



S T A R B U C K S

1999 Annual Report



TO OUR SHAREHOLDERS

Over the years, we have worked tirelessly to make Starbucks an uplifting part of people's daily lives. We've always known that our brand must stand for something – it must be authentic, reliable and aspirational. Every day, the passion and enthusiasm of our people and the quality of our coffee enable us to build a rewarding relationship with our customers. This connection has given us the chance to do things no one thought possible, and we believe our greatest accomplishments are yet to come.

In fiscal 1999, we set a new record, opening 625 new stores system wide – the most new stores in Starbucks history. Today, with more than 2,500 stores in 13 countries, we are moving toward our long-term goal of becoming an enduring global brand. Starbucks has become a daily ritual in many different cultures. From Boston to Bangkok, our 37,000 partners (employees) now serve more than 10 million customers each week.

We continued to build a powerful global presence in this past fiscal year, adding 157 international locations and expanding into New Zealand, Beijing, Malaysia, South Korea and Kuwait. We have now established a solid position in the Pacific Rim with stores that continue to exceed our expectations. In the United Kingdom, we ended the year with almost 100 locations. In addition to opening 36 new Starbucks stores, all locations acquired from Seattle Coffee Company have been converted to Starbucks, and on average, sales increased after these conversions. We also launched our Middle East expansion, ending the year with two locations in Kuwait, followed by our first location in Lebanon early in fiscal 2000. With each store opening, we found that our arrival was enthusiastically anticipated, as people lined up for their first taste of Starbucks.

In North America, our core retail business is stronger than ever, and we believe we are just beginning to take advantage of the growth opportunities our stores represent. This year, we excited existing customers and enticed new ones by creating a host of new beverages, including summer favorites like Tiazzis® and Cream and Caramel Frappuccino®. The acquisition of Tazo Tea Company allowed us to introduce an authentic specialty tea brand in our stores through Tazo's filterbag varieties, full leaf teas and ready-to-drink bottled beverages. The beverage innovation continued into fiscal year 2000 with decadent Caramel Apple Cider and White Chocolate Mocha, which became instant cold-weather hits with our customers.

We further validated the untapped potential for sales growth at retail with the introduction of lunch programs in Washington, D.C., Seattle, Chicago, New York, San Francisco and Los Angeles. The early success of these programs is promising, and we plan to expand lunch into several new major markets in fiscal year 2000.

The experiences our customers enjoy in our retail stores have built our brand and given us license to develop complementary products that extend the brand beyond our stores. The trust we have earned from our customers has allowed us to move into new distribution channels and introduce such innovative products as bottled Frappuccino® and Starbucks Ice Cream. As a result, we have the opportunity to do what very few brands have done before – expand our retail position into a broader consumer platform. We will continue to strengthen our non-retail activities in North America and will eventually introduce Starbucks products into broader distribution channels on a global level.

Through our licensing agreement with Kraft, Starbucks coffee can now be found in more than 8,500 grocery stores from coast to coast. In November, we announced a licensing agreement to open more than 100 Starbucks coffee bars in Albertson's locations across the United States in fiscal 2000. In addition to building retail sales, our presence in the high traffic grocery store perimeter will raise awareness for Starbucks Ice Cream, bottled Frappuccino® and whole bean coffee. We also announced plans to increase trial and awareness of our grocery products by launching self-service beverage stations on the perimeter of major grocers.

To remain relevant to our customers, we must constantly push for reinvention and renewal in everything we do, making our brand more engaging and accessible than ever before. Thanks to our web site, starbucks.com, the Starbucks Experience is now only a click away. We recently enhanced our site, expanding our e-commerce offerings through alliances

with other companies who share our commitment to quality products and services. We will continue to develop our Internet presence through our internal resources and by establishing content and commerce relationships that have a natural affinity to our core business.

To further enhance the experiences our customers have around coffee, we recently acquired Hear Music. Known for helping people discover great music, Hear Music will enhance the customer experience through expanded in-store programming, new music offerings and live performances in some of our stores. By the end of fiscal 2000, we plan to begin offering listening stations and other technologies to help our customers explore music they might not find anywhere else. Moving forward, we will continue to identify opportunities to provide best of class products that complement our brand by linking with authentic and discerning companies.

We know success is not an entitlement. It must be earned every day. What differentiates an enduring company is its ability to learn and grow even in challenging times. In the third quarter, we announced that we would fall short of our projected earnings target. This was the first time we experienced such a shortfall in our seven years as a publicly traded company. However, the equity of our brand remains strong, and our future opportunities are as limitless as ever. We trust the proven ability of our management team to lead our Company and believe that the way we respond to our challenges will make us an even better company than we are today.

