



Starbucks Coffee Company

FISCAL 2002 ANNUAL REPORT



This year, as Starbucks continued to grow, we wondered whether it was possible to continue to stay true to our dream.

We wanted to find out whether our way of doing business—one person, one moment, one cup at a time—would allow us to become a company that could grow big and still feel small.

So we set out for Spain to look at one new store opening, to meet our new partners, and to see how we're delivering our promise for the best experience we can create.

Cover—Evening over the Gran Vía • Madrid, España

This grand avenue is the lively center of urban Madrid, where we joined a vibrant community, and broadened our international connections. By fiscal year end 2002, we had opened five locations in both Barcelona and Madrid. Spain was the 26th of 30 countries in which we operated, totaling 1,312 international stores, comprised of 384 Company-operated and 928 licensed locations.



7:30 a.m. Juan Carlos Lorenzo will brew *café con leche* in his fourth-floor apartment at Atocha, 66.

2 p.m. In the Plaza Mayor, *turistas* will meet for lunch over bowls of *paella* and glasses of *Rioja*.

7 p.m. On the Puerta del Sol, Ana Vila will stop for a *café solo* before heading home from the office.

10 p.m. At Hermosilla, 15, Jesús Tierraseca will greet customers inside the entrance of the restaurant Teatríz.

11 p.m. In the Plaza de la Paja, pajamaed children will shriek in a game of *fútbol* under the easy gaze of their grandparents.

On this day, Starbucks will open a new store at Orense, 6 in Madrid.





❧ *Our Customers* ❧

People we know and
those we are yet to meet.



Store at Orense, 6 two days before opening

This year Starbucks opened its doors worldwide in Vienna, Berlin and Madrid; Jakarta, Muscat and Mexico City, to name a few.

We became neighbors in places we had only dreamed about, and got to know people we'd never before had the chance to meet. We served customers, inspired contact, made connections and found friendships.

As we reached out to more customers than ever, we thought you might like to know how we're delivering the experience in Spain. In Madrid, we open early and close late. A citrus juicing machine presses sweet *naranjas*, glass by glass, and the most popular breakfast is a traditional sticky *caracola de chocolate* and a *caffè latte*.

At the end of the day, our outdoor courtyard is a busy gathering place long into the evening.

Whether people already know us, or we're yet to meet, every single customer presents us with an opportunity, a chance to make a difference, make someone happy, make a friend.



Elena García-Cruz, Orense, 6 store manager



More than 100 people. More than a dozen nationalities.
Three months training. Five weeks preparing.

Along with the practicalities of running a new venture, our joint venture partners from Spanish company Grupo Vips discovered that human connection is at the heart of everything we do, that nurturing and inspiring the human spirit is a way of doing business that is somehow both universal and personal.

“We imagined how we would like to see the Starbucks experience in Spain,” says David Beti, learning manager.

“For us, the spirit of the company is the spirit of life—
enjoy each sip, enjoy each conversation,
enjoy as much of life as you can.

“Our histories and our customers’ histories are so different, but we can connect with the human spirit, listening, talking, giving, tasting and sharing coffee.

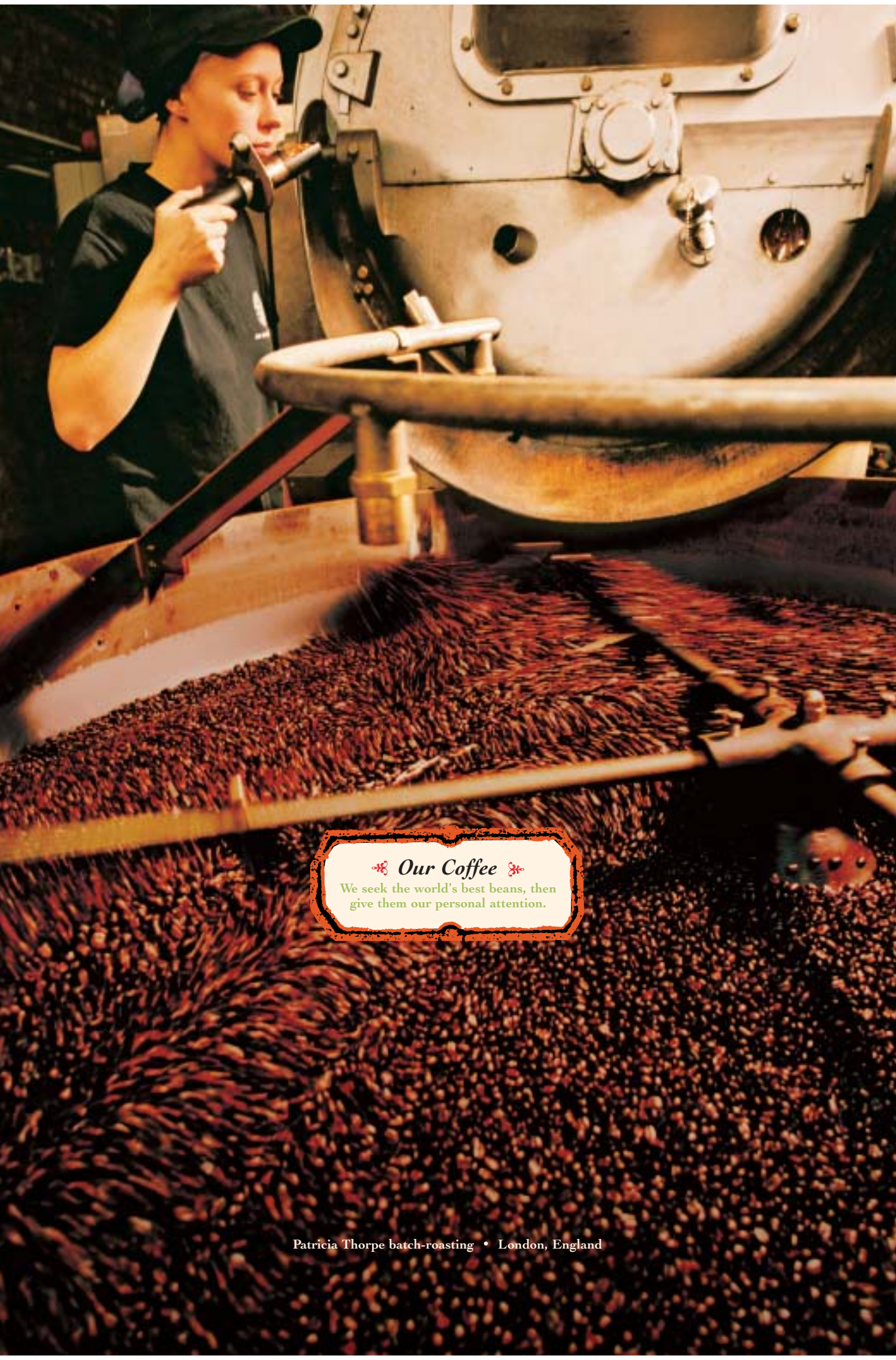
“This is the best job, when you don’t realize you are working.

“Your spirit in the sky. Your feet on the earth.”



Our Partners
The heart and soul
within every cup.

Opening day, Orense, 6 • Madrid, España



❧ *Our Coffee* ❧

We seek the world's best beans, then
give them our personal attention.



Patricio Gaido, Coffee Master, preparing for Orense, 6 opening



Whether we're in New York, Tokyo, Sydney or Barcelona, our coffee receives the same exceptional care and attention.

Each year we source about one percent of the world's beans—only the very best; travel hundreds of thousands of miles; batch-roast and sample more than 150,000 cups.

“Madrileños drink a lot of coffee,” says Patricio Gaido, the first partner in Spain to earn the black apron that marks the prestigious title, Coffee Master. *“But they are just getting to know Starbucks.”*

The first delivery of coffee beans to Orense, 6 was freighted from our roasting plant in London a few days before the store was due to open.

There was Espresso Roast, the same coffee that goes into every espresso beverage we make around the world. Sumatra and Colombia, Caffè Verona® and House Blend were there, too, fresh-roasted, delivered right on time.

And the coffee of the day was Guatemala Antigua.



Eduardo José Casas Bello with Plaza de Neptuno store manager Antonio Romero



Wherever we go, we try to find a way to give something back, to become part of each community in which we do business.

This year, around the world, Starbucks took part in programs that helped build schools and health clinics, contributed to child literacy efforts, and participated in tree-planting, recycling and conservation programs.

In Spain, we joined with Save the Children in programs designed to promote social integration and development among schoolchildren.

But to us, becoming part of a community is about more than offering financial support.

Wherever we are, Starbucks is a place beyond work and home, between the familiar and the undiscovered, a place where you can belong.

At the Starbucks on the Plaza de Neptuno, near the Museo del Prado and the Museo Thyssen-Bornemisza, across from the languorous stretch of the Paseo del Prado and looking out onto the Fuente de Neptuno, you will hear *Madridileños* and *turistas* alike ordering Caffè Americanos to go.



Our Community
A place beyond work, beyond home,
where you can belong.

Entrance to Real Jardín Botánico • Madrid, España



This year we continued to grow.

This year we delivered on our promise, a promise for the best experience we can create, millions of times every day.

And wherever we are, our philosophy—one person,
one moment, one cup at a time—
allows us to both grow big and stay small.

Because wherever we are, we're in the business
of serving people.

And that's how we become an enduring company.

Our spirit in the sky. Our feet on the earth.

Muchas gracias, Madrid.



To our Shareholders,

Starbucks enjoyed an exceptional year in fiscal 2002, despite the cloud over the economy and sense of uncertainty felt worldwide. Our record-setting performance illustrates the simple yet powerful connection that people around the world share over a cup of coffee, and the way the Starbucks brand enriches our customers' daily lives. Today we are in places that 10 years ago we never dreamed would share the *Starbucks Experience*. Yet when we open a market for the first time, we see the excitement—people peeking in the window to watch our progress as we put the finishing touches on the décor, lines that form out the door and down the street on opening day, and the first customers eagerly ordering favorite beverages from their new barista. We see it when we open locations in cities as far-flung as Des Moines, Iowa, and Madrid, Spain. We chose to focus this year's Annual Report on a single store opening in Madrid because by sharing this one day, this moment in time, you can feel the depth and power of the *Starbucks Experience* around the world. After just six years of developing our presence outside of North America, we have built the foundation for Starbucks success on the world stage.

We also remain focused on our values as we continue to pursue our goals. We firmly believe that our extraordinary results and continued growth are rooted in our relationships with our partners (employees) around the world—they make daily connections with our customers, source and roast the finest coffee and support our stores. Our customers, shareholders, partners, suppliers and people in the communities we serve have rewarded us with their trust and an overwhelmingly enthusiastic response to the *Starbucks Experience*. Now, just 10 years after Starbucks initial public offering, we are well on our way to fulfilling our aspiration to become one of the most recognized and respected brands in the world.

As of the end of fiscal 2002, we have enjoyed 123 consecutive months of positive comparable store sales growth, and 11 consecutive fiscal years of comparable store sales growth of 5% or more. We delivered fiscal 2002 revenue growth of 24% and net earnings of \$215.1 million—the highest reported net earnings in the Company's history.

Of course, we do not intend to rest on past achievements. While we are committed to our core business—coffee—we remain an entrepreneurial company that thrives on innovation and stellar execution. This year we introduced compelling new products and services to excite and inspire the 20 million customers per week who visit us in the 30 countries in which we operate. We brought a variety of tempting beverage selections to various markets, including Crème Frappuccino® ice blended beverages and Starbucks DoubleShot™, our new ready-to-drink beverage. We branched into new territory by launching the Starbucks Card. The amazing popularity and performance of the Starbucks Card exceeded our expectations, and we plan to develop new value-added features. We were also excited to introduce a wireless network in more than 1,600 Company-operated stores in North America during fiscal 2002 and pilot the concept in Europe. Our in-store wireless Internet access offers a relaxing environment where customers can connect with people and information while enjoying a snack and a delicious Starbucks® beverage. We believe that these and other innovations, coupled with our ability to operationally execute at the highest level, will help to drive our long-term success.

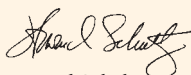
We feel strongly that Starbucks has global appeal, as demonstrated by the warm reception by the diverse communities we have entered. In fiscal 2002 we opened 525 Company-operated locations, including expansion into five new states in the U.S. and 269 licensed locations in North America. We also entered nine new international markets: Austria, Oman, Spain, Germany, Indonesia, Southern China, Mexico, Puerto Rico and Greece, and opened 89 Company-operated and 294 licensed stores in existing international markets. We intend to sustain our aggressive rate of expansion to reach a total of 10,000 stores in 60 countries by the end of fiscal 2005. As always, our goals are high—we anticipate that we will ultimately have at least 25,000 stores worldwide, with at least 10,000 stores in our North American market and at least 15,000 stores in international markets.

Even as we continue to expand the reach of the brand, we remain focused on the heart of our business—the highest quality coffee in the world, and our relationships with our people. We are passionately committed to fostering sustainability in coffee-origin countries. We plan to continue our long-standing practice of paying a premium price for the highest quality *arabica* green coffee beans. This commitment helps to ensure the excellence of our coffee and contributes to the well-being of the people working on small-scale coffee farms in origin countries, many of whom have been financially devastated by a dramatic and sustained drop in coffee prices.

We have also implemented a number of programs to help improve the lives of people in coffee- and tea-origin countries around the world. For instance, we introduced our coffee sourcing guidelines—a pilot program that rewards suppliers who meet important environmental, social, economic and quality standards—and our new Commitment to Origins™ line of whole bean coffees, which includes Starbucks exclusive coffees that resulted from years of working with farmers to maintain quality standards, encourage sound environmental practices and help meet social needs. We hope that you will review our fiscal 2002 Corporate Social Responsibility Annual Report to see the many ways in which we strive to make positive contributions to the communities in which we operate. Please refer to page 37 for details on how to obtain a report.

We want to extend our heartfelt thanks to our partners, customers, shareholders, suppliers and coffee-origin farmers for helping Starbucks to flourish during our 31-year history and our first decade as a public company. This has been an amazing year for Starbucks and we are humbled by our good fortune. We know that success is not an entitlement. We remain committed to reaffirming your trust, belief and confidence in us as leaders and as a company. The best is yet to come.

Warm regards,

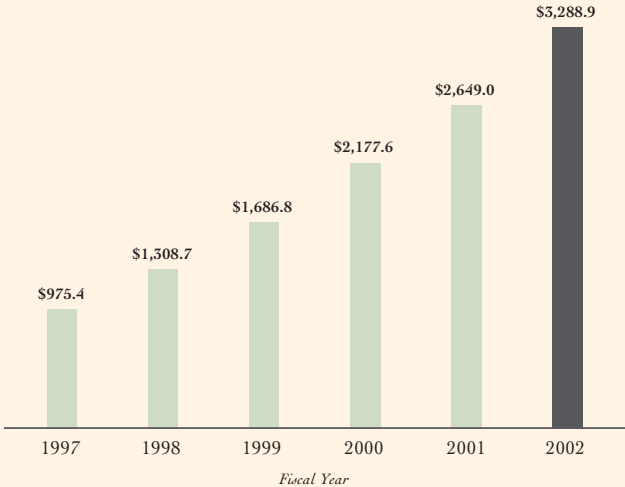


Howard Schultz
chairman and chief global strategist

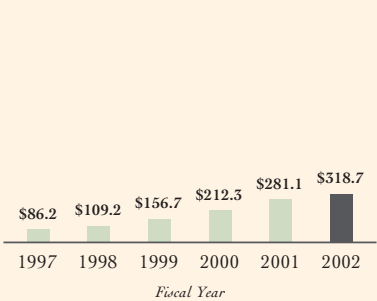


Orin C. Smith
president and chief executive officer

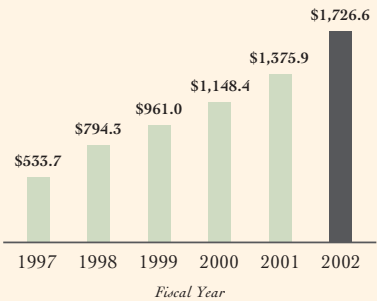
FINANCIAL HIGHLIGHTS



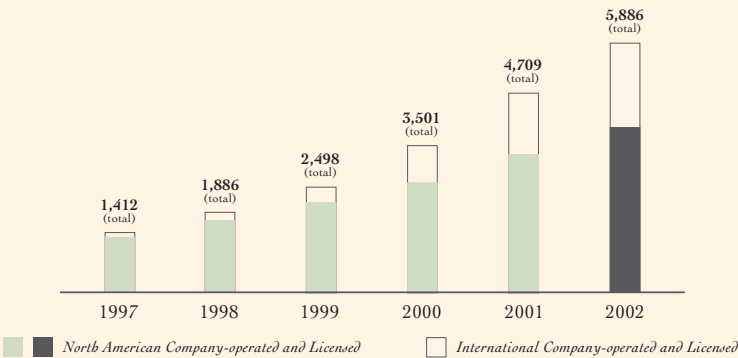
NET REVENUES (in millions)



OPERATING INCOME (in millions)



SHAREHOLDERS' EQUITY (in millions)



NORTH AMERICAN & INTERNATIONAL STORES