



*my Starbucks*

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

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

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

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

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

#### STARBUCKS MISSION STATEMENT AND GUIDING PRINCIPLES

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

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

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

## Dear Stakeholders,

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

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

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

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

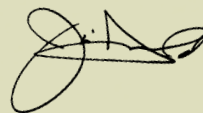
As you read through this report – or go online to see the full version of Starbucks fiscal 2006 report – we hope the information helps you assess for yourself how well Starbucks is doing with regard to our corporate social responsibilities. As always, we encourage you to share your honest feedback. To do so, we have created an online survey which is described on the back page of this report.

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

Sincerely,



Howard Schultz  
chairman



Jim Donald  
president and chief executive officer



Howard Schultz



Jim Donald



## Focusing on Materiality

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

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

These sources included:

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

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

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

Based on our assessment, we determined that the material issues of greatest importance to Starbucks and our stakeholders, which the company has a reasonable level of control over, fall into five topic areas highlighted in the top right box below. We chose to focus this abridged print report on these subjects only. Online we offer a comprehensive report for fiscal 2006, which includes many of the topics on the following matrix.



## ABOUT THIS REPORT

### Scope

The full edition of Starbucks 2006 CSR Report is available online. It includes the content of this abridged version with expanded coverage on Starbucks U.S. and Canada company-operated retail and global supply chain operations – the areas that represent the majority of Starbucks social, environmental and economic impacts. Starbucks system for collecting and reporting reliable social, environmental and economic performance data does not encompass all of our operations. Where available, anecdotal information is included for international and licensed store operations. Information on total coffee purchases is for both Starbucks Coffee Company and Seattle Coffee Company.

### Reporting Year

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

### Currency

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

### Starbucks 2006 CSR Report and Previous Reports

[www.starbucks.com/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 1, 2006. External verification is provided by Moss Adams LLP. See page 24.

### Global Reporting Initiative

Starbucks reporting continues to be influenced by the Global Reporting Initiative's (GRI) 2002 Sustainability Reporting Guidelines in determining relevant content and performance metrics to include. In our full report online is a listing of all relevant GRI indicators that we covered this year. Information about GRI is online at [www.globalreporting.org](http://www.globalreporting.org).

## Contents

	PAGE
<b>STARBUCKS AND CORPORATE SOCIAL RESPONSIBILITY</b>	
Letter to Stakeholders	1
Focusing on Materiality	2
Key Performance Indicators Summary and Highlights for Fiscal 2006	4
<b>COFFEE</b>	
Sustaining Coffee Quality	6
Creating a Sustainable Approach	7
C.A.F.E. Practices	8
The Link Between Quality and Price	8
Respect for Workers' Human Rights	9
C.A.F.E. Practices – Hitting Our Targets	10
C.A.F.E. Practices – Findings and Next Steps	11
<b>SOCIETY</b>	
Starbucks Growth	12
Continuing Marketplace Evolution	12
Operating in the Global Community	13
Being Respectful of Community Concerns	13
Being Locally Relevant	13
Supporting Local Communities and Economic Development	15
<b>ENVIRONMENT</b>	
Our Commitment to Environmental Stewardship	16
Climate Change Mitigation Strategy	16
Greening the Cup	19
<b>HEALTH AND WELLNESS</b>	
Starbucks Commitment to Health and Wellness	20
Expanded and Customized Menu Offerings	20
Nutrition Information on Starbucks Beverages and Fresh Food	20
Addressing the Issue of Trans Fat	20
Our Long-term Approach to Health and Wellness	21
<b>WORKPLACE</b>	
Providing a Great Work Environment	22
Listening to Our Partners	22
Providing Benefits to Our Partners	23
Independent Assurance Report	24
Feedback and Further Information	25

## Key Performance Indicators Summary and Highlights for Fiscal 2006


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

\*We have not measured our greenhouse gas emissions since 2003 and therefore this indicator has been removed from this table. For information about our Climate Change Mitigation Strategy, see page 16.

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



To measure how well we are doing at upholding our commitment to social responsibility and to our Guiding Principles, Starbucks has identified the following key performance indicators as relevant metrics for our business. Each year, we will report our performance relative to these metrics and any new metrics we may add. We strive to include forward-looking targets for our performance indicators. However, in some cases the information is not available or the company is unable to provide it for other reasons.

WHAT WE SAID IN 2005	WHAT WE DID IN 2006	SELF-RATING	MORE INFO
<ul style="list-style-type: none"> <li>Explore opening a Farmer Support Center (FSC) in Asia Pacific and begin introducing C.A.F.E. Practices to our local suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>Began exploring opportunities to open an FSC in Asia Pacific. Organized suppliers training sessions in both Indonesia and Papua New Guinea reaching out to small- and large-scale suppliers from various countries in Asia Pacific.</li> </ul>		Page 11
<ul style="list-style-type: none"> <li>Work with the African Wildlife Foundation (AWF) to provide coffee quality training and encourage adoption of sustainable coffee practices to cooperatives in Kenya.</li> </ul>	<ul style="list-style-type: none"> <li>Continued to work with the AWF to provide quality training and expertise and encourage sustainable coffee practices. Starbucks also conducted training in Kenya for coffee farmers, cooperatives and exporters from the majority of the countries we buy coffee from in East Africa.</li> </ul>		Page 11
<ul style="list-style-type: none"> <li>Promote our Fair Trade Certified™ coffee blends to increase customer demand and sales of these products.</li> </ul>	<ul style="list-style-type: none"> <li>Supported Fair Trade Month in October 2005, featuring Starbucks newest Fair Trade Certified™ blend, Café Estima Blend™ as the “Coffee of the Week” in U.S. and Canada stores. Increased distribution of packaged Fair Trade Certified™ coffees globally. Began selling Kirkland Signature Fair Trade Certified™ coffee in Costco stores in the U.S. and Canada.</li> </ul>		 WEB
<ul style="list-style-type: none"> <li>Continue to work with regional Fair Trade organizations to introduce additional Fair Trade Certified™ coffee products globally.</li> </ul>	<ul style="list-style-type: none"> <li>Globally, coordinated efforts with Fairtrade Labelling Organizations International and 10 of the 20 Fair Trade National Initiatives to expand Fair Trade Certified™ product offerings in 24 markets.</li> </ul>		 WEB
<ul style="list-style-type: none"> <li>Focus community investments to address global water issues and education.</li> </ul>	<ul style="list-style-type: none"> <li>Initiated water projects in Indonesia and in Ethiopia, both supported through The Starbucks Foundation’s Ethos Water Fund. Completed first of five-year, \$5 million commitment to Starbucks China Education Project.</li> </ul>		 WEB
<ul style="list-style-type: none"> <li>Increase partner volunteerism.</li> </ul>	<ul style="list-style-type: none"> <li>Encouraged partners to leverage their volunteerism through Starbucks Make Your Mark program.</li> </ul>		 WEB
<ul style="list-style-type: none"> <li>Purchase renewable energy certificates to offset 20% of the energy used in our U.S. and Canada company-operated stores.</li> </ul>	<ul style="list-style-type: none"> <li>Quadrupled our renewable energy purchase to equal 20% of the energy used in our U.S. and Canada company-operated stores.</li> </ul>		Page 17
<ul style="list-style-type: none"> <li>Integrate specific environmental practices into our retail operational standards to help focus on improving store level accountability for energy and water conservation, recycling and waste reduction.</li> </ul>	<ul style="list-style-type: none"> <li>Updated a store manager performance tool to emphasize the importance of managing environmental aspects of store operations and what bottom line impact – positive or negative – their actions can have.</li> </ul>		 WEB
<ul style="list-style-type: none"> <li>Roll out new hot beverage cups containing 10% post-consumer fiber (PCF) in U.S. company-operated and licensed stores.</li> </ul>	<ul style="list-style-type: none"> <li>Converted all hot beverage cups in Starbucks U.S. and Canada stores to the 10% PCF content version.</li> </ul>		Page 19
<ul style="list-style-type: none"> <li>Conduct a Partner View Survey approximately every 18-24 months. Last one took place in October 2004.</li> </ul>	<ul style="list-style-type: none"> <li>Expanded the reach of latest Partner View Survey, conducted March 2006, to include partners in company-operated stores globally. Achieved 84% response rate, our best yet.</li> </ul>		Page 22
<ul style="list-style-type: none"> <li>Complete the rollout of anti-slip mats to our North America company-operated stores.</li> </ul>	<ul style="list-style-type: none"> <li>Finished replacing mats in more than 3,400 existing stores and all new stores in North America.</li> </ul>		 WEB
<ul style="list-style-type: none"> <li>Roll out our diversity and inclusion scorecard to our ceo and senior leadership team.</li> </ul>	<ul style="list-style-type: none"> <li>Finalized diversity and inclusion scorecard and delivered it to Starbucks ceo and his direct reports. It includes data on workforce diversity; individual leadership performance related to diversity and inclusion; supplier diversity and customer demographics.</li> </ul>		 WEB
<ul style="list-style-type: none"> <li>Expose Starbucks buyers and procurement directors to more opportunities for doing business with diverse suppliers.</li> <li>Increase our level of participation in organizations such as the National Minority Supplier Development Council and Women’s Business Enterprise National Council.</li> </ul>	<ul style="list-style-type: none"> <li>Engaged with National Association of Minority Contractors; participated in National Minority Business Council annual opportunity fair and other events; attended Women’s Business Enterprise National Council annual conference; took part in supplier diversity training for Institute for Supply Management–Certified Purchasing Manager credits; and served as board chair for local Northwest chapter of National Minority Supplier Development Council.</li> </ul>		 WEB

KEY:  ACHIEVED  MAKING PROGRESS  DID NOT ACHIEVE

## SUSTAINING COFFEE QUALITY

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

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

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

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

Specific topics in this section include:

- Overview of the coffee industry
- Creating a sustainable approach
- C.A.F.E. Practices – an overview of Starbucks coffee buying guidelines; results and achievements; findings and next steps
- Linking premium prices to premium quality
- Respect for workers' human rights



### THE COFFEE INDUSTRY – AN OVERVIEW

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

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

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

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

\*International Coffee Organization

\*\*Specialty Coffee Association of America

### MORE ON THE WEB

A full version of Starbucks 2006 Corporate Social Responsibility Report is available online at [www.starbucks.com/csr](http://www.starbucks.com/csr). Included in the Web version is more information on the following topics:

- C.A.F.E. Practices verification system and requirement for economic transparency.
- Our commitment to Fair Trade Certified™ conservation and certified organic coffees.
- Starbucks has provided \$9.5 million in loan capital since fiscal 2001 that is used to provide farmers access to credit, including \$400,000 in loan funding directed to the Sidama Farmers Cooperative Union in Ethiopia.
- Starbucks contributions of \$1.7 million for investments in coffee-growing communities during fiscal 2006, which involved 44 projects and benefited an estimated 130,000 people.
- Starbucks special relief efforts directed \$1 million to local communities in Guatemala and Mexico affected by Tropical Storm Stan in support of 59 projects that benefited an estimated 415,000 people.





# Creating a Sustainable Approach

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

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

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

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

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

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

## QUICK COFFEE FACTS:

Total worldwide coffee production (Oct. 2005–Sept. 2006)	15 billion pounds (7 billion kilograms)*
Total coffee purchased by Starbucks (Oct. 2005–Sept. 2006)	294 million pounds (133 million kilograms)
Number of coffee farmers worldwide	25 million*
Number of countries where coffee is grown	About 60*
Number of countries where Starbucks bought coffee in fiscal 2006	24

\* International Coffee Organization

## C.A.F.E. Practices

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

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

Thousands of participants – from our largest coffee suppliers to many small-holder farms and cooperatives – have applied and been approved as C.A.F.E. Practices suppliers since 2004. When suppliers apply to C.A.F.E. Practices, they must undergo a third-party evaluation to verify the degree to which their practices are aligned with the criteria. As a result of this, they receive a score that is used to determine their particular status level as a C.A.F.E. Practices supplier. The conditions of a supplier's status dictate the terms of reevaluation. Or a supplier may choose to be reevaluated to see the results of their investment and efforts and how much improvement has been made.

## The Link Between Quality and Price

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

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

### What Determines Price?

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

### What Did Starbucks Pay for Coffee?

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

## My Starbucks –

*I want you - my Starbucks friends - to appreciate the impact your company is having on higher prices being paid to coffee farmers in Papua New Guinea. The local mill is paying the best price local farmers have ever been paid. Everyone here knows Starbucks is buying this coffee, but only if it's good quality. So now farmers are competing with their quality so they can sell to Starbucks. It shows me how supply and demand are contributing to a sustainable solution. Thank you, Starbucks. -Arlie Hull (A coffee supplier to Starbucks)*



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



### MORE ON THE WEB

For more detailed information about C.A.F.E. Practices, including the verification process, please see our full CSR Report online. The scorecard of indicators is available at [www.scs-certified.com/csrpurchasing/starbucks.html](http://www.scs-certified.com/csrpurchasing/starbucks.html).

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

### Product Quality (PREREQUISITE)

All coffee purchased from C.A.F.E. Practices suppliers must meet Starbucks high-quality standards.

### Economic Accountability (PREREQUISITE)

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

### Social Responsibility (EVALUATED COMPONENTS)

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

### Environmental Leadership (EVALUATED COMPONENTS)

In the growing and/or processing of coffee, environmental measures must be in place to manage waste, protect water quality, conserve water and energy use, preserve biodiversity and reduce agrochemical use.



Coffee farmers in Papua New Guinea sort freshly picked coffee cherries.

## Respect for Workers' Human Rights

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

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

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

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

\* International Labor Office, 2006



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

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

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

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

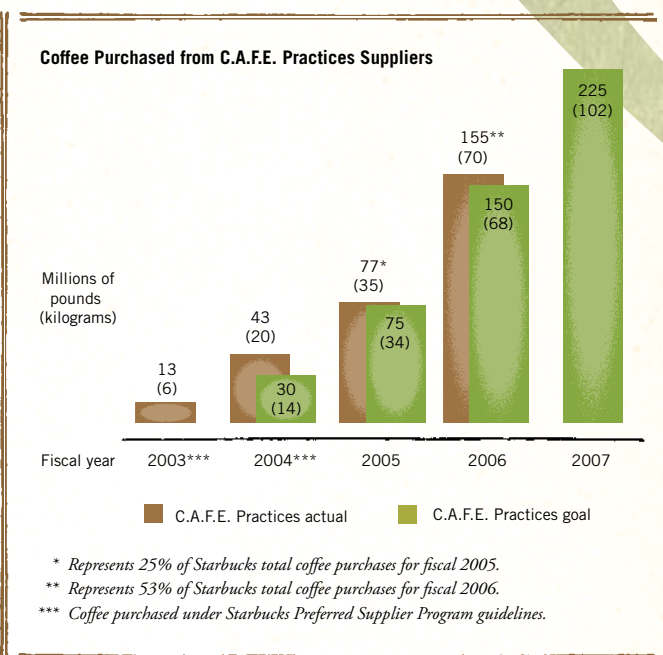
## Results and Achievements

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

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

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

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



## Percent Purchased by Supplier Group

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

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

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

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

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

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

### Continued Emphasis on Relationships, Communication and Training

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

### Verifiers and Improved Systems Needed

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

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

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

Our priorities are to increase the number of trained verifiers and make the verification process more efficient and user-friendly. Some adjustments were made in fiscal 2006, and others are in the works. The process improvements we are making are necessary to ensure that Starbucks coffee buying guidelines are supported by

a highly efficient and credible verification system with the capacity to serve the growing number of suppliers wanting to participate in C.A.F.E. Practices.

## FUTURE GOALS

### Going forward, our efforts will focus on:

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

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

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

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

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

We realize there may be a need to consider regional guidance for C.A.F.E. Practices to make the criteria more relevant to unique conditions in Africa and Asia Pacific. Also, the need for more locally based support through regional Farmer Support Centers has been confirmed.

## FUTURE GOAL

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



## STARBUCKS GROWTH

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

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

### Increasing our Local and Global Presence

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

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

In the following pages, we examine some of the specific issues related to Starbucks growth, explain our perspective, and share what Starbucks is doing to be a responsible neighbor. The topics discussed in this section are:

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



### STORE GROWTH

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

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

### Continuing Marketplace Evolution

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

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

### MORE ON THE WEB

A full version of Starbucks 2006 Corporate Social Responsibility Report is available online at [www.starbucks.com/csr](http://www.starbucks.com/csr). Included in the Web version is more information on the following topics:

- Starbucks approach to community investments
- Support for communities
- Providing relief to communities hit by natural disasters
- Contributing to coffee- and tea-growing communities
- The Starbucks Foundation
- Urban Coffee Opportunities, LLC



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

### **Operating in the Global Community**

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

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

### **Being Respectful of Community Concerns**

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

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

Many factors are weighed when considering a specific location to site a new Starbucks, focusing the end goal on being able to serve our loyal customers in a welcoming environment. However, if after thoughtful review we determine that Starbucks

is not a good fit for a particular locale, we may choose to respectfully withdraw our plans to open a new store. There have been several instances in the past when we have elected to do this.

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

### **Being Locally Relevant**

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

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

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



## Local Community Case Studies

### LA MESA, CALIFORNIA

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

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

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

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

### NEW YORK CITY – ASTOR PLACE

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

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

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

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



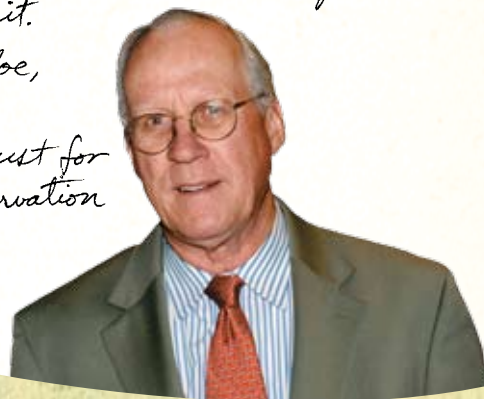
### LONDON – BLOOMSBURY DISTRICT

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

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

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

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



## Supporting Local Communities and Economic Development

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

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

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

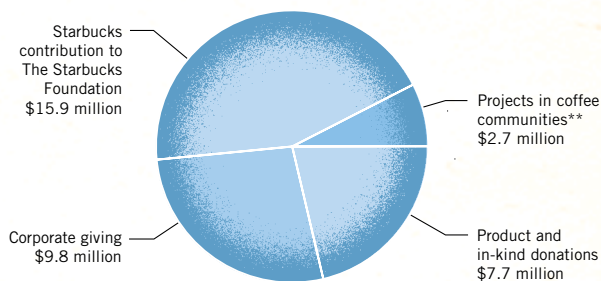
## Starbucks Investments in Communities

Starbucks total community investments in fiscal 2006 were \$36.1 million. To get a better idea of the types of causes that Starbucks supports, and where and how we make our investments, see our full report online. Understanding why we invest in local communities is simple; it strengthens the fabric of our neighborhoods as well as just being the right thing to do.