With fiscal 1999 revenues of \$1.7 billion and profits of more than \$100 million, we believe that businesses must balance profitability with benevolence. We are pleased that our good fortune enables us to make a difference, and this year we provided millions of dollars of support to communities around the globe. We continue to be the largest North American contributor to CARE, the international aid and development organization, whose work helps us give back to the coffee-origin countries in which we do business.

In North America, The Starbucks Foundation continues to reach thousands of families and children through literacy grant programs. Through the efforts of our partners and our customers, we made grants to more than 120 literacy organizations this year. Our biggest homerun for literacy came off the bat of our friend, Mark McGwire. As McGwire captured the season homerun title, The Foundation matched each homerun with a \$5,000 donation to support children's charities, raising \$340,000 for local programs.

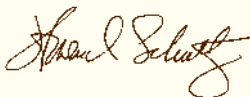
Another gratifying relationship, our joint venture with Earvin "Magic" Johnson's Johnson Development Corporation, continues to accelerate our presence in under-served neighborhoods in key metropolitan areas. This year we opened stores in Harlem, Seattle, Los Angeles, Atlanta, San Francisco and East Lansing, and we look forward to reaching many more people through this unique alliance.

We know that our people are the heart and soul of our success. This is why we were so pleased to recognize our partners' contributions by providing an enhanced benefits program and granting stock options through our *Bean Stock* plan. We also proudly announced plans to extend *Bean Stock* to eligible partners in the United Kingdom, and we were publicly applauded by the British government as one of the few U.S. companies to offer stock options to both full- and part-time employees in that country.


As we enter the new millennium, Starbucks is poised and positioned to build a significant global presence. Our accomplishments thus far and the warm reception we have received from people around the world give us the confidence to pursue our goal of becoming an enduring global brand.

To all of you who touch Starbucks in any way, we would like to thank you for your ongoing support.

Warm regards,



HOWARD SCHULTZ
chairman and chief executive officer



ORIN SMITH
president and chief operating officer

How do you build an enduring company? Starbucks is doing it one person at a time. Each person, in every job, throughout the company shares a common vision – a passion for quality. From the roaster who perfects our beans, to the merchandiser who buys our products, to the barista who handcrafts your coffee. And it's this passion that makes Starbucks such an inspiring place to be. The wonderful sort of place that can happen *when good enough, simply isn't*.



6 QUESTIONING PARTNERS

MARY WILLIAMS senior vice president, Coffee
LESLIE CHAPMAN store manager, Ladera Center
HOLLY HINTON music specialist
GLENN PINGUL director, Internet Brand Marketing
STEVE SMITH founder, Tazo Tea Company
SHARLEEN CHAO merchandising manager for Taiwan





Does it taste like berries? Does it taste like chocolate? Does it taste like cinnamon?



Mary Williams



Breaking the crust



Green coffee beans

QUESTION

“How are we impacting these fragile environments where we buy our coffee?”

MARY WILLIAMS senior vice president, Coffee

RESULT

Almost all of the coffee in the world is grown on very, very small farms. And this family farming is very much a tradition. So when we travel, we go out to these places, look around, see how people care for the trees, look at the husbandry of the farms and try to give input about what they might do to improve the quality of their coffee. This year through an alliance with Conservation International, we introduced customers to a wonderful shade grown coffee from the El Triunfo Biosphere Reserve in Chiapas, Mexico. I don't think that a lot of American consumers realize the role they play in the economy of these countries just by purchasing these special coffees. We get such pleasure and enjoyment from being able to make a difference in these farmers' lives, because they make a difference in our lives. Every day.



For every coffee we sell, a stamp is created to tell a visual story of that coffee's origin.



Leslie Chapman



Study break



Earvin "Magic" Johnson

QUESTION

“Can a Starbucks store change a neighborhood?”

LESLIE CHAPMAN store manager, Ladera Center

RESULT

I've opened several stores before, but I have a very big connection with this one because for the last ten years I've lived right here in the area. And this venture between Starbucks and Magic Johnson's company really meets a need within our community. We've taken something that we as a company do so well - giving customers a place to sit down and connect with one another, and something that Johnson Development Corporation does very well - working with urban communities, and brought the two together with amazing synergy. My customers come in and see - this is truly a very diverse place and a very mixed community. This is the first store I've managed where I can be in the gym working out and I see half my customers. There is no dividing line between customers and friends. All of my customers have in reality become friends.



