



Ebenezyer Shod KNCU Cooperative, Tanzania

EQUAL EXCHANGE: What's in a Name?

OUR MISSION Equal Exchange's mission is to build long-term trade partnerships that are economically just and environmentally sound, to foster mutually beneficial relations between farmers and consumers and to demonstrate, through our success, the viability of worker cooperatives and Fair Trade.

GUIDING PRINCIPLES Trade directly with democratically organized small farmer cooperatives.

Provide producers with advance credit for crop production.

Pay producers a guaranteed minimum price that provides a stable source of income as well as improved social services.

Provide high quality food products.

Support sustainable farming practices.

Build a democratically run cooperative workplace.

Develop more environmentally sound business practices.

Our Mission and Principles were adopted by the worker-owners of Equal Exchange in 1995.

Living Up to Our Name

by Rink Dickinson & Rob Everts

I think it was early in 1985. Our endeavor was getting pretty serious. Michael, Jonathan, and I had met regularly for a year and a half. We knew our first product would probably be Nicaraguan coffee imported from a friendly Dutch Fair Trade organization. We knew we'd sell to food co-ops, and Central American solidarity groups. We thought we could sell to other stores and cafés. We needed a name.

The two nominations were "Equal Exchange" and "Fast Freddy's Freight Forwarders." The vote wasn't really that close. "Fast Freddy's" had that informal down-home thing going on but other than that it seemed like the alternative was more like us. "Equal Exchange" was active, alliterative, and gave everybody an image of two groups trading, or talking, or marketing in some fair and decent manner. Part of what we liked was the openness and accessibility of the concept of equal exchange.

Who could have imagined that Equal Exchange would become a mid-sized organization, with 55 co-op owners, a million consumers, and 28 producer partners two decades later?

—Rink Dickinson

Even when we look back at our many accomplishments over the past two decades, 2004 stands out as an exceptional year. Equal Exchange grew sales from \$13 million to \$16.5 million, our highest dollar growth in history. Profits were \$431,000, and after worker-owner patronage and charitable contributions, net income before taxes was \$358,000. Coffee sales grew by 550,000 pounds to over 2,500,000 pounds—1,250 tons—by far the largest growth in our history. The percentage growth in pounds was 26%, the highest rate since 1996.

The biggest accomplishment of 2004 was buying and

moving into our new building on United Drive in West Bridgewater, Massachusetts, the fourth home in our history. At 77,000 square feet the United Drive space is three times the combined size of the two buildings we were renting in Canton. The space is operationally beautiful. Five docks, a twenty-one foot ceiling. The Equal Exchange that grows into United Drive will be a new and different organization. It will be more serious, professional, and complex. It will still be mission driven on the original concept of "equal exchange." