STARBUCKS CORPORATION SUSTAINABILITY BOND

FRAMEWORK OVERVIEW AND SECOND OPINION BY SUSTAINALYTICS

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SUSTAINALYTICS

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1. INTRODUCTION

Starbucks Corporation (Starbucks) intends to issue a euro-yen-denominated sustainability bond that will focus on enhancing its sustainability programmes around coffee supply chain management. Starbucks has engaged Sustainalytics to formulate a framework in alignment with the Green Bond Principles 2016 and the Social Bond Guidance 2016, and to provide an opinion on the sustainability credentials of the framework. As part of this engagement, Sustainalytics has reviewed relevant public and internal documents. It also has engaged with members of the company’s global coffee sourcing, responsibility and public policy teams to understand the alignment of the company’s sustainability bond with its business strategy, the planned use of proceeds, and reporting on the key performance indicators associated with expected positive impacts. This document contains two sections: Framework Overview – summary of the Starbucks’ sustainability bond framework; and Sustainalytics’ Opinion – an opinion of the framework.

2. OVERVIEW OF ISSUER

Established in 1971 and headquartered in Seattle, Washington, Starbucks operates as a roaster, marketer, and retailer of specialty coffee worldwide. It is the world’s fourth-largest coffee roaster in terms of volume, and it is responsible for approximately 3% of global coffee sourcing. Starbucks caters to millions of customers daily in more than 75 countries. As of the first quarter of 2017, Starbucks has more than 24,000 stores around the globe.

Given that Starbucks has significant influence in the coffee supply chain, the company has implemented a strategic focus on “building a future with farmers,” investing in coffee farmers and their communities. In 2004, together with Conservation International, an environmental NGO, Starbucks developed its own ethical sourcing programme for coffee, the Coffee and Farmer Equity (C.A.F.E.) Practices, which includes standards related to quality, economic, social and environmental performance. C.A.F.E. Practices promote environmentally responsible growing methods, ensure minimum wages and fair working conditions, and advocate for economic transparency and resource management (for more on C.A.F.E. Practices, see Appendix 2).

Starbucks also partners with various industry stakeholders to further promote sustainable coffee sourcing.¹ In addition, the company addresses other sustainability challenges in the coffee supply chain through farmer support centres in coffee growing regions, and farmer loans and community investments. Through the issuance of a sustainability bond focused on sustainable sourcing, Starbucks aims to finance initiatives that will have a positive social and environmental impact in the coffee supply chains worldwide.

3. FRAMEWORK OVERVIEW

For this sustainability bond, a framework has been created that follows the four key pillars of the Green Bond Principles 2016 and that aligns with the Social Bond Guidance 2016. By issuing this sustainability bond, Starbucks will finance projects in the coffee growing regions that aim to promote socio-economic advancement and environmental sustainability. The following section summarises Starbucks’ sustainability bond framework, including the use of proceeds, process for project selection, the management of proceeds, and reporting.

3.1 Use of Proceeds

The proceeds of the sustainability bond will be allocated towards refinancing and funding new Starbucks’ projects that meet one of the following eligibility criteria.

3.1.1 Eligibility Criteria

To be eligible for the sustainability bond proceeds, the projects funded must be involved in one or more of the following business activities:

1. PURCHASING COFFEE VERIFIED BY A THIRD-PARTY AS COMPLYING WITH COFFEE AND FARMER EQUITY (C.A.F.E.) PRACTICES. SUSTAINABLE COFFEE PURCHASES INCLUDE RELATED EXPENDITURES FOR COFFEE TRANSPORTATION AND STORAGE.

Context: As noted above, Starbucks has developed its own ethical sourcing programme, C.A.F.E. Practices, to measure and monitor the economic, social and environmental aspects of coffee production. In 2015, Starbucks achieved a target of sourcing 99% of its coffee ethically, defined as coffee that has been third-party audited and verified to be compliant with the company’s C.A.F.E. Practices or Fairtrade standards.

Use of Proceeds: Proceeds of the sustainability bond may be allocated to coffee purchases and related transportation and storage expenditures, from suppliers that are third-party verified as complying with the C.A.F.E. Practices (for details see Appendix 2).

2. EXPENDITURES RELATED TO DEVELOPMENT AND OPERATIONS OF FARMER SUPPORT CENTERS AND AGRONOMY RESEARCH AND DEVELOPMENT CENTER.

Context: To help suppliers and farmers implement C.A.F.E. Practices and bring farmers into its supply chain, Starbucks operates nine Farmer Support Centers in Costa Rica, Rwanda, Tanzania, Ethiopia, Colombia, Guatemala, China, Mexico and Indonesia. These centers employ agronomists, sustainability and quality experts who train farmers, including those that are not part of the company’s supply chain, on coffee growing techniques, including reducing the costs associated with growing, increasing the yields and quality, training farmers on soil management, field-crop production and milling processes, and reducing pest and disease among others.

In 2013, the company bought a coffee farm called Hacienda Alsacia in Costa Rica, close to its Farmer Support Center. It is used as a working farm and open-sourced agronomy research and development center and is aimed to contribute to the work of the Farmer Support Centers in building a resilient coffee supply chain. Additionally, it will develop new coffee varieties which will be shared with the coffee industry.

Use of proceeds: Proceeds of the sustainability bond may be allocated to capital investments and labor expenses to run current farmer support centers and to set up new farmer support centers planned in the near-term. The aim of the farmer support centers is to help suppliers and farmers implement C.A.F.E. practices.

3. LOANS MADE TO COFFEE FARMERS THROUGH STARBUCKS’ USD 50 MILLION GLOBAL FARMER FUND.

Context: In 2015, Starbucks pledged to provide USD 50 million in financing to coffee farmers in collaboration with lending organizations such as Root Capital and the Fairtrade Access Fund and other partners within the supply chain. Through its Global Farmer Fund, Starbucks provides loans to coffee growers at reasonable interest rates and maturities, even those who do not supply to the company, in 13 countries including Peru, Nicaragua, Honduras, Guatemala, Rwanda, Tanzania, the Democratic Republic of Congo and Indonesia. As of January 2017, the company impacted approximately 40,000 farmers and provided or committed to provide in total about USD 26.2 million.

Use of proceeds: Proceeds of the sustainability bond may be allocated to new and refinanced loans to coffee farmers directly and through lending organizations that provide funding for trade finance as well as investments in restoration and infrastructure improvements.

3.2 Project Evaluation and Selection Process
Starbucks has identified several members of its Global Coffee Team who will:
- assess and determine project eligibility; and,
- recommend an allocation of proceeds to eligible projects.

The Starbucks Global Coffee Team manages purchases made through its C.A.F.E. Practices programme, runs the farmer support center network, and administers loans to farmers. The Global Coffee Team will then recommend those projects to the finance department for allocation of the bond proceeds. These recommendations will be made on a weekly basis for coffee purchasing; monthly for loans made through the Global Farmer Fund; and annually for the support to the agronomy centers. The recommendations made by the Global Coffee Team with regard to the loans made will require approval by the company’s Chief Financial Officer, and all others will be immediately accepted by the finance team. The finance team will track the allocation of proceeds to such projects, including brief descriptions of the projects, the countries in which the projects are located, and the amount of proceeds allocated to the projects.

3.3 Management of Proceeds
The proceeds from the sustainability bond will be allocated and managed by Starbucks’s finance department. The finance department will internally track quarterly budgets and actual spend for all the eligible project categories. Pending the allocation of the sustainability bond proceeds, the company will temporarily invest an amount equal to the balance of the proceeds in cash, cash equivalents and/or treasury securities. Payment of principal and interest on the sustainability bond will be made from the company’s general funds and will not be directly linked to the performance of any eligible projects.

Starbucks expects to spend the majority of the sustainability bond proceeds within two years of the date of issuance.

3.4 Reporting
Allocation reporting
Throughout the term of the sustainability bond, until the proceeds have been fully allocated to projects meeting the eligibility criteria, Starbucks commits to publishing annual updates of the allocation of the proceeds, including, subject to confidentiality considerations, additional descriptions of select projects funded with sustainability bond proceeds. The annual allocation will be reported publicly on the Starbucks website at www.starbucks.com. It will also be reported on in the annual Starbucks Global Responsibility Report. These reports will be accompanied by:

- An assertion by management that the net proceeds of this offering were allocated to qualifying eligible projects; and
- A report from a nationally recognized firm registered with the Public Company Accounting Oversight Board in respect of its examination of management’s assertion conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

Allocation reporting will be available at the anniversary of this bond’s issuance.

