRUPTION</b>	
10. Business should work against corruption in all its forms, including extortion and bribery	7, 8



# ENVIRONMENT







Recycling is as important to Starbucks as it is to our customers. In many of our company-operated stores, our baristas separate recyclable materials and place them in designated behind-the-counter containers not visible from the customer area. While our paper cups are not recyclable, we do recycle cardboard, plastics and other materials whenever possible.

(See page 55 for more information.)

*The necessary plastic coating that makes our paper cups usable for hot beverages also makes these cups nonrecyclable. However we are taking steps to reduce the environmental impact related to our paper cups. Beginning in 2006, Starbucks paper cups will be made with 10 percent post-consumer recycled paper fiber, thus reducing the use of virgin tree fiber.*





## Progress Report on Our Performance – ENVIRONMENT

TOPIC	WHAT WE SAID IN 2004	WHAT WE DID IN 2005	SELF-RATING	FOR MORE INFORMATION
Climate change	Establish an emissions reduction strategy and target, and begin purchasing five percent renewable energy annually for our retail stores.	Developed a climate change mitigation strategy, which includes purchasing renewable energy certificates to match five percent of energy needed for company-operated stores in North America. An absolute emissions reduction target has not been established.		Page 52
Energy conservation	Continue to focus on conservation measures in our retail stores.	Identified several markets and some stores with abnormally high energy usage.		Page 53
Transportation impacts	Work with Business for Social Responsibility's (BSR) Clean Cargo Working Group on developing environmental guidelines for ocean transportation that can then be shared with our freight vendors.	Collaborated on BSR's Clean Cargo Working Group, which resulted in the development of an Environmental Performance Survey for ocean carriers. We used it to assess the performance of our ocean transporters.		<a href="http://www.bsr.org">www.bsr.org</a>
Roasting plant operations	Determine measures for reducing emissions and conserving energy at our roasting plants.	Began retrofitting emission control equipment in our roasting plants with more energy-efficient technology.		Page 60
Environmental leadership	Join the UK-based Climate Group.	Joined The Climate Group in April 2005.		Page 53
Environmental training	Develop an environmental training module and incorporate it into all new partner training.	Added an environmental component to orientation for new partners at Starbucks Support Center in Seattle, our administrative headquarters. Began amending our barista and district manager training to include information about Starbucks commitment to environmental responsibility. These new modules will be rolled out in 2006.		Page 59
Sustainable packaging	Explore the feasible application of sustainable packaging principles in the development of new packaging materials.	Increased the amount of recycled, reclaimed and post-consumer fiber materials in our packaging.		Page 56
Paper cups	Test a new hot beverage cup made with 10 percent post-consumer fiber, and then roll out the new cups in our U.S. company-operated and licensed stores by the end of 2005.	Completed test and scheduled rollout for fiscal 2006.		Page 57
Electronic distribution of operational communications	Evaluate the feasibility of distributing operational retail communications electronically instead of mailing hard copies.	Transitioned to biweekly mailings to retail stores rather than weekly. Introduced electronic delivery for some retail communications.		

KEY: ACHIEVED MAKING PROGRESS DID NOT ACHIEVE



# ENVIRONMENTAL RESPONSIBILITY AND LEADERSHIP

Starbucks commitment to contribute positively to the environment is a Guiding Principle of our company. We expressed this commitment further when we established Starbucks Environmental Mission Statement in 1992. Since then, we have continually evolved our definition of what environmental responsibility means within the context of our business.

Today, the scope of Starbucks business is considerably larger and more complex than it was in 1992. And at present the world faces some critical environmental issues, including the implications of climate change. For these reasons, we've broadened our vision and approach to environmental responsibility while continuing to pursue some of our earlier initiatives.

In this section we link our Environmental Mission Statement to the initiatives we have undertaken. We also report on our progress and achievements, and reflect on the areas we need to improve. Some of the topics we cover include:

- Starbucks strategy for addressing climate change
- Recycling and waste reduction measures
- Sustainable store design and construction
- Environmental improvements to our paper cups
- Measuring our environmental performance

## STARBUCKS ENVIRONMENTAL MISSION STATEMENT

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

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



## Understanding Environmental Issues and Sharing Information with Our Partners

Starbucks core business is coffee, an agricultural product that is grown in tropical regions around the globe. Climatic conditions strongly influence the yield and quality of annual coffee crops. Therefore, we are working to better understand the risks and implications that climate change may have on our business, as well as identify how we can minimize our contribution to climate change.

### UNDERSTANDING CLIMATE CHANGE

According to the World Resources Institute, “Changes in the composition of the earth’s atmosphere have increased the average global surface temperature by one degree Fahrenheit (0.6 degrees Celsius) over the past 100 years.” The warming trend is linked to the increase in emissions of carbon dioxide (CO<sub>2</sub>) and other greenhouse gases (GHG), the result of burning fossil fuels, specifically petroleum, coal and natural gas, which are energy sources used for transportation, heating and electricity.

We believe that meaningful action must be taken to reduce GHG emissions. The risks associated with climate change include rising sea levels, changes in precipitation patterns, droughts and floods, loss of biodiversity, and potential public health issues. To learn more about climate change, visit the website of World Resources Institute – [www.wri.org](http://www.wri.org).

### Developing a Climate Change Strategy

Conducting an inventory of our 2003 greenhouse gas (GHG) emissions in 2004 was our first step toward developing and implementing an emissions reduction strategy. Since the issuance of last year’s CSR Report, new information about our baseline emissions has come to light that has significantly changed our 2003 climate inventory. The original results which included Scope 1, 2 and 3 emissions (as defined by the World Resources Institute Greenhouse Gas Protocol\*) have been revised and reported below (figure 1).

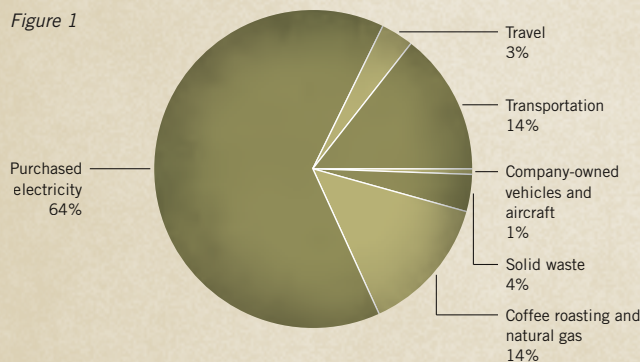
Going forward, we have decided to focus our efforts only on Scope 1 and 2 emissions since these represent the areas that we can directly control and manage. The Scope 1 and 2 baseline results from 2003 are also restated below (figure 2).

