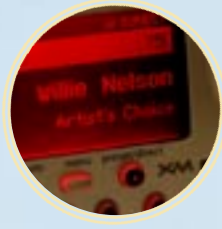




STARBUCKS CORPORATION FISCAL 2004 ANNUAL REPORT





*Innovation*



*Strength*



*Heritage*



# The Humble Coffee Tree.

Not only integral to our success as a Company,  
it also serves as a wonderful example for us to follow.

Draw from your roots. Trust in and nurture  
the strength of your core.

Always reach upward. Always reach out.

And perhaps most important, always give back.

# Coffee trees have roots, and so do we. And this past year, we turned to those roots with a renewed passion.

A passion that led us to encourage all of our employees (whom we call partners) to gain an even deeper understanding of coffee through our Coffee Master certification program. To earn the title of Coffee Master, participants must pass demanding tests on the intricacies and nuances of coffee. Currently, there are about 4,750 Coffee Masters in the United States and 2,300 internationally. Our goal is to increase this number until at least one black apron-clad Coffee Master graces every Company-owned Starbucks around the globe. Why? Simply because whenever our partners can add to their wealth of knowledge, our customers benefit too.

Our passion also took us hundreds of thousands of miles to the highest mountain tops and the most remote villages to discover coffees worthy of being featured in our new Black Apron Exclusives™ line. Named after the prestigious black apron worn by our Coffee Masters, these precious, rare coffees are only available in limited quantities and represent the pinnacle of coffee – the very best of the best. This quest to bring our customers the finest coffees from around the world will never end.

We also continued our commitment to coffee farmers through our newly established Coffee and Farmer Equity (C.A.F.E.) Practices, our global coffee buying program, as well as through our Farmer Support Center in San José, Costa Rica. Our efforts include paying farmers premium prices for their coffee, establishing direct relationships, providing access to credit and collaborating with them to implement new and sustainable farming techniques. In doing this, we hope to help ensure a better life for the farmers, their families and their communities and, in turn, help ensure a long-term supply of high quality coffee.



WE TRAVEL FAR AND WIDE  
TO DISCOVER STARBUCKS®  
BLACK APRON EXCLUSIVES™.



EVEN THEN, THOUSANDS OF  
COFFEES ARE TASTED BEFORE ONE  
RECEIVES THE STARBUCKS®  
BLACK APRON EXCLUSIVES™ LABEL.



COFFEE FARMERS HELP  
US THRIVE, AND WE DO  
OUR BEST TO RETURN  
THE FAVOR.

A photograph of two women, Janeen Simmons and Kerrie Renfrow, who are Starbucks Coffee Masters. They are standing behind a dark wooden counter, smiling warmly at the camera. They are wearing white collared shirts and dark blue aprons. The woman in the foreground has her hands clasped on the counter and is wearing a ring. The background shows shelves stocked with Starbucks coffee bags.

# HERITAGE

Janeen Simmons and Kerrie Renfrow, two Coffee Masters from our very first store in Pike Place Market, Seattle.

Strength



## People are our strength. Our support. The very reason we stand tall.

From farmers and partners to customers and shareholders, we rely, with gratitude, upon you. And so we make it our job, every single day, to nurture those who keep us strong.

To help support the coffee-farming communities who contribute so greatly to our success, we traveled to 12 countries over the course of last year. We helped build a bridge in Ethiopia to allow the safe passage of crops, goods, relief aids and development materials, which impacted nearly 70,000 people living in the region. We expanded a primary school in Guatemala to help improve education and foster community pride. And most recently, we traveled to East Timor to offer farmers further coffee education and provide them with tools to help them succeed in their struggling economy.

We ventured to Washington, D.C., to help gain lawmaker support for healthcare benefits, which could affect millions of uninsured Americans. At the same time, we proudly serve as a role model for other large corporations by providing healthcare benefits to eligible part-time and full-time partners – something we've done since the early days of our Company.

It's a good start, but, as always, there is so much more we hope to accomplish.



WE WORK TO MAKE EVERY  
STARBUCKS EXPERIENCE AS  
GREAT AS THE LAST.



WE ASSISTED IN BUILDING A  
BRIDGE IN ETHIOPIA TO HELP  
COFFEE-FARMING COMMUNITIES.



STARBUCKS PARTNERS HOWARD SCHULTZ,  
DAVE PACE AND CHET KUCHINAD DISCUSS  
THE IMPORTANCE OF EMPLOYER-PROVIDED  
HEALTHCARE BENEFITS WITH U.S.  
REPRESENTATIVE JOE BARTON (R-TX).



# STRENGTH

Costa Rican coffee farmer Gerardo Alfano, one of thousands of farmers producing the world's finest coffee.

# There's a lot of blue sky out there. Opportunities to reach upward and grow.

So we ventured into several new territories. (Trees, after all, know how to bend in the wind.)

Our commitment to music as an integral part of the *Starbucks Experience* was invigorated as we opened a Hear Music™ Coffeehouse in Santa Monica, California, in March 2004. We then launched Hear Music™ XM Satellite Radio Channel 75 and introduced Hear Music™ media bars in 45 stores in Seattle, Washington, and Austin, Texas, in October 2004. Each Hear Music™ media bar allows customers to use the powerful, yet simple technology to create custom CDs by choosing from thousands of established and emerging artists. As we did with coffee, it's our hope that these innovations will transform the music industry.

This past year we were also honored to work with the legendary Ray Charles, who collaborated on a CD of duets with other famous musicians before his sad passing. The venture was a momentous event on its own, made even more significant when the album sold more in our stores than any other retail outlet, and reached No. 1 on the R&B charts.

Along with offering new sounds, we did our best to delight our customers with new, varied menu items. For those customers looking for lighter choices, we unveiled Frappuccino® Light Blended Beverages and other reduced-calorie options. Meanwhile, we also offered a new selection of desserts to complement our fine coffees. And in the second quarter of 2005, we will introduce Chantico™, our indulgent drinking chocolate, inspired by the thick, hot chocolate beverage served in Mexico and Spain centuries ago.

As we continued to grow, we were able to expand abroad, thanks to the help of our overseas partners. We were thrilled to introduce the *Starbucks Experience* to two new countries, France and Cyprus, bringing our total to more than 2,400 stores in 33 countries outside the United States. Every new store is full of opportunity, responsibility and, of course, pride.

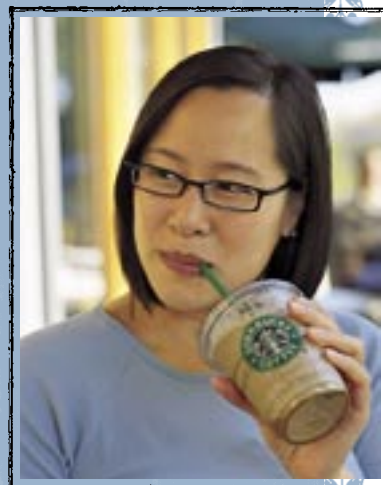
Innovation



A HEAR MUSIC™ MEDIA BAR,  
WHERE YOU CAN BURN CDS  
TO YOUR HEART'S CONTENT.



THE INCOMPARABLE  
RAY CHARLES, WITH FRIEND  
WILLIE NELSON.



FOR OUR CALORIE-  
CONSCIOUS CONSUMERS,  
WE INTRODUCED  
FRAPPUCCINO® LIGHT  
BLENDED BEVERAGES.



A woman with dark hair, wearing large black over-ear headphones, is seated at a wooden table. She is looking down at a smartphone held in her left hand, which is also holding the right earcup of the headphones. She is wearing a black long-sleeved top, a gold watch on her left wrist, and a ring on her left hand. In the foreground, a dark purple coffee cup with a latte art design sits on a matching saucer. The background is softly blurred, showing a window with a grid pattern.

# INNOVATION

Melina Wong discovering new favorite songs at the Hear Music™ media bar.

**With the proper care, coffee trees give back.  
And they give back abundantly.**

Through the generous spirit of our partners, customers and shareholders, we are able to do the same.

Sometimes giving back means traveling to Central America as part of an Earthwatch expedition. Working with scientists and a local cooperative of coffee growers, 10 Starbucks customers assisted in restoring an area of Costa Rican rainforest where less than 10 percent of the original forest remains.

Sometimes it means supporting existing programs by giving to charitable organizations through The Starbucks Foundation. Through Youth Leadership grants, the Foundation funds innovative programs – particularly those in ethnically diverse communities – that embrace cultural diversity and literacy and involve families, schools and neighborhood organizations.

And other times it means promoting environmental awareness during Earth Month, and educating both customers and partners on how to take better care of our planet all year round through recycling, waste reduction and energy efficiency.

No matter where we are, in every activity and on every day, we humbly do our best to set a responsible example.

At the same time, we are constantly mindful that every part of our Company has room to grow. To improve.

As we look back over a fruitful year, we thank you.

Thank you for the opportunity to stand strong. To branch out. And, as every well-tended coffee tree should, to flourish.

## To Our Shareholders,

At Starbucks, the success of each year has surpassed the previous one, and each time we begin to write this letter our belief in the power of our brand, optimism for the future and deep gratitude to all those who have made it possible have been even greater. Fiscal 2004 was no exception – this was the most impressive performance we have enjoyed to date, and as we have stated before, we truly believe that the best is yet to come. The Starbucks brand resonates with people around the world because it is authentic – we strive for absolute congruence between our actions and our values, and we humbly represent the best of our heritage as we continually endeavor to create a wonderful experience for our customers and build enduring value for our shareholders.

We are extremely pleased to share the story of another year of exceptional achievements for Starbucks. In the context of a world economy still reeling from several years of downturns and setbacks, our financial performance was overwhelmingly positive. During fiscal 2004, Starbucks delivered a roster of outstanding accomplishments, including consolidated net revenues of \$5.3 billion – an increase of 30 percent. Excluding the impact of the 53rd week in fiscal 2004, consolidated net revenues increased by more than \$1 billion, or 27 percent, from fiscal 2003. We also enjoyed annual comparable store sales growth of 10 percent – marking our first full year of double-digit growth in more than a decade, and the 13th consecutive year of comparable store sales growth of 5 percent or greater. We also achieved earnings per share (EPS) of \$0.95 – a full \$0.10 above the high end of our original target announced in July 2003.

In addition, we opened a record 1,344 stores worldwide, including our 500th store in Europe and 413 new retail locations outside the United States. We also posted full-year profitability for Starbucks Coffee International operations, both including and excluding Canada. Given our sustained success to date, we believe that we previously underestimated the scope of the long-term opportunity for Starbucks. Accordingly, we recently increased our ultimate projected growth from 25,000 to at least 30,000 stores worldwide, with at least 15,000 locations outside the United States.

History tells us that the *Starbucks Experience* has a rich emotional connection for people everywhere, and we are creating the “third place” for an ever-broadening audience around the world. As we proceed, we also continually strive to increase both average unit volumes and first-year average unit volumes for our locations. With 6,132 stores in the United States and 2,437 stores within our International operations, we are able to touch the lives of 30 million customers each week. We plan to open at least 1,500 Company-operated stores on a global basis in fiscal 2005. In the United States, we plan to open approximately 550 Company-operated locations and 525 licensed locations. Many of those locations will be in neighborhoods, off highways and in rural areas where we are not represented. We have also responded to customer demand for a conveniently accessible *Starbucks Experience* by offering a significant percentage of drive-thru locations to meet customers’ needs when they are on the go.

We intend to expand our licensed, grocery and foodservice organizations to provide new points of discovery for consumers. At the end of fiscal 2004, we had 1,839 licensed locations in the United States, and we also announced that every Borders® bookstore with a café will have a Seattle’s Best Coffee café. This exciting program complements the long-successful partnership between Barnes & Noble Booksellers and Starbucks. We are confident that the supply chain and store development foundations of our business will allow us to sustain our growth so that we may serve millions of additional customers and fulfill their desire for convenient access to the *Starbucks Experience* wherever their day takes them.

As we grow, we continue to foster our spirit of discovery while maintaining our commitment to our sense of tradition. Fiscal 2004 was a year of incredible innovation for Starbucks. We delivered new products and line extensions with beverages such as the wildly popular Strawberries & Crème Frappuccino® blended crème beverage and, for

fall 2004, the delectable Pumpkin Spice Latte, and we are confident that our customers will warmly embrace our latest offering – the deliciously indulgent Chantico™ drinking chocolate – introduced in January 2005. This past year we also introduced our signature coffee line – Starbucks® Black Apron Exclusives™ – the product of our relentless pursuit of the finest *arabica* coffees from around the world to share with our customers. Our pipeline for new products and services has never been stronger, and we intend to continue to surprise and delight our customers with new offerings, while maintaining Starbucks familiar, welcoming essence.

In fiscal 2004, the scope of our innovation extended to our new Entertainment division and Starbucks Hear Music™. This aspect of our business is far more significant than simply offering our favorite music to customers through CD sales; we believe that we are creating a transformational experience in the music industry. Starbucks customers have the opportunity to discover and experience music in unique, compelling ways, and we are confident that our reputation for delivering a quality music experience has earned their trust.

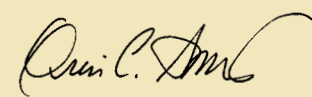
Fiscal 2004 was a landmark year for music at Starbucks. Ray Charles’ *Genius Loves Company*, which we produced in conjunction with Concord Records, soared to No. 1 on the Billboard R&B charts *without radio play*. Instead, it was featured prominently in more than 4,500 United States Starbucks locations and was available at other retailers. We also announced the new Hear Music™ Channel 75 on XM Satellite Radio, offering customers an entirely new way to enjoy our custom music selections. One of our most exciting recent innovations is the Hear Music™ media bar, which allows customers to burn and print custom CDs right in the store, in about the time it takes to get a latte. We believe that there is virtually limitless opportunity to reintroduce a sense of discovery, community and passion for music to our customers, and we intend to continue our focus on music and entertainment as exciting new elements of the *Starbucks Experience*.

We have said it before, but we truly believe that Starbucks is in the early chapters of an enduring story. The best is yet to come.

Warm regards,



Howard Schultz  
chairman and  
chief global strategist



Orin C. Smith  
president and  
chief executive officer

## Thank You Orin,

*No assessment of Starbucks success to date and promising future would be complete without acknowledging Orin Smith’s upcoming retirement as president and chief executive officer, effective March 31, 2005. Orin’s many outstanding contributions have helped to shape and develop Starbucks into a respected brand, recognized around the world for our unremitting commitment to our people, our coffee, and the quality of our relationships with farmers and suppliers in coffee-origin countries. We will always be deeply grateful to him for his intelligent, committed leadership and caring for everyone involved in Starbucks.*

*Over the last two years, we have worked together with our Board of Directors to carefully select and groom Orin’s successor, and we are immensely pleased that Jim Donald has been named ceo designate. We have absolute trust in both his professional abilities and personal integrity, and we are confident that he will continue to embody the best aspects of Starbucks.*

*Orin, thank you for guiding us along the road less traveled. We will humbly do our best to honor your legacy as we continue on our journey.*