Impact reporting
To the extent possible, in addition to its allocation reporting, Starbucks intends to demonstrate the environmental and/or social impacts of the projects to which bond proceeds have been allocated. Where relevant, Starbucks will report on the following Key Performance Indicators (KPIs) in aggregate for sustainability bond projects:

- **Verified Coffee Purchases** – Coffee pounds purchased that are third-party verified according to C.A.F.E. Practices and the percentage of total company coffee purchases that verified purchases represent.
- **Number of New Suppliers** – Number of New Suppliers Verified Against C.A.F.E. Practices in reporting year.
- **Coffee Sourced by Continent** – Coffee pounds purchased under verified C.A.F.E. Practices, disaggregated by continent
• **Loans Distributed** – Amounts loaned through the Global Farmer Fund with tracking against USD50 million commitment.

• **Agronomy Centers Opened and Supported** – Number of Farmer Support Centers opened annually and the number of Farmer Support Centers with continued operations.

Finally, Starbucks will publish narrative reporting around the positive sustainability impacts on the coffee industry triggered by engaging farmers around C.A.F.E. Practices, including case studies.
4 SUSTAINALYTICS’ OPINION

Section 1: Sustainability Performance of the Issuer

Contribution of bond proceeds to Starbucks’ sustainability targets

In 2015, 99% of the 551 million pounds of Starbucks’ coffee was ethically sourced either through Coffee and Farming Equity (C.A.F.E.) Practices, Fairtrade, or another externally audited system. While expanding its sourcing base, the company has been gradually increasing targets for ethically sourced coffee (according to C.A.F.E. Practices standards) year-on-year, reaching 99% target in 2015. Additionally, Starbucks also has annual targets to increase the total amount of loans it provided to farmers. In 2015, it dispersed USD 17.6 million in funds and has since worked with partners to disburse an additional USD 2.75 million in 2016, surpassing its USD 20 million target. Sustainalytics is of the opinion that Starbucks’ sustainability bond framework is aligned with the company’s corporate sustainability strategy and targets, and that Starbucks is well positioned to issue a sustainability bond.

Well positioned to mitigate environmental and social risk in its supply chain

Common risks associated with procuring coffee from developing countries include social risks such as child labour, forced labour, unsafe working conditions, and below minimum wage payment. Additionally, procurement of coffee is also associated with certain environmental risks, such as inefficient use of water, soil degradation through use of pesticides, and deforestation. Sustainalytics is of the opinion that Starbucks is well positioned to mitigate both these risks, due to (i) the strength of its social supply chain management system and (ii) procurement of verified coffee.

Strong social supply chain management

The company has very strong social supply chain standards that address health and safety, minimum living wages, maximum working hours, freedom of association, child labour, non-discrimination, forced labour and corporal punishment. Furthermore, Starbucks engages SCS Global Services to oversee (i) the audit framework and methodology and (ii) the network of approved third-party verification organizations that evaluate suppliers against its supply chain standards. Starbucks also works with suppliers to correct any noncompliance. Suppliers that fail to comply or fail to work with Starbucks or the third party to correct noncompliant practices may have their contracts or business relationship terminated. Additionally, the company may discontinue the use of non-complying production sites. Given (i) the breadth of Starbucks’ social supply chain standards, (ii) the use of a credible third party to oversee audit methodology and verifiers, (ii) use of corrective action for non-compliance, and (iv) policy to discontinue using non-compliant farmers, Sustainalytics is of the opinion that Starbucks’s social supply chain management aligns with best practice in sustainable supply chain management.

Importance of verification in mitigating environmental risk associated with procurement of coffee

Starbucks’ C.A.F.E. Practices refer to a sustainable sourcing programme, developed by the company in collaboration with Conservation International, aim to ensure coffee quality while promoting social, economic and environmental standards. In particular, the scope of environmental standards covered by

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4 Sustainalytics ESG research; https://www.starbucks.com/responsibility/global-report
5 Starbucks internal reporting on its loan portfolio; https://www.starbucks.com/responsibility/global-report
C.A.F.E practices is comprehensive and directly addresses the environmental risks associated with unsustainable coffee growing practices.