Although we have not set an absolute emissions reduction target, we have developed a three-year mitigation strategy which includes the following steps to reduce our Scope 1 and 2 emissions:

- Purchasing renewable energy certificates
- Focusing on energy conservation measures
- Advocating the need for collaborative action

### GREENHOUSE GAS EMISSIONS

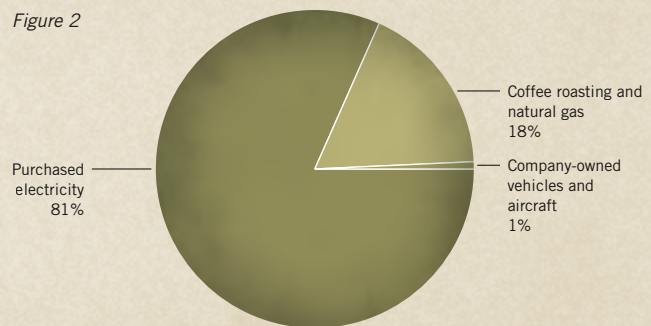
Figure 1



Restated Baseline Greenhouse Gas Emissions – Scope 1, 2 and 3

Total emissions: 376,000 tons of CO<sub>2</sub> equivalents

Figure 2



Restated Baseline Greenhouse Gas Emissions – Scope 1 and 2

Total emissions: 295,000 tons of CO<sub>2</sub> equivalents

Results from our 2003 baseline greenhouse gas emissions inventory have been updated to reflect new data. We have also decided to focus our efforts on Scope 1 and 2 emissions (figure 2).

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





## Renewable Energy

Because the energy used to operate our retail stores contributes the largest portion of our total GHG emissions, we believe investing in renewable energy is our most effective means to offset our emissions. An energy resource is considered renewable if it can be naturally replenished.

In 2005, Starbucks began purchasing renewable wind energy (using Green-e certified renewable energy certificates) to match five percent of the energy needed to power our company-operated stores in the U.S. and Canada. This translates to an emissions offset of 34.2 million pounds (15.5 kilograms) of CO<sub>2</sub>.

The Environmental Protection Agency's (EPA) Green Power Partnership tracks the largest purchasers of green power in the U.S., and ranked Starbucks as 22<sup>nd</sup> on the list as of June 2005. According to Kurt Johnson, director of the EPA's Green Power Partnership, "Starbucks purchase (of renewable energy certificates) is strengthening the green power market and will help to support clean technologies that reduce the environmental impact of electricity generation."

Information about renewable energy certificates is available at [www.green-e.org](http://www.green-e.org).

## FUTURE GOAL

In fiscal 2006, Starbucks plans to strengthen our commitment to emissions reduction by purchasing renewable energy certificates to offset 20 percent of the energy used in our U.S. and Canada company-operated stores.

**Q: "Now that Starbucks has committed to purchasing renewable energy certificates to match five percent of the energy used for its U.S. company-operated stores, how will GHG issues be addressed in the other half of Starbucks retail operations (i.e., international and licensed stores)?"**

– Sue McGeachie, *Innovest Strategic Value Advisors*

## Energy Conservation

We view energy conservation as an important part of our climate change strategy. Measures we are taking include retrofitting emission control equipment in our coffee roasting plants with more energy-efficient technology, replacing some lighting fixtures and store equipment with products that use less energy, and in-store testing of a more efficient HVAC system. Upgrading to energy-efficient systems will be an ongoing process as our old equipment and fixtures are replaced over time.

## Advocating Through Collaboration

Starbucks believes that the global challenge of climate change can best be addressed through a unified and collaborative approach. In fiscal 2005, Starbucks engaged with several organizations to learn more about what our company can effectively do and how to encourage others to do the same. For instance, Starbucks:

- Joined World Resources Institute's Green Power Market Development Group to increase our purchases of renewable energy certificates and to learn from other companies.
- Joined The Climate Group, an international organization dedicated to advancing business and government leadership on climate change. We also participated in a business panel on climate change that was convened by The Climate Group at the United Nations 2005 World Environment Day.
- Committed to support Global Green USA, a nonprofit organization founded by former Soviet President Mikhail Gorbachev, that brings individuals, businesses, government and nongovernmental organizations together to take action on climate change.
- Participated in the Carbon Disclosure Project, a voluntary questionnaire aimed at increasing transparency on what corporations are doing to address climate change and reduce GHG emissions. Our responses to the survey are online at [www.cdproject.net](http://www.cdproject.net).

**A:** As a first step, Starbucks is focusing on addressing the emissions generated by our company-operated stores in the U.S. and Canada because of our direct control over these operations and the fact that these stores contribute the largest portion of Starbucks GHG emissions. We are also looking at ways our licensed and international business partners can help to reduce Starbucks GHG emissions globally.





Tim Nuse, a Starbucks partner and strong environmental advocate, helps to clean up a local Seattle park on Earth Day 2005.

### Bringing Passion to My Work

*By Tim Nuse, Starbucks utility analyst*

Taking environmental courses in college forever changed my perspective. It was then that I first learned about climate change and how human activity contributes to global warming. Later, I became a student organizer, which involved mobilizing support for environmental causes. I felt then that corporations were partly to blame for our environmental problems. Now I'm convinced that corporations can and must be part of the solution.

I joined Starbucks in 2001, first as a barista and later as an environmental affairs coordinator. While some of my friends questioned me for joining Starbucks, I believed that I could do more by working within a company than trying to provoke change from outside.

I recently became a utility analyst at Starbucks, which entails reviewing and processing energy and water bills for thousands of U.S. Starbucks stores. As I sift through invoices, I occasionally notice irregularities in a store's energy or water usage. When I see a spike in usage for no apparent reason, I phone the store manager to find out why. Sometimes it's as simple as discovering that a leaky pipe needs repairing. Whatever the outcome is, I'm always glad I made the call.

My favorite quote is a Native American proverb: "We do not inherit the earth from our ancestors, we borrow it from our children." If my efforts successfully lead to greater energy and water conservation, then I will feel better about leaving the earth to the next generation. That's the way I see it.

### SHARING INFORMATION WITH OUR PARTNERS

It's absolutely essential that our partners are informed of Starbucks environmental initiatives and understand how their actions contribute to our environmental performance. In 2005, we ran a three-part series in our internal newsletter to inform our partners about what Starbucks is doing about climate change and what they can do to reduce the environmental impacts of their daily activities. We regularly share environmental information with our partners through our internal communications vehicles.

In the past, we saw the value of taking a grassroots approach in the form of Starbucks Green Team, a representative group of store managers that had been charged with identifying, communicating and implementing environmental measures in our retail operations. Given the company's growth in recent years, we felt that the Green Team structure was no longer the best strategy for improving the environmental performance of our stores. We decided to disband the Green Team in 2005 and are moving toward integrating environmental practices into our retail operations standards.

### FUTURE GOAL

In fiscal 2006, we plan to integrate specific environmental practices into our retail operational standards, ensuring that environmental stewardship becomes "business as usual." These new practices will focus on improving accountability at the store level for energy and water conservation, recycling and waste reduction.



## Developing Innovative and Flexible Solutions to Bring About Change

The same innovative spirit that has been a driving force for our business success is also applied to our environmental practices. Described below are some of the creative solutions we've adopted to address one of our perennial challenges, waste reduction. We also report on our efforts to design and build a prototype of Starbucks sustainable store of the future.

### RECYCLING AND WASTE REDUCTION

Whether it's our efforts to recycle materials, compost biodegradable matter, or reuse products, it all helps to reduce the volume of solid waste that we generate.

To better understand the composition and scale of the waste generated from our retail stores, we conducted another waste audit in 2005, three years after the first audit. In the latest audit we found that cardboard, plastic and soiled compostable paper make up the greatest volume of store waste. Here are some ways we are reducing waste in our stores.

#### Recycling

Throughout our North American operations, store managers are expected to participate in local recycling programs. We track the number of our U.S. and Canada company-operated stores that have recycling programs. While recycling is not feasible at every location, we have recently overcome some barriers to make it easier for more of our stores to participate.

At the end of fiscal 2005, 77 percent of our U.S. and Canada company-operated stores where Starbucks controls waste and recycling had recycling programs, compared to 70 percent the previous year. (See page 61.)

In many of our international markets there is also strong interest in recycling. For instance, Starbucks partners in Germany separate plastic, paper, glass and biodegradable waste for recycling purposes. In France, our new store designs are incorporating space for recycling bins. Starbucks UK piloted recycling programs in 90 local stores last summer and plans to include more locations in 2006. In Greece, Starbucks and the Hellenic Children's Museum hosted seminars that introduced children to recycling and reusing.

#### Reusable Mugs

Two ways our customers can help cut down on waste are by bringing in their own commuter mugs, which earns them a 10-cent discount, and by requesting that their beverages be served in ceramic mugs when it's a "for-here" order. Starbucks U.S. customers used commuter mugs more than 13 million times in fiscal 2005. (See page 61.) Although we don't currently track commuter mug usage outside the U.S. and Canada, this measure is gaining popularity among our

customers in places such as the UK, China and Australia. In Japan, a special task force has been initiated to introduce reusable ceramic mugs to help reduce waste and comply with new regulations.

#### Reducing Coffee Grounds Waste

We continue to promote *Grounds for Your Garden*, a program that offers complimentary five-pound (2.27-kilogram) bags of used coffee grounds to customers and local parks to add to their soil. This program has been popular with our customers around the world, including in France, Spain, the UK, the Philippines, Greece, Cyprus, China, New Zealand and Hawaii. Because coffee grounds account for approximately one-third of Starbucks solid waste by weight, we plan to keep this initiative.

#### Reducing Food Waste

In Japan, the government is mandating a 20 percent reduction in food waste, which becomes effective in April 2006. Starbucks Japan has created a special task force to strategize ways to reduce food waste and comply with this new requirement. In doing so, we hope this will expose new measures we can adopt in our North American stores and other international locations.



Starbucks partner Hilary Andersen gladly gives her customers a 10-cent discount whenever they use their own commuter mugs, a measure that helps to conserve the use of paper cups.



## SUSTAINABLE STORE DESIGN

For several years, Starbucks has been working with the U.S. Green Building Council (USGBC) to develop LEED (Leadership in Energy and Environmental Design) standards and a scoring system specifically for the retail sector. Our vision is that the retail-specific scoring system can be used to LEED-certify a prototype of a Starbucks store, and that a “volume-build” criteria will also be developed. This will allow us to build future stores consistent with the prototype module and the LEED criteria.

In the meantime, in 2005 we designed and built our first store in accordance with LEED Commercial Interior standards. The store is located in the Civic Center in Hillsboro, Oregon. We applied for LEED Gold\* certification from the USGBC in 2006. At the time of this printing, we had not received final certification from the USGBC.

Although this will be Starbucks first LEED-certified store, the components that make up this store are very similar to the company's existing stores. This reflects our ongoing commitment to incorporate the use of energy-efficient lighting, paints with reduced toxic chemicals and sustainable wood products that are Forest Stewardship Council (FSC) certified.

*\*Different levels of green building certification (certified, silver, gold, platinum) are awarded based on the total credits earned in each of several categories: site, energy, material and resources, indoor environmental quality and water.*



Starbucks Hillsboro, Oregon store was built in accordance with LEED Commercial Interior standards.

### Environmental Measures in Our Store Design

- ❶ Cabinetry made from 90 percent post-industrial material, with no added formaldehyde
- ❷ Efficient lights that use less energy
- ❸ Paints with lower amounts of volatile organic chemicals
- ❹ Eco-Terr® flooring tiles made from 70 percent post-consumer recycled content, 10 percent post-industrial content
- ❺ Store designed to capture available natural daylight

## Striving to Buy, Sell and Use Environmentally Friendly Products

In 2001, Starbucks developed coffee buying guidelines (which have evolved into C.A.F.E. Practices) that changed our purchasing practices by giving higher priority to suppliers who produce coffee in a sustainable manner. (See pages 18-22) But our commitment to buy, sell and use environmentally friendly products extends well beyond our coffee. For example, we are making environmental improvements to our paper cups, designing more sustainable packaging and engaging with other paper buyers to develop guidelines for paper purchasing.

### Paper Working Group

In 2005, Starbucks continued to participate in the Paper Working Group (PWG), a group of 11 large paper buyers led by the nonprofit organization Metafore. As a founding participant of the PWG, Starbucks is working collaboratively to develop and implement a procurement tool to help paper

buyers evaluate the environmental performance of paper (beyond recycled and unbleached content). Over the last year, Starbucks solicited feedback from major paper fiber suppliers about the tool, and participated in two ENGO (environmental nongovernmental organization) stakeholder summits. In 2006, we plan to pilot the evaluation tool with a few major fiber suppliers.

### Sustainable Packaging Design

Our involvement with the Sustainable Packaging Coalition has given us the opportunity to learn from and share ideas with other businesses and packaging suppliers. It has inspired a more sustainable approach to our packaging design process, such as minimizing the use of materials and incorporating recycled content, whenever possible. We are also working to minimize the use of petroleum-based polyvinyl chloride (PVC) in our packaging, as well as exploring the feasibility of using an alternative coating that could some day make our hot beverage cups recyclable.



## Hot Beverage Paper Cups

In 2005, Starbucks purchased 1.9 billion hot beverage cups that were comprised of approximately 61.3 million pounds (27.8 million kilograms) of virgin tree fiber. To lessen the environmental impact associated with our paper cups, we tested a newly developed hot beverage paper cup that contains 10 percent post-consumer recycled paper fiber and, as a result, uses less virgin tree fiber. The test was conducted following four years of collaboration with our suppliers, and after the U.S. Food and Drug Administration reviewed and accepted a new process developed by our paper fiber supplier. The process incorporates post-consumer recycled content in the packaging materials that come into direct contact with food. As a result, Starbucks is introducing the first-ever paper cup containing 10 percent post-consumer paper fiber.

Beginning in 2006, we will introduce the new paper cups in all U.S. company-operated and licensed Starbucks stores, a move that will reduce our need for an estimated five million pounds (2.27 million kilograms) of virgin tree fiber annually. Although we do not have immediate plans to distribute the new cups outside North America, we are committed to working with our international business units in hopes of finding similar opportunities to reduce our consumption of virgin tree fiber.

**Q: "Adding 10 percent recycled content to your cups is a start, but it's a pretty miniscule amount. Why isn't Starbucks doing more?"**

*—Dr. Allen Hershkowitz,  
Natural Resources Defense Council*

**A:** We recognize that adding 10 percent post-consumer recycled material is a conservative first step, but we believe it is an important one for us and the food packaging industry. Increasing the recycled fiber in any paper product for environmental reasons must be balanced with product durability and safety considerations. In the future, we will look for ways to increase the percentage of post-consumer recycled fiber contained in our cups, but first we want to be assured of the quality, safety and durability of these new cups. In the meantime, we are actively exploring additional innovations to reduce the environmental impacts of our paper cups and other packaging.