Ladera Center in Los Angeles is the site of our first joint venture store.

HEIGHTS IN FEET

- Above 10,000
- 5000 to 10,000
- 2000 to 5000
- 1000 to 2000

DEPTHS IN FATHOMS

- Sea level to 100
- Below 100



It's a hangout. It's a meeting spot. It's a library. It's a community center.



Jazz. Cuban. Blues. Classical. Country. Opera. Folk. Celtic.



Holly Hinton



Songs for the road



Ray Brown, live at Starbucks

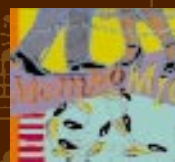
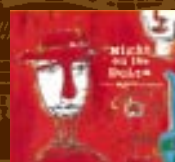
QUESTION

“Why would a coffeehouse create its own music compilations?”

HOLLY HINTON music specialist

RESULT

It's our customers who give us permission to try something new – something beyond coffee. Like Starbucks music, which we created in response to their requests for the music we were playing in our stores. We started with mostly jazz and some blues collections, but recently we've discovered that we can walk out a bit further. And these little surprises can be one of the most rewarding things for customers. So we're beginning to introduce different genres – Celtic, alternative country, Cuban. It's niche music that people don't get through regular commercial channels, but they're intrigued by it. Maybe they're reading about it in their Sunday paper and yet they're not the kind of person to wade through the stacks at their local record store to figure out where it is. But they'll see it at Starbucks and it's easy to get at – a natural.



Last year's compilations reflect the diversity of our customers' tastes.



Glenn Pingul



Starbucks at home



Comfort shopping

QUESTION

“If you’re going to be relevant in the 21st century, where do you have to be?”

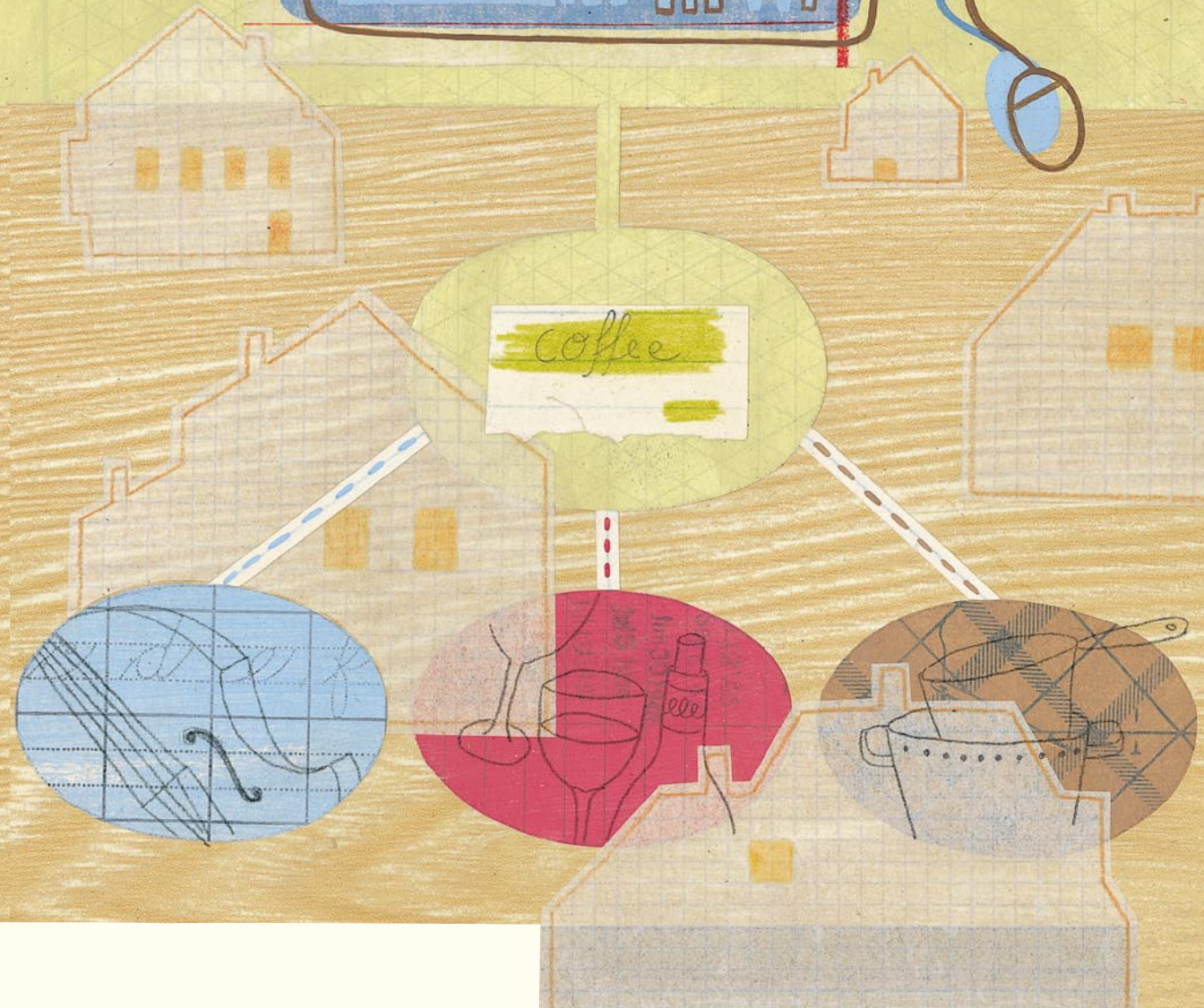
GLENN PINGUL director, Internet Brand Marketing

RESULT

This is a critical period – this next year – to determine how business is going to be done. And the fact is, if you want to be relevant, you have to be relevant in both the physical and the virtual world. So how do we extend Starbucks into this new arena? You have to first accept that Starbucks is more than a cup of coffee; it’s about the experiences that surround that cup of coffee. So, whether it’s augmenting the community we have in stores, or offering products that are actually relevant to customers in the same way coffee is, or creating interactivity with customers, our internet approach will always be this marriage between experience and product. Because if all we’re about is coffee and we’re not about the passion of coffee and we’re not about the associated experiences that surround coffee, we might as well fold up our tent.



Starbucks.com is a collection of experiences available anytime, anywhere to anyone.



Point, click, shop. Point, click, learn. Point, click, discover.



Calm. Awake. Mambo. Passion. Zen. Refresh. Spice.



Steve Smith



The reincarnation of tea



Offer sampling

QUESTION

“Who says the Starbucks experience is limited to coffee?”

STEVE SMITH founder, Tazo Tea Company

RESULT

When I got into this business in 1972, my goal was to change the way people think about tea – to grow it, to elevate it, and to create experiences for people around this magical product that are both memorable and interesting. It’s always been about doing creative things with tea – really, who in their right mind would put cucumber and peach together with green tea? People either love it or hate it. And that’s what I like – to make polarizing beverages. I like to get a response. I like a big response. And Tazo’s relationship with Starbucks gives us a greater opportunity to get that response. The chance for us to take this brand to the next level really intrigued me. And to be able to take it to that next level with partners who share our same values and passion, to do it through Starbucks stores, is pretty tremendous.



A collection of Tazo® teas: bottled, filterbag and full leaf.



Sharleen Chao



Afternoon meeting



Taipei barista

QUESTION

“What about Starbucks remains constant and what can be adapted to different cultures?”

SHARLEEN CHAO merchandising manager for Taiwan

RESULT

The good coffee, the high standard of quality control, the passion of the baristas, these things are the same. Of course we know the market is different – the morning is very slow for us, that is a very traditional time at home. We are not ready to change that. And so eighty percent of sales happen after 11:00 am. That is the time to come to Starbucks. The Taiwanese young people, they are so sensitive to all things American. They are welcoming – they are very open – to all kinds of new things. And coffee is a very fashionable thing to try. Here it is a very social drink – for after dinner, for dating – people come here together. That shows with each transaction – the average is 2.5 beverages per purchase. So we are well received. Our first store opened a year and a half ago, and now there are twenty-five.



Our cup, the symbol of Starbucks, is the same in Taiwan as it is in the U.S.

三份大杯加蔗糖低咖啡因低脂
特級那裏個人杯不濃縮
雙份中卡布奇
杯美式咖啡、小
中杯
杯雙份中杯加榛
卡布奇諾、大杯
杯冰美式咖啡、雙
份瑪奇朵、中杯摩卡法布奇
諾、大杯低咖啡因本日咖啡



中杯那是

Double Tall Latte

Kwang-Fu Store. Hsin-Nan Store. Chung-Chin Store. San-Ming Store. Jen-Ai Store.

To think and question and push and try, this is what the partners of Starbucks strive for every single day. Some things will work, some things won't. But if we didn't feel so passionately about what we do, then we could never *become the enduring company we aspire to be.*