The scope of C.A.F.E.’s environmental standards includes (but is not limited to) prevention of water pollution, efficient use of water resources, controlling erosion, preventing deforestation through use of a coffee shade canopy, pest and disease control. Sustainalytics is of the opinion that (i) the comprehensive scope of C.A.F.E’s environmental standards, (ii) Starbucks’ implementation of a scoring system that awards a premium to higher-scoring coffee farmers (thereby incentivizing better performance), and (iii) C.A.F.E’s requirement for farmers to comply with a set of minimum standards (known as zero tolerance indicators) are strong measures to mitigate identified environmental risks.

Sustainalytics recognizes that there has been some criticism of C.A.F.E. practices. Sustainalytics has assessed Starbucks’ C.A.F.E practices and has found that C.A.F.E. standards are aligned with leading practices in sustainable supply chain management, addressing environmental and social risks associated with growing coffee. For a full analysis on C.A.F.E practices, see Appendix 2.

Section 2: Impact of Use of Proceeds

Sustainalytics recognizes that the use of proceeds are being directed towards Operational Expenditures (OpEx). Sustainalytics is of the opinion that proceeds will have clear environmental and social impact due to advancing sustainable agricultural practices and socioeconomic development of farmers in Starbucks’ coffee supply chain.

Impact of lending to coffee farmers

About 20 million of the world’s rural poor depend on coffee production for their livelihoods. Lending to smallholder coffee farmers plays a key role in improving their livelihoods by increasing their access to finance. Typically, small-scale coffee farmers lack access to finance as: (i) a lack of financial literacy and poorly defined property rights often prevent the use of cultivated land as collateral, and (ii) the cost of credit in developing countries is high, especially the cost of longer-term credit appropriate to capital investments. Without access to affordable credit, most smallholders are confined to sub-optimal inputs and methods, and therefore to low productivity, putting their livelihood at risk. In general, the smallholder financing market is still in its early stages and is undeveloped, fragmented, and undercapitalized. A directional estimate of the market suggests that the smallholder demand for financing could be as large as USD 450 billion, the vast majority of which is unmet.

According to Starbucks’ lending criteria, 55% of its loans to coffee farmers should be made to small-scale farmers, defined by Starbucks as farmers with less than 12 hectares of land. Additionally, Starbucks also caps the maximum interest rate charged at 9% per annum. This is lower than the rates offered for business loans in the countries of operation. By ensuring that its lending from the Starbucks Global Farmer Fund

is affordable, and that a large portion of its lending is directed towards those in need of access to finance, Starbucks’ is creating targeted social impact by improving coffee farmers’ livelihoods.

**Impact of purchasing verified coffee**
By purchasing coffee that is verified by C.A.F.E. practices or by other credible third-party standards, Starbucks is not only mitigating environmental risk, but is also promoting the use of more sustainable agricultural techniques. Such environmentally sustainable farming practices are often also better for crop yield, and for farmers’ livelihoods. For example, growing coffee under a canopy of trees mitigates the environmental risk of deforestation, but also results in better soil productivity, supports biodiversity, and results in improved quality of the coffee produced.

Overall, by procuring certified coffee, Starbucks is creating environmental and social impact by promoting the use of environmentally impactful agricultural practices that can also improve farmers’ livelihoods.

**Alignment with the U.N. Sustainable Development Goals**
The Sustainable Development Goals (SDGs) were set in September 2015 through a multi-stakeholder partnership, and form an agenda for achieving sustainable development by the year 2030. These goals are widely considered to be the next step to the Millennium Development Goals (MDG), which were time-bound to 2015. Unlike the MDG’s, the SDGs emphasize the elimination of inequality and disparity in opportunity globally, in both developed and developing countries. In particular, SDG 2 ‘Zero Hunger’ has a target to “double the agricultural productivity and incomes of small-scale food producers.”

The world’s population growth is expected to concentrate in regions that are the world’s most food insecure: sub-Saharan Africa, South Asia, Southeast Asia and parts of Latin America. Agriculture in these regions is dominated by small-scale farmers, defined as farmers with approximately one hectare of land. Improving the productivity of these farms is key to meeting future food demands and addressing the UN SDGs. By providing technical assistance to smallholder farmers, and by lending to and purchasing from smallholder farmers, Starbucks’ sustainability bond framework is directly contributing to the abovementioned target of SDG 2.

**Alignment with Green Bond Principles 2016 and Social Bond Guidance 2016**
Sustainalytics is of the opinion that Starbucks’s sustainability bond follows the guidance provided by the Green Bond Principles 2016, and adheres to its four pillars. Please see Appendix 3 for more details. In addition, Starbucks’ targeted lending to farmers most in need creates social impact by allowing for the socioeconomic empowerment of coffee farmers. Sustainalytics is of the opinion that Starbucks’s sustainability bond is well aligned with the Social Bond Guidance 2016.

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Conclusion
Starbucks’ Sustainability Bond Framework is transparent and provides clarity regarding use of proceeds and the outcomes of the Sustainability Bond investments. Starbucks’ bond has the clear impact of advancing sustainable agricultural practices and socioeconomic development of farmers in Starbucks’ coffee supply chain. Starbucks’ Sustainability Bond is also aligned to the four pillars of the Green Bond Principles 2016, and the Social Bond Guidance 2016. Sustainalytics is of the opinion that Starbucks’ Sustainability Bond is credible and robust.
APPENDICES
Appendix 1: Sustainalytics’ ESG Assessment of Starbucks

The assessment below is from Sustainalytics’ online portal that provides access to an array of ESG research products. Sustainalytics assesses Starbucks as being a “Leader” with respect to Overall ESG Score. Starbucks is in the Consumer Services industry.

<table>
<thead>
<tr>
<th>Overall performance</th>
<th>Overall ESG Score</th>
<th>Relative Position</th>
<th>Percentile</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>69</td>
<td>Leader</td>
<td>95°</td>
</tr>
<tr>
<td></td>
<td>7 out of 122</td>
<td>Leader</td>
<td>Leader</td>
</tr>
<tr>
<td>Environment</td>
<td>70</td>
<td>Leader</td>
<td>Average Performer</td>
</tr>
<tr>
<td>Social</td>
<td>73</td>
<td>Leader</td>
<td>Leader</td>
</tr>
<tr>
<td>Governance</td>
<td>61</td>
<td>Average Performer</td>
<td></td>
</tr>
</tbody>
</table>
Appendix 2: C.A.F.E. Practices

C.A.F.E. Practices are presented as scorecards (both generic and customized to smallholders) of about 200 indicators that are publicly disclosed, and the company encourages its use by other industry players. Upon completion of the verification process overseen by SCS Global Services (a third-party environmental, sustainability and food quality certification organization), coffee farmers may receive one of the following statuses:

- **Strategic suppliers** achieve a minimum total score of 80% and comply with the zero tolerance indicators. These suppliers are eligible for a USD 0.05 premium per pound on all green coffee shipped during the first year of achieving the strategic status and for one more year if they demonstrated improvement in their practices. This status is awarded for four years if audited during harvest period and no organizational changes occur.

- **Preferred suppliers** achieve a minimum total score of 60% and comply with the zero tolerance indicators. This status is awarded for three years if audited during harvest period and no organizational changes occur.

- **Verified suppliers** achieve a score of below 60% and comply with the zero tolerance indicators. This status is awarded for two years if audited during harvest period.

C.A.F.E. Practices indicators are tradable and the status is based on the suppliers’ total score, meaning that suppliers can be assigned preferred or strategic status based on the fulfillment of different indicators. The zero-tolerance indicators for verified compliance with C.A.F.E. Practices are minimum expectations rather than best practice. For example, in the environmental dimension, Starbucks requires suppliers not to use pesticides that are listed by the World Health Organization as Type 1A or 1B, or that are banned according to applicable laws. In the social dimension, the C.A.F.E. Practices zero-tolerance indicator on wages and benefits requires that farm owners pay at least minimum wage to all farm workers (whether permanent, contract, or seasonal). The minimum wage in most countries is still below the living wage for that country; therefore, requiring farm owners to pay at least a living wage would be best practice; however C.A.F.E. does at least encourage higher than minimum wages by allocating an extra point to suppliers who pay more than minimum wage. However, these limitations are addressed by Starbucks’ commitment to engage with its suppliers in order to continuously increase their performance according to the C.A.F.E. Practices indicators. To incentivize suppliers to improve their performance, Starbucks pays a one-time premium to those farmers who rank as strategic against the C.A.F.E. Practices scorecards.

Sustainalytics notes that there has been some criticism of C.A.F.E Practices, as there is a perceived conflict of interest in Starbucks’ developing its own ethical standards, rather than complying with other industry standards such as Fair Trade or Rainforest Alliance. However, the company notes that, at the time C.A.F.E

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13 The full C.A.F.E. Practices scorecard can be reviewed at https://www.scsglobalservices.com/starbucks-cafe-practices
14 The minimum wage is defined as the lowest wage legally permitted by government. The living wage is defined as the lowest wage that would allow the earner to afford adequate shelter, food and the other necessities of life.
In FY 2014, Starbucks was the largest global customer of Fair Trade coffee (approximately 8.6% of all of Starbucks’ coffee purchases).
Practices were developed, there were no third-party standards that addressed the intersecting sustainability challenges of coffee farming, or that would apply to small-scale coffee farmers. Furthermore, the company has demonstrated a high degree of transparency through the public disclosure of the scorecards and verification processes, and the involvement of third-party verification organizations who conduct audits and oversee the verification process. Additionally, Conservation International has conducted a five-year impact assessment report disclosing performance trends under C.A.F.E Practices and reported the information publically.\(^{16}\)

Starbucks has also been criticized for only offering a one-time price premium to its strategic suppliers under C.A.F.E Practices, instead of all suppliers that are C.A.F.E Practices verified. In response, the company emphasizes that C.A.F.E. Practices is not a certification scheme, but rather a continuous improvement programme. Once farmers are verified against C.A.F.E Practices by a third-party auditor, Starbucks works with them to improve their standing to reach preferred, and eventually strategic, status. Suppliers are expected to communicate the implementation of work plans to local Farmer Support Centers and provide progress reports. They can also reach out to Farmer Support Centers for additional assistance to improve their performance. According to internal documents reviewed by Sustainalytics, only a small percentage of current C.A.F.E suppliers rank as verified, compared to a large majority which are strategic or preferred. Furthermore, although only strategic suppliers are awarded price premiums, both preferred and strategic suppliers receive preferential contract terms.

Finally, as noted above, Sustainalytics finds that the standards of the C.A.F.E. Practices are aligned with leading practices in sustainable supply chain management, addressing the environmental and social concerns of coffee growers.

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\(^{16}\) C.A.F.E.Practices Results Assessment Fiscal Years 2011-2012,
Appendix 3: Green Bond/Green Bond Programme External Review Form

Green Bond / Green Bond Programme
External Review Form

Section 1. Basic Information

Issuer name: Starbucks Corporation

Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:

Review provider’s name: Sustainalytics

Completion date of this form: January 26, 2016

Publication date of review publication:

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBPs:

☒ Use of Proceeds
☒ Management of Proceeds
☒ Process for Project Evaluation and Selection
☒ Reporting

ROLE(S) OF REVIEW PROVIDER

☒ Consultancy (incl. 2nd opinion)
☐ Verification
☐ Other (please specify):

☐ Certification
☐ Rating

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Starbucks Sustainability Bond Framework and Second Opinion document above.
Section 3. Detailed review
1. USE OF PROCEEDS

Overall, Sustainalytics is of the opinion that, through the financing of projects and activities in accordance with the eligibility criteria in its Sustainability Bond Framework, Starbucks is creating environmental and social impact. Environmental impact is created by effectively targeting Starbucks sustainability bond proceeds towards environmentally friendly agricultural practices. Starbucks’ targeted lending to farmers most in need creates social impact by allowing for the socioeconomic empowerment of coffee farmers. This is underscored by the fact that Starbucks opens its technical assistance and loan programmes not only to farmers in its own supply chain but also to those coffee farmers who do not supply the company.

Sustainalytics is of the opinion that Starbucks’ use of proceeds for this sustainability bond aligns with both The Green Bond Principles 2016 and the Social Bond Guidance 2016.

Use of proceeds categories as per GBP:

☐ Renewable energy
☐ Pollution prevention and control
☐ Sustainable management of living natural resources
☒ Terrestrial and aquatic biodiversity conservation
☐ Clean transportation
☐ Climate change adaptation
☐ Eco-efficient products, production technologies and processes
☒ Other (please specify): socio-economic empowerment of farmers [targeted social impact]
☐ Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs

If applicable please specify the environmental taxonomy, if other than GBPs:
2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Starbucks has outlined a clear decision-making process for the Project Selection Process involving both its Global Coffee and Group Finance Departments. The project evaluation and selection will clearly consider social and environmental sustainability objectives. As the eligible projects are all existing, long-term projects at Starbucks that are managed and monitored by the Global Coffee team, who will be making the recommendations for the allocation of proceeds, Sustainalytics is of the opinion that the selection process for projects and assets is strong and will ensure that the selected projects will adhere to all mentioned eligibility criteria.

Evaluation and selection

- Defined and transparent criteria for projects eligible for Green Bond proceeds
- Summary criteria for project evaluation and selection publicly available
- Documented process to determine that projects fit within defined categories
- Other (please specify):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
- In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

The proceeds from the sustainability bond will be allocated and managed by Starbucks’s finance department. The finance department will internally track quarterly budgets and actual spend for all the eligible project categories. Pending the allocation of the sustainability bond proceeds, the company will temporarily invest an amount equal to the balance of the proceeds in cash, cash equivalents and/or treasury securities. This is in line with market standards.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in a systematic manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):
4. REPORTING

Starbucks will publish annual updates on allocation of sustainability bond proceeds as well as a selection of impact metrics relating to each use of proceeds. Starbucks has also committed to an independent audit of the allocation of proceeds. The impact metrics the company has selected will demonstrate the effect of the use of proceeds’ in promoting environmentally friendly agricultural practices and the socioeconomic advancement of coffee farmers, including the breadth and scope of Starbucks’ programmes. Starbucks will also disclose the number of new suppliers entering the C.A.F.E Practices programme, which will demonstrate the expanding scope of its outreach to coffee farmers. Allocation and impact reporting will be disclosed on a project portfolio basis. Given that it is publicly disclosed, audited by a third party, clearly lays out adherence with the eligibility criteria, and includes impact reporting, Starbucks’ sustainability bond reporting process is transparent and aligns with the expectations of the Green Bond Principles 2016.

Use of proceeds reporting:

☐ Project-by-project
☐ Linkage to individual bond(s)
☒ On a project portfolio basis
☐ Other (please specify):

Information reported:

☒ Allocated amounts
☐ GB financed share of total investment
☐ Other (please specify):

Frequency:

☒ Annual
☐ Semi-annual
☐ Other (please specify):

Impact reporting:

☐ Project-by-project
☐ Linkage to individual bond(s)
☒ On a project portfolio basis
☐ Other (please specify):
**Frequency:**
- ☒ Annual
- ☐ Semi-annual
- ☐ Other *(please specify):*

**Information reported (expected or ex-post):**
- ☐ GHG Emissions / Savings
- ☒ Energy Savings
- ☒ Other ESG indicators *(please specify):*
  Please see framework for full list of impact indicators

**Means of Disclosure**
- ☐ Information published in financial report
- ☐ Information published in sustainability report
- ☒ Information published in ad hoc documents
- ☒ Other *(please specify):* Starbucks website
- ☐ Reporting reviewed *(if yes, please specify which parts of the reporting are subject to external review):*

Where appropriate, please specify name and date of publication in the useful links section.

**USEFUL LINKS** *(e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)*
- Starbucks website: www.starbucks.com

**SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE**

**Type(s) of Review provided:**
- ☐ Consultancy *(incl. 2nd opinion)*
- ☐ Certification
- ☐ Verification / Audit
- ☐ Rating
- ☐ Other *(please specify):*

**Review provider(s):**

**Date of publication:**
ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP

(i) Consultant Review: An issuer can seek advice from consultants and/or institutions with recognized expertise in environmental sustainability or other aspects of the issuance of a Green Bond, such as the establishment/review of an issuer’s Green Bond framework. “Second opinions” may fall into this category.

(ii) Verification: An issuer can have its Green Bond, associated Green Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria.

(iii) Certification: An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against an external green assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties / certifiers.

(iv) Rating: An issuer can have its Green Bond or associated Green Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Green Bond ratings are separate from an issuer’s ESG rating as they typically apply to individual securities or Green Bond frameworks / programmes.

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