## JOURNEY OF A STARBUCKS PAPER CUP

### RECYCLED PAPER PULP MILL



1 High-grade office paper is collected (and inspected).



2 Paper baled and sent to a pulper.

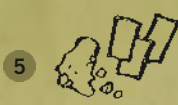


3 Paper is broken down into a slurry.



4 Recycled pulp is baled and sent to the paper mill.

### PAPER MILL



5 Recycled pulp is combined with virgin tree fiber to create the "cup stock" (with 10 percent recycled material).



6 Cup stock is made into rolls and shipped to the manufacturing facility.

### CUP MANUFACTURER



7 Rolls are cut into appropriate sizes (for printing).



8 Cut sheets are printed.



9 Sheets are formed into the new Starbucks cup.



## Recognizing That Fiscal Responsibility Is Essential to Our Environmental Future

Before we take action, we get informed. This is our approach to business, and similarly to our environmental practices. As we look to adopt new environmental measures, we first review the options, consider the environmental impacts and costs and then determine the methods for testing. We believe the process leads to better results. Project Green BELT (Beneficial Energy Limiting Technology) is a good example of our approach.

### Project Green BELT

Three years ago our store development team planned to set up an Energy Test Bed in our retail stores. We alluded to this effort in our past CSR Reports, but the initiative didn't get off the ground until recently. It has since been renamed Project Green BELT.



Our stores rely on electricity, natural gas and water to operate the equipment and machines needed to provide the *Starbucks Experience* for our customers throughout the day and into the evening. In fiscal 2006, Starbucks plans to launch Project Green BELT which will help us identify conservation opportunities in our stores.

In fiscal 2005, the plans were laid to launch an enterprise-wide, holistic approach to conservation. We are in the process of identifying 20 Starbucks stores, a representative cross-section of our retail operations, which will serve as the long-term test bed for collecting data on new equipment and operational processes. We will monitor electrical, natural gas and water usage, and determine the best opportunities for maximizing efficiencies and lowering costs.

### FUTURE GOAL

We will begin testing for Project Green BELT in fiscal 2006.



## Instilling Environmental Responsibility As a Corporate Value

Starbucks environmental commitment is demonstrated by our decisions and actions. For instance, Starbucks senior leadership has taken a stance on addressing climate change by pledging to purchase renewable energy certificates.

To ensure environmental responsibility is embraced at all levels of the company, we developed and piloted a new leadership training course to foster a better understanding of Starbucks strategy for social and environmental responsibility. In 2006, we will offer the social and environmental leadership course to vice presidents and above. In addition, we will amend the training that store partners and district managers receive to better communicate Starbucks commitment to operate in a sustainable and responsible manner.

### Earth Day

For the past four years Starbucks has supported and worked together with the Earth Day Network (EDN), an organization that was founded by the organizers of Earth Day to encourage environmental citizenship year-round. In 2005, our collaboration included featuring environmental messages on Starbucks cup sleeves during the month of April. The messages encourage environmental protection and suggest simple choices we can make to create a more sustainable world. The Starbucks Foundation also provided financial support to EDN. (See page 45.)

Additionally, in recognition of Earth Day 2005, Starbucks provided financial support to 42 environmental organizations across North America. Approximately 12,000 partners and customers, including nearly 900 partners in Japan, got involved in Earth Day-related volunteer projects.



Starbucks Japan partners help clean up a local park on Earth Day 2005.



Dr. Karen Holl (left) of the Earthwatch Institute led participants, including Starbucks customers, on an Earthwatch Expedition to help restore the Costa Rican rain forest in fiscal 2005.

### Earthwatch Expeditions

Starbucks has been working with the Earthwatch Institute since 2002 to promote environmental responsibility to our partners and customers. During June and July 2005, Starbucks sponsored Earthwatch Expeditions that sent seven partners and 20 customers to a coffee-farming region in Costa Rica where participants spent 12 days helping to restore a rain forest. Starbucks chose a team of store and office partners from the U.S., Canada and the UK. From their entries on Starbucks.com, customers were randomly selected to participate in the expedition by a third-party contest administrator.



## FROM FARMER TO CUSTOMER

### Starbucks Environmental Efforts Along Our Value Chain

1



#### Farmers: Conservation

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

2



#### Roasting: Environmental Management

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

## Measuring and Monitoring Our Progress for Each Project

Starbucks conducted an environmental footprint assessment in 2000 to help identify a number of focus areas that we considered to be high impact. We remain committed to these priorities. Metrics were established for each focus area, enabling us to track and report on our performance. A brief description of our focus areas as well as the results of our performance follows.

- **Coffee** – The amount of sustainably produced and organic coffee purchased. (See pages 19, 23 and 25 for this information.)
- **Tea** – The amount of certified organic ingredients purchased. (See page 29 for this information.)
- **Paper** – The percentage of post-consumer fiber and unbleached paper fiber contained in our annual paper purchases.
- **Transportation of people** – The percentage of partners using alternative commuting options at Starbucks Support Center (administrative headquarters).
- **Waste reduction** – The percentage of U.S. customers using commuter mugs, which reduces the number of disposable paper cups that are used and discarded.
- **Recycling** – The percentage of our U.S. and Canada stores, where Starbucks controls waste and recycling, that participate in recycling programs.
- **Energy consumption** – The amount of electricity and natural gas used per square foot in our U.S. and Canada company-operated stores.
- **Water consumption** – The amount of water used per square foot in our U.S. and Canada company-operated stores.

## OUR CHALLENGE OF MEASURING UTILITY CONSUMPTION

Our ability to accurately track the total amount of energy and water used to operate our stores depends on whether Starbucks pays the utility bills directly, or whether our landlords assume responsibility for the utilities. When Starbucks directly manages the utilities, we receive an accounting of our utility usage, whereby we can track our performance over time. Often landlords assess their tenants for utilities based on leased square footage, recapturing their costs as part of the tenant's rent. In these situations, we don't receive detailed statements for utility usage. Similarly, our licensees are not required to report their operating expenses or utility consumption to Starbucks.

These challenges not only impact our capacity to track our utility consumption globally, they also impede our ability to fully identify the drivers of our energy and water usage. We are hopeful that Project Green BELT (described on page 58) will help us better understand utility consumption in our stores so that we can resolve these issues and improve our performance.



3



## Support: Packaging and Paper Purchases

Starbucks considers recyclability, reusability and recycled content in our purchasing decisions. We strive to reduce unnecessary packaging and target a minimum of 30 percent post-consumer fiber in all paper purchases, excluding our paper cups. In 2006, we will begin using paper cups that contain 10 percent post-consumer fiber in our U.S. stores.

4



## Retail Stores: Design and Operations

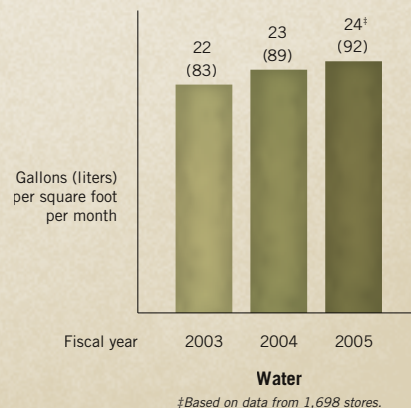
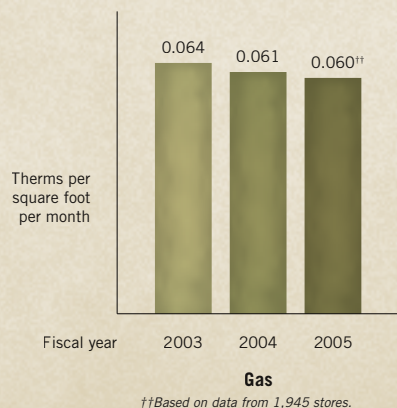
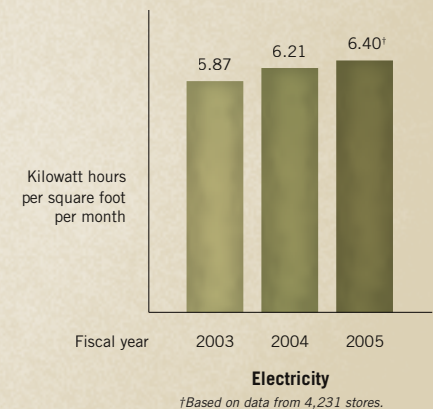
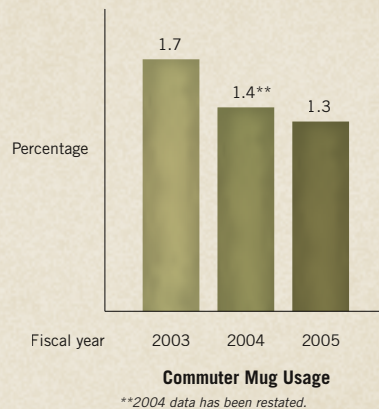
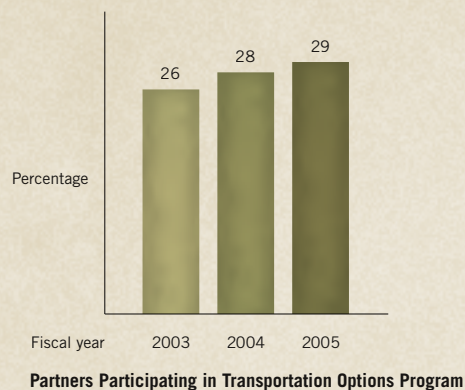
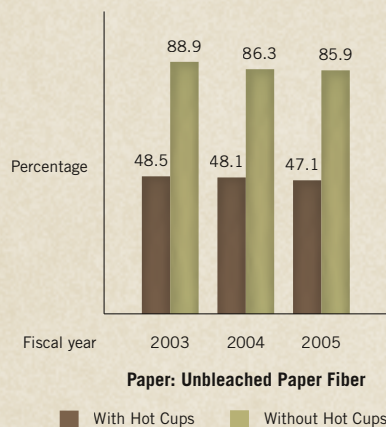
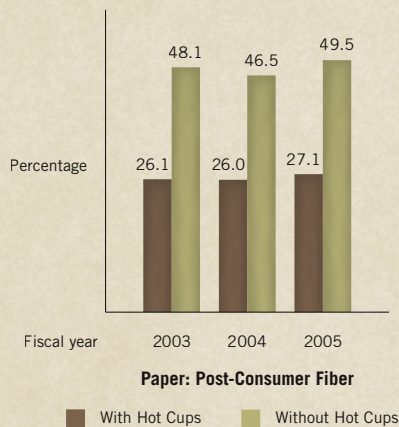
Starbucks incorporates environmentally friendly measures in the design and construction of our stores, including the use of sustainable wood products, energy-efficient lighting and reduced-flow water fixtures. We also purchase renewable energy certificates to offset the emissions associated with energy used for our U.S. and Canada company-operated stores. Where commercial recycling collection services exist, we recycle milk jugs, cardboard boxes and other waste products.

5



## Customers: Reusing and Recycling

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



*Fiscal 2005 utilities usage is being reported for North American company-operated stores that were opened before October 1, 2004, and have a full 12 months of consumption information. Our previously reported results were skewed because we included stores that had been opened less than a full year as well as stores with incomplete information. Therefore, we are restating our electricity, gas and water usage data for fiscal years 2003 and 2004.*



# WORKPLACE







In the event of a natural disaster, Starbucks first ensures the safety and well-being of our partners who have been affected. We then seek to provide a helping hand – from financial vouchers and access to the company’s employee assistance plan to cash grants from our partner-supported CUP (Caring Unites Partners) Fund. Starbucks was there for our partners during the 2004 South Asia tsunami and for our U.S. partners during the 2005 hurricane season.

(More information on page 70.)

*Lawrence Duncan (center, above) evacuated from New Orleans before Hurricane Katrina but didn’t imagine that he would be unable to return home. Instead he ended up across the country in Tacoma, Washington, working once again for Starbucks after hearing that local stores were offering positions to displaced partners. Lawrence was greeted at the airport by Gretchen Coker (left, above), a partner resources manager, and invited to stay at the home of Jeff Backman (right, above) a Starbucks barista who is now Lawrence’s co-worker.*





## Progress Report on Our Performance – WORKPLACE

TOPIC	WHAT WE SAID IN 2004	WHAT WE DID IN 2005	SELF-RATING	FOR MORE INFORMATION
Partner benefits – tuition reimbursement	Extend our tuition reimbursement program to partners in Canada and explore whether similar programs can be established outside North America.	Tuition reimbursement became effective in Canada on January 1, 2005. It is also offered in Hong Kong, Thailand and Japan. We are currently sharing the design of this program with our UK colleagues.	●	Page 68
Partner View Survey	Conduct a comprehensive partner survey in October 2004.	Partner View Survey was conducted as planned. Results were shared with our partners and are included in this report.	●	Page 65
Workplace diversity	Test a companywide diversity and inclusion scorecard that will help us develop metrics and establish long-term goals.	Finished developing the scorecard, but it didn't launch in fiscal 2005. It's currently scheduled for rollout in 2006.	◐	Page 67
Workplace diversity	Make diversity training an integrated element of our overall executive development process.	Launched Executive Diversity Learning Series with an initial web seminar titled <i>"Do You Hear What I Hear?"</i> and a Diversity Communication Guide to help strengthen our executives' diversity and leadership competencies. Approximately 30 percent of vice presidents and above have voluntarily participated so far.	◐	Page 67
Workplace diversity	Focus some of our diversity training so that partners can better understand multicultural customers and customers with disabilities.	Specific content that focused on disability etiquette and deaf culture was added to existing training modules for our baristas and field managers.	◐	Page 67
Health and safety	Install anti-slip mats in our U.S. company-operated stores.	Installed new anti-slip mats in our California stores and tested for effectiveness before complete rollout. Results were good so installation of anti-slip mats will continue and old mats will be recycled.	◐	Page 71
KEY: ● ACHIEVED ◐ MAKING PROGRESS ○ DID NOT ACHIEVE				

## Starbucks Employment Profile – Fiscal 2005

<b>Number of partners globally</b>	<b>115,000</b>
U.S. partners – retail	91,200
U.S. partners – nonretail	6,300
International partners* – retail	16,800
International partners* – nonretail	700
<b>Net jobs created (Starbucks partners) in fiscal 2005</b>	<b>15,900</b>
<b>Total wages and benefits paid to U.S. partners**</b>	<b>\$1.9 billion</b>
* Includes partners in Canada, UK, Republic of Ireland, Australia, Germany, Thailand, China, and Singapore and regional support partners in Europe and Asia Pacific	
** Includes salaries, bonuses, vacation, payroll taxes, healthcare benefits, workers' compensation, 401(k) match and weekly pound of coffee	



# PROVIDING A GREAT WORK ENVIRONMENT

At Starbucks, our partners (employees) are the key to our success. To attract and retain the caliber of partners that drive Starbucks success, we strive to create a workplace that both values and recognizes each person's contribution. Our Guiding Principle says it best: "Provide a great work environment and treat each other with respect and dignity."

In this section we describe what Starbucks is doing to fulfill our commitment to this Guiding Principle, and in particular what we are doing to:

- Promote a respectful workplace culture
- Foster diversity and inclusion
- Care for our partners' well-being
- Provide opportunities for training and career growth
- Ensure a safe workplace

## Workplace Culture

To create a great work environment, we believe there needs to be an emphasis on recognition, a support network in place, and most important, two-way communication channels available for partners to provide their feedback. Starbucks encourages our partners to utilize any of several available options to tell us when something is troubling them or when they have praise to share.



Starbucks partners at one of our stores in Portland, Oregon, from left - Tara Jordan, Sunny Burden, Robert Hastings and Andrea Streedain, enjoy working with an enthusiastic team.

## Partner View Surveys

Approximately every 18 months, Starbucks conducts a comprehensive survey to give partners a voice in shaping their partner experience. The survey also measures overall satisfaction and more important, partner engagement – the degree to which partners are connected to the company. Starbucks partners in the U.S. and Canada, at our international regional support centers in Europe/Middle East/Africa (EMEA), Asia Pacific and Latin America, at Starbucks Coffee Trading Company in Switzerland, at Starbucks Coffee Agronomy Company in Costa Rica, and at our coffee roasting plant/warehouse in Amsterdam were invited to participate in our fiscal 2005 survey.

Partner View Survey Results		
	Fiscal 2003	Fiscal 2005
<b>Survey Response Rate</b> % of partners who responded to survey	46%	64%
<b>Partner Satisfaction</b> % of satisfied or very satisfied partners	82%	87%
<b>Partner Engagement</b> % of engaged partners	73%	73%

Overall, the fiscal 2005 survey revealed that Starbucks Mission Statement and Guiding Principles continue to provide meaningful direction in how our partners do their jobs. The survey also revealed that taking action on our fiscal 2003 survey results made a big difference. In general, scores for areas where we made improvements increased – areas like coffee knowledge and opportunities to develop skills. In addition, partners told us they:

- Know what is expected of them at work
- Believe someone at work cares about them
- Work for managers who promote work/life balance

The Partner View Survey also uncovered areas needing improvement. Specifically, partners pointed out that Starbucks should:

- Celebrate our successes more
- Provide more effective coaching and feedback
- Improve our communication with partners

Starbucks began addressing some of these issues in fiscal 2005 with the launch of some new initiatives, including "on-the-spot" recognition cards that celebrate partner and team successes. To help people managers become better at coaching and providing feedback, new and revised training courses were introduced. And Starbucks began an internal communications audit, inviting randomly selected partners to provide feedback that can help the company identify more effective ways to communicate. Starbucks Broadcast News, an internal video newsletter, was one of our initial endeavors.



## Mission Review

Mission Review was established in 1991 to allow partners a way to voice concerns when they believe the company is not operating in a manner consistent with Starbucks Guiding Principles. When partners submit comments or questions directly to the Mission Review team, they are assured of a personal follow-up in a timely manner. In fiscal 2005, our Mission Review team recorded more than 4,200 contacts from North America partners on topics that ranged from the company's sick time policy to environmental responsibility. Some of our international business units have also embraced this concept and provide similar forums to their partners. However, we do not currently track Mission Review submissions for our international markets.

## Business Conduct Helpline

As part of our Business Conduct and Corporate Compliance program, the Helpline provides Starbucks partners with access to a non-company, third-party agent who is available for their calls 24 hours a day. Partners are protected from retaliation, yet they may still choose to remain anonymous when calling the Helpline. In all cases, information is treated confidentially. The concerns reported are investigated and resolved in a manner consistent with Starbucks Mission Statement and Guiding Principles. Starbucks Helpline has been in place for years, well before the federal Sarbanes-Oxley Act of 2002 mandated it as part of corporate compliance.

## Recognizing Our Partners

Starbucks success reflects the quality, imagination and initiative of our partners. We developed the Starbucks Partner Recognition Program to recognize our partners' contributions. Currently there are 18 formal recognition programs that partners can use as tools to incent, reward and inspire one another. They range from company awards to special acknowledgements given by co-workers.

### Honoring the Legacy of Orin C. Smith

In recognition of Starbucks former president and ceo who retired in 2005, we established the Orin C. Smith Scholarship at the University of Washington (UW) in Seattle, where Starbucks headquarters is located. Each year for the next 10 years, two \$25,000 scholarships will be awarded to UW undergraduates who are sons or daughters of Starbucks partners. We also renamed our President's Award to be the Orin Smith Award to recognize Starbucks partners who far exceed expectations and make profound impacts on partners, customers and the financial success of the company. Award recipients receive \$5,000.

## Workplace Policies and Respecting Partner Rights

Starbucks has workplace policies to 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 minimum age of employment at Starbucks is 16, and it may be higher in some locations as required by local regulations.

Starbucks also recognizes our partners' right to unionize. We have always taken the approach of being pro-partner by focusing on providing a great workplace environment and a comprehensive Total Pay package. (See page 68 for information about Total Pay.) At the end of fiscal 2005, 123 Canadian partners were the only Starbucks partners formally represented by a union.

Thirteen partners at our Kent, Washington, roasting plant had previously been represented by the International Union of Operating Engineers Local 286. In fiscal 2004, these partners notified the union that they were no longer interested in being represented. The union withdrew its representation in June 2005.

We reported in our 2004 CSR Report that a small number of our partners working in one Starbucks store in New York City notified the National Labor Relations Board (NLRB) that they were interested in being represented by a union. On the day before the scheduled election, the union voluntarily withdrew its petition to the NLRB. Following the withdrawal, the union filed several unfair labor practices charges against Starbucks. As of the end of fiscal 2005, the NLRB had not ruled on the allegations.

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.



## Fostering Diversity and Inclusion

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. As Starbucks continues to hire thousands of new partners annually and expand globally, we must uphold our Guiding Principle to “embrace diversity as an essential component in the way we do business.”

### Diversity and Inclusion Initiatives

The success of any diversity or inclusion strategy begins with a demonstrated commitment from senior leadership. Starbucks Global Diversity Leadership Team exists to ensure that diversity is embraced at all levels of the company, especially among our leadership team.

In fiscal 2005, our new ceo Jim Donald, along with 12 senior executives, took part in a 360-degree diversity competency assessment to identify their strengths and specific areas needing improvement. As a follow-up, individual action plans have been created for each executive.

An Executive Diversity Learning Series was designed in fiscal 2005 for vice presidents and above with the goal of building their diversity competencies and thus broadening their overall leadership skills. As a next step, a full-day diversity immersion will be launched in 2006 that will enhance our executives’ learning so they become more effective at leading a diverse, global workforce.

Another advancement we made in fiscal 2005 was addressing the needs of deaf partners. We instituted web cams as a standard tool; provided tuition reimbursement for American Sign Language courses; made our enterprise help desk accessible for deaf partners; and added closed captioning for Starbucks Broadcast News, our new video newsletter.