 [MORE ON THE WEB](#)

### Starbucks Donations Paid in Fiscal 2006\*

Total: \$36.1 million



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

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



## OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP

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

Today we are facing other environmental risks posed by climate change that may affect various aspects of our business, including coffee production. We are also mindful of our own environmental footprint and the impacts our operations may be having.

### Climate Change Mitigation Strategy

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

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

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

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

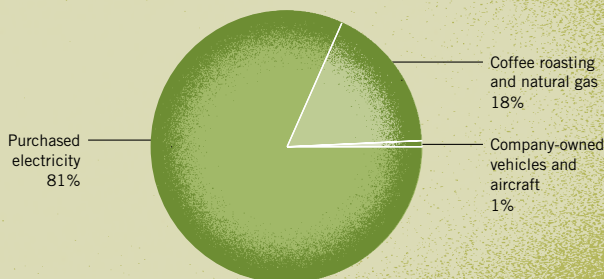
1. Purchasing renewable energy
2. Focusing on energy conservation
3. Advocating the need for collaborative action

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

### Starbucks greenhouse gas emissions

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

2003 Baseline Greenhouse Gas Emissions – Scope 1 and 2



### MORE ON THE WEB

A full version of Starbucks 2006 Corporate Social Responsibility Report is available online at [www.starbucks.com/csr](http://www.starbucks.com/csr). Included in the Web version is more information on the following topics:

- Green store design and operations
- Portrait of a typical Starbucks store
- Paper purchasing and sustainable packaging
- Waste and recycling
- Water use and conservation





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

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

### Powered by Wind

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

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

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

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

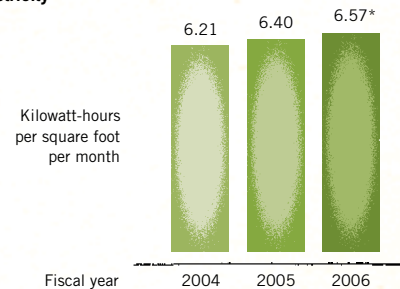
\* A Renewable Energy Certificate represents one megawatt-hour (MWh) of renewable electricity generated and delivered somewhere on the power grid. Each MWh of clean renewable electricity results in one less MWh of power coming from a CO<sub>2</sub> emitting process. Therefore a Renewable Energy Certificate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

### Energy Consumption

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

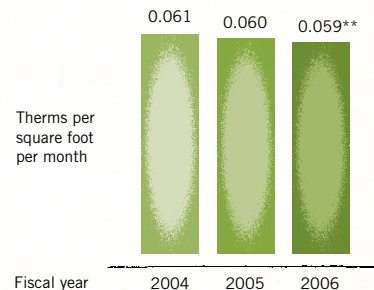
We also updated a performance tool geared for store managers to emphasize the importance of managing the environmental aspects of store operations, and highlighted both the positive and negative impacts their actions can have on the bottom line and the environment.

#### Electricity



\* Based on data from 4,900 stores.

#### Gas



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

## FUTURE GOALS

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

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

## Joining Forces

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

- Supporting and participating in organizations that are taking effective action on the issue, including the World Resources Institute’s Green Power Market Development Group ([www.wri.org](http://www.wri.org)); The Climate Group, an international organization dedicated to advancing business and government leadership on climate change ([www.theclimategroup.org](http://www.theclimategroup.org)); and Global Green USA, a nonprofit organization founded by former Soviet President Mikhail Gorbachev ([www.globalgreen.org](http://www.globalgreen.org)).
- Acting as a local leader. In Seattle, Washington, the home of Starbucks global headquarters, Starbucks former ceo Orin Smith co-chaired Mayor Greg Nickels’ Green Ribbon Commission, which resulted in the company serving as a founding member of the Seattle Climate Partnership. Company staff also chaired the Seattle Chamber of Commerce Business Sustainability Committee.

- Continuing to educate partners about the issue through Starbucks internal communications.
- Placing six full-page advertisements in *The New York Times* that highlighted the need for collective action on this issue. (See example below.) The advertisements discussed the problem; highlighted Starbucks emission reductions activities; provided simple, high-impact actions readers could take to contribute to solutions; and informed readers of our partnership with Global Green USA.







## Greening the Cup

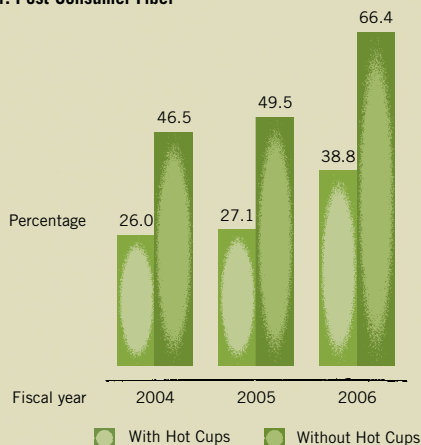
### THE ENVIRONMENTAL SAVINGS POUR IN

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

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

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

Paper: Post-Consumer Fiber



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

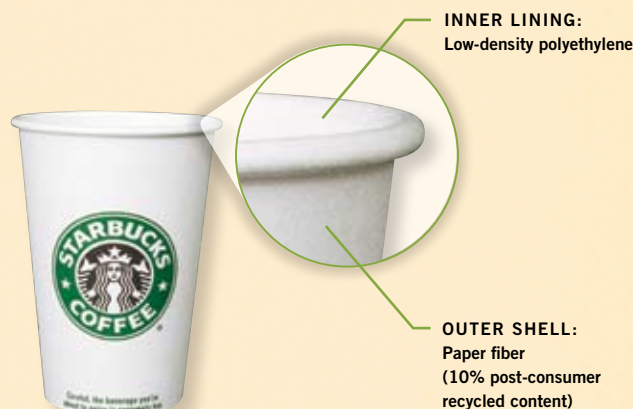
### PAPER HOT BEVERAGE CUPS

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

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

### ANATOMY OF A CUP

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



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

## STARBUCKS COMMITMENT TO HEALTH AND WELLNESS

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

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

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

### Expanded and Customized Menu Offerings

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

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

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

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



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

### Nutrition Information on Starbucks Beverages and Fresh Food

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

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

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

### Addressing the Issue of Trans Fat

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





**My Starbucks** – Providing nutrition information enables our customers to make well-informed decisions, and customise their orders.

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

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

– Katie Thomson, RD, Starbucks nutritionist

Some of our accomplishments in fiscal 2006 are listed below:

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

#### FUTURE GOAL

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

#### Our Long-term Approach to Health and Wellness

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

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

#### FUTURE GOAL

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



## PROVIDING A GREAT WORK ENVIRONMENT

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

In this section we describe what we are doing to:

- Gather ongoing feedback from our partners
- Offer comprehensive and competitive benefits
- Support our partners' health and well-being

### Listening to Our Partners

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

### Partner View Surveys

Starbucks conducts a Partner View Survey approximately every 18-24 months to solicit anonymous feedback from partners around the globe. The survey touches on many facets of the partner experience, including development, communication, senior leadership, coffee knowledge and work/life effectiveness. By participating in the survey, partners point out what Starbucks is doing well, and they identify issues at all levels of the company that need closer attention. We use this feedback

**My Starbucks** – When I joined Starbucks in 1994 I began acquiring Starbucks stock through Bean Stock and S.I.P., and invested in my future through Future Roast - Starbucks 401K plan. A couple years ago, I sold my Starbucks stock to buy a car and a house in Mexico for my parents. Today I am a new mom and am buying my first home. When my sister joined Starbucks in 1996, I encouraged her to take full advantage of those benefits. She told me this advice is the best gift a sister could give.  
- Noemi Guevara, Starbucks store manager in Missouri City, TX



to make adjustments and improvements in order to increase our partners' satisfaction and engagement – the connection our partners have to their store or work group and to our company. Through this process, our partners are given a voice in shaping and enhancing their own workplace experience.

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

### Other Channels for Partner Feedback

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

### MORE ON THE WEB

A full version of Starbucks 2006 Corporate Social Responsibility Report is available online at [www.starbucks.com/csr](http://www.starbucks.com/csr). Included in the Web version is more information on the following topics:

- Starbucks comprehensive benefits
- Partner recognition programs
- Workplace policies and respect for partners' rights
- Partner training and career development
- Starbucks approach to creating a safe and healthy work environment
- Diversity and inclusion

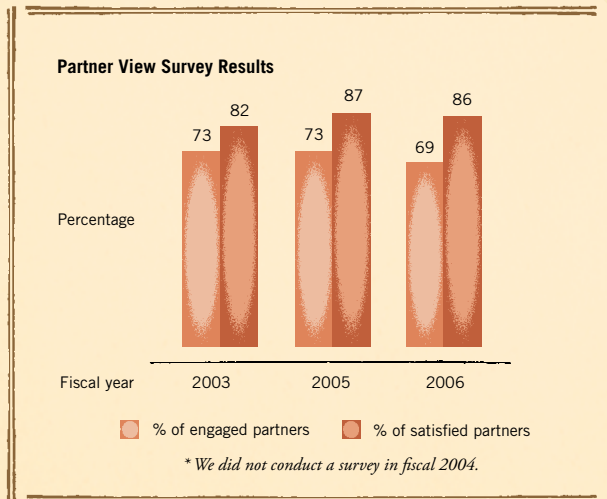


## Addressing Our Partners' Feedback

### Partner View Survey Results – Fiscal 2006

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

Partners identified several areas that called for attention by the company:	Starbucks began to address these issues in fiscal 2006. Specifically, we:
<ul style="list-style-type: none"><li>• Pay and benefits</li></ul>	<ul style="list-style-type: none"><li>• Increased wages for the majority of hourly store partners in all U.S. markets</li></ul>
<ul style="list-style-type: none"><li>• Communication within and between groups</li></ul>	<ul style="list-style-type: none"><li>• Are working to improve our online tools, and consolidate publications where appropriate</li></ul>
<ul style="list-style-type: none"><li>• Future job opportunities</li></ul>	<ul style="list-style-type: none"><li>• Are designing a global “Look Internal First” sourcing strategy for filling all jobs</li></ul>



### FUTURE GOALS

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

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

### Providing Benefits to Our Partners

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

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

### Focusing on Healthcare and Wellness

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

## Independent Assurance Report

To the Stakeholders of Starbucks Coffee Company:

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

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

- Key Performance Indicators Summary and Highlights for Fiscal 2006;
- Information and data provided in each area of focus of the Report (Coffee, Society, Environment, Health and Wellness, 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.

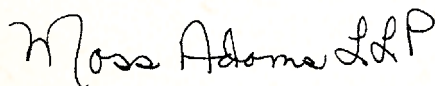
The Board of Directors of Starbucks is responsible for both the subject matter and the evaluation criteria.

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

In our opinion, based on our work described in this report, the CSR information contained in the Report gives a fair representation of CSR performance and activities of Starbucks Coffee Company for the fiscal year ended October 1, 2006. Statements, assertions and data disclosed in the Report are reasonably supported by documentation, internal processes and activities, and information provided by external parties.



Moss Adams LLP  
Seattle, Washington  
January 15, 2007



## YOUR FEEDBACK MATTERS

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

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

### *For more information:*

Starbucks Coffee Company

Customer Relations

PO Box 3717

Seattle, WA 98124-3717 USA

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

Contact us through the "customer service" section of [Starbucks.com](http://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).*

## 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 24.)

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

## ABOUT THE PAPER USED FOR THIS REPORT

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



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

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