### Measuring Performance

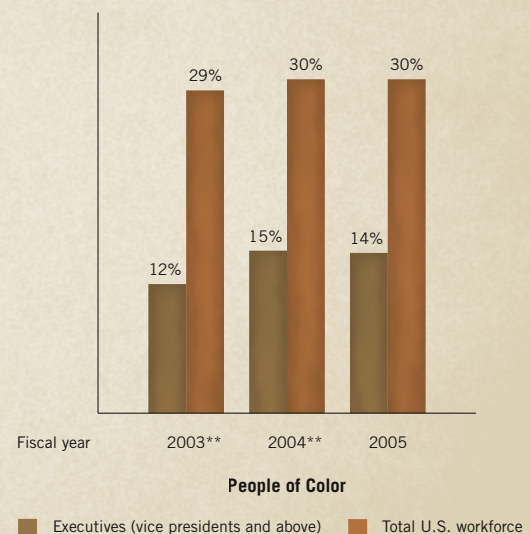
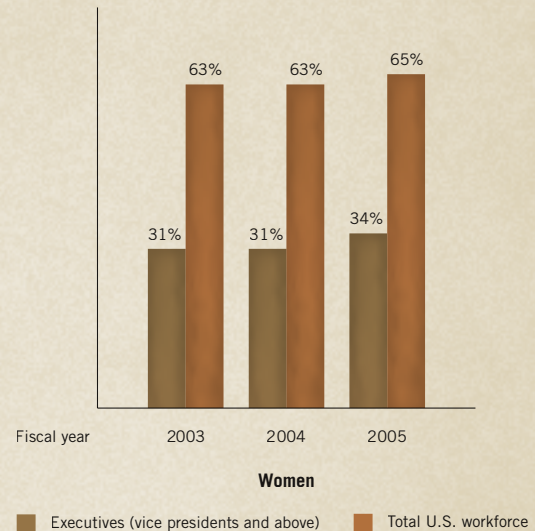
On a companywide basis, Starbucks took steps to create a diversity and inclusion scorecard, although we fell short of our plans to test it in 2005. The scorecard includes key metrics for diversity that will allow us to gather baseline data in the first year and track performance in subsequent years. Over time, it will provide the type of quantitative feedback needed to establish meaningful goals related to workforce representation, leadership strengths and weaknesses and workplace environment.

#### FUTURE GOAL

In fiscal 2006, we plan to roll out our diversity and inclusion scorecard to our ceo and senior leadership team.

Currently we track and report the percentage of women and people of color in our total U.S. workforce and among our vice presidents and above, who voluntarily disclose their race and gender. For the first time this year, we are reporting the percentages of women and people of color holding senior officer positions at Starbucks.

Although we improved in most categories in 2005, our ability to continually recruit and develop qualified diverse candidates at a pace on par with the company’s rapid expansion presents a formidable challenge. It is one we are committed to meeting.



\*\*Data has been re-cast using our fiscal 2005 methodology.

Starbucks Senior Officers*	
	Fiscal 2005
Women	32%
People of color	26%
*Senior vice presidents and above	



## Caring for Our Partners

One of the best demonstrations of how we care for our partners is through Starbucks Total Pay package, which includes competitive base pay, bonuses, a comprehensive health plan, paid time-off plans, stock options, a savings program and partner perks. In fiscal 2005, adoption benefits were enhanced to include paid time off for new adoptive parents and up to \$4,000 in reimbursement for qualified adoption expenses. Also, our tuition reimbursement benefit was extended to partners in Canada.

The chart below summarizes the core benefits 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 75 percent of health coverage costs for partners and 56 percent for dependents. In Canada, 74 percent of costs were paid for partners and 46 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 2005, 67 percent of U.S. partners and 62 percent of Canadian partners were eligible for these benefits.
<i>Bean Stock</i> – Starbucks stock option plan (eligible partners in the U.S., Canada, UK, Hong Kong, Netherlands, Switzerland, Germany, Australia, Costa Rica)	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 2005 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. More than 57,000 partners qualified for <i>Bean Stock</i> for fiscal 2005 performance.
S.I.P. – Stock Investment Plan (U.S. and Canada), Share Incentive Plan (UK)	Partners can purchase company stock at discounted prices on a quarterly basis (U.S. and Canada) or a semiannual basis (UK).	Partners who have worked as a regular partner at least 90 days for Starbucks and have been paid for an average of 20 hours a week during the three months preceding the offering. No hours requirement in the UK. In fiscal 2005, 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 between 25 percent and 150 percent (based on the length of service from most recent date of hire) on the first four percent of pay that partners contribute to the U.S. 401(k) Plan. Eligible Canadian partners receive a 25 percent match on the first four percent of pay that they contribute to the RRSP.	Full- and part-time partners with one year of service are eligible. In the U.S., partners age 30 or older may participate immediately.

### Partner Benefits – 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.

- Some of the partner benefits in China include healthcare insurance, sick leave and maternity/paternity leave, and in some areas tuition reimbursement is provided for partners and their children.
- In Malaysia and Thailand, partners are given advanced training opportunities to further their careers, in addition to health insurance, paid vacation, sick leave and other benefits.
- New Zealand partners have access to a registered workplace training program, which is free of charge and enables them to gain nationally recognized qualifications.
- Our business partner in Turkey provides partners with transportation subsidies and access to a company doctor who treats partners free of charge.



## FOCUSING ON HEALTHCARE AND WELLNESS

Since the company's early days, Starbucks has been committed to providing our eligible part- and full-time partners with healthcare benefits. These benefits are an expense the company has been willing to shoulder because of the deep and abiding responsibility we feel toward our partners. This stems from the vow Howard Schultz made when he acquired Starbucks – to create a company that would treat people like family and in turn, they would be loyal and give their all.

Starbucks healthcare program is self-insured, which means healthcare providers are paid with Starbucks funds which includes money our partners contribute toward their coverage. Because each partner's health affects the entire company, we launched Starbucks Thrive Wellness Initiative in late 2004 to promote health and wellness as well as a sense of shared responsibility between our partners and the company.

### Thrive Wellness Initiative

The Thrive Wellness Initiative combines education, communication and participation to help our partners live healthy lives. One component of the initiative provides interactive online tools to encourage and support partner wellness, including the WebMD® Health Risk Assessment (HRA). After partners complete their individual HRA, WebMD® creates a personal “health map” for each partner and then provides them access to a variety of programs, tools and information that are aimed at promoting healthy lives. Starbucks also arranged for discounted fees for our partners at contracted fitness facilities.

### Advocating for Healthcare Reform

Given the challenges Starbucks and other U.S. companies are facing to sustain healthcare benefits for their employees, Howard Schultz and other Starbucks officers engaged U.S. national policymakers in an effort to raise awareness and begin the discussion about policies that will make America's healthcare system more efficient, reliable, transparent and affordable while also improving quality.

Part of Starbucks advocacy efforts included Howard Schultz's participation in the CNBC 2005 Washington Summit Health Care Panel. The forum brought together other corporate CEOs and several elected officials to discuss the rising costs of healthcare coverage and to explore what options are available for businesses and government to work together.



Starbucks launched an internal campaign to promote our Thrive Wellness Initiative, an effort that encourages our partners to live healthy lives. This poster features Judy Carlson, a Starbucks partner in Seattle.

## Partner Training and Career Development

Starbucks continually invests in our training programs and career development initiatives, which help our partners advance their careers at Starbucks.

All of our partners receive comprehensive training, including our baristas, who receive 23 hours of initial training to become experts in the preparation and delivery of our products. When a barista moves into another retail position, he or she receives an additional 29 hours of training as a shift supervisor, 112 hours as an assistant store manager, 320 hours as a store manager and 200 hours as a district manager trainee. In total, our retail partners received an estimated 2.9 million hours of training in fiscal 2005.

Partners interested in advancing their careers with Starbucks do so in two ways: promotions and transfers. In fiscal 2005, 19 percent of our partners were promoted to new positions and 29 percent of our partners transferred to new positions.



## 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 an illness, fire or natural disaster. Starbucks partners support the CUP Fund with personal contributions. This past year the CUP Fund responded to an unprecedented number of partners in need as a result



Gail Bickham, a Starbucks partner from New Orleans, endured a traumatic experience during and after Hurricane Katrina. She wrote Starbucks chairman Howard Schultz a personal letter (reprinted here) expressing her gratitude for the support she received from Starbucks.

## Starbucks Response to Hurricane Katrina

Starbucks support of partners was fully tested in 2005. In the aftermath of Hurricane Katrina, we were determined to locate every partner in the area and offer assistance to those who had been affected by the storm. With the help of our store managers, district managers and the Internet, we had accounted for everyone – except Ronald Oliver, a new partner who had just completed his first shift. Finding Ronald proved to be a formidable challenge, so Starbucks turned to a local vendor that does civil recovery work. After a short investigation, we made contact with Ronald's mother and found out that he was safe in Georgia.

Many of the partners hit hardest by the storm received immediate assistance from the CUP Fund. Starbucks also extended pay to partners for a period of time, ensuring they were paid even if their stores were closed, and made available other emergency assistance. Since many banks remained closed, Starbucks worked with Winn-Dixie Stores so partners had a place to cash both CUP Fund grant checks and paychecks. In addition, Starbucks helped partners find alternative positions in our stores outside the affected areas.

Starbucks extended a helping hand to partners in a very personal way. After things stabilized, one of our partners, Gail Bickham, wrote the following letter about her hurricane-related experience.

of the devastating effects of Hurricanes Katrina and Rita in the U.S. Gulf Coast region. More than 300 partners along the Gulf Coast received assistance from the CUP Fund, totaling more than \$225,000. In total, the CUP Fund provided more than \$1 million in direct financial assistance to more than 1,000 partners in fiscal 2005.

*Dear Mr. Schultz,*

*My name is Gail Bickham and I am a Starbucks partner. I was in New Orleans during Hurricane Katrina and experienced the massive chaos. I made a personal decision to stay behind in New Orleans with my extended family and "ride out the storm." Nobody seems to understand that decision.*

*My mother, who has Parkinson's disease and heart trouble, was with me. So were my sister and her two daughters, one a paraplegic in a wheelchair, and my own 14-year-old daughter. As the water started to rise in my sister's first-floor apartment, we managed to get to higher ground, leaving everything we had, except a little food, under water. My family and I spent three days without power and had no contact with the outside world. It was very traumatic for us all.*

*On the third day, we were rescued by boat and brought to safety – or so we thought. We were put on the I-10 in the evening heat and basically left to die. We were a few people amongst hundreds on the Interstate – hot, hungry, and some had already died. I swear, it felt like a third-world country. I could not imagine it – my mother, my niece, all of us, were dying in this way.*

*After several hours, we were told to move further down the Interstate, which we somehow did, wheelchair and all. By the grace of God, at 1:00 A.M. my niece Tiffany found her strength and stood in front of an approaching bus to make it stop. She begged the state trooper to let us on, but he refused, not sympathetic at all. Then the bus driver got out and insisted that we be allowed on the bus along with about 15 other people. The driver's name was David, and he was a gift from God.*

*I used the remaining power in my cell phone battery to call a Starbucks district manager. Hearing that I was en route to Houston, Starbucks met us at the Astrodome and immediately housed us in a hotel. I honestly don't know where we would be otherwise.*

*I have always known that Starbucks is the #1 best company to work for in the world, and this confirms it even more.*

*I cannot express my gratitude enough, but please understand that without Starbucks, I don't think I would have made it out of the horrors of Katrina alive.*

Update: As of December 2, 2005, Gail is back at work at a Starbucks store in New Orleans.

For more information about Starbucks emergency relief efforts, see page 38.



## 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 in the jurisdictions where we do business.

In fiscal 2005, a major focus was the prevention of slips and falls that result in injuries to our store partners. We launched a slip-resistant shoe program for retail partners and completed a test of new anti-slip floor mats in our California company-operated stores. The program resulted in reductions in both the numbers of mat-related injury claims and the severity of those related injuries compared to the previous year. Consequently, we plan to continue installing the mats in all U.S. and Canada company-operated stores.

After introducing new digital brewing equipment and automated espresso machines, the number of brewer-related burn claims by partners decreased by 85 percent in fiscal 2005 over the previous year.

We are continuing to address other workplace safety issues, including injuries caused by lifting. We recently invested in higher quality ladders and stepstools that are stronger and offer more stability. The new ladders and stepstools will be standard in all new stores going forward. Existing stores will receive the new ladders when current ladders are replaced.

### FUTURE GOAL

In fiscal 2006, we plan to complete the rollout of anti-slip mats to our North America company-operated stores; require slip-resistant shoes as part of our retail dress code; introduce a safer box knife to help prevent cuts; and develop a more comprehensive plan aimed at reducing lifting-related injuries.



**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.



**Interstate Experience Modification Factor\***

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

### FORTUNE 100 BEST COMPANIES TO WORK FOR

Starbucks was named one of the "100 Best Companies to Work For" in 2005 by FORTUNE – the seventh time Starbucks has received this prestigious recognition. In 2005, Starbucks was ranked 11.



## Independent Assurance Report

To the Stakeholders of Starbucks Coffee Company:

We have been engaged to provide assurance on the Corporate Social Responsibility ("CSR") Fiscal 2005 Annual Report (the "Report") of Starbucks Coffee Company ("Starbucks"), for the fiscal year ended October 2, 2005.

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

- Key Performance Indicators Summary and Fiscal 2005 Highlights;
- Information and data provided in each area of focus of the Report (World of Products, Society, Environment, and Workplace); 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.

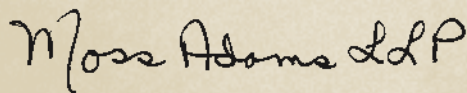
The Board of Directors of Starbucks is responsible for both the subject matter and the evaluation criteria.

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;
- Visiting Starbucks coffee buying operations in Switzerland;
- Visiting Starbucks 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 2, 2005. 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 27, 2006



## Your Feedback Matters

In preparing Starbucks Fiscal 2005 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, such as including a fuller description and self-assessment of the company's performance through various user-friendly tables. It also confirmed that information regarding our coffee buying practices is what our stakeholders regard as most material and worthy of inclusion in our report.

We invite our readers to help us improve our future reporting by providing feedback on Starbucks fiscal 2005 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.

For more information:

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

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

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## 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 72.)

## ABOUT THE PAPER USED FOR THIS REPORT

It takes a lot of paper to print a report like this for our many stakeholders. To minimize the environmental impact, this report was printed on 100 percent post-consumer recycled fiber that is certified by the Forest Stewardship Council.

The choice to use this paper will:

- use 114,399 fewer pounds of wood from trees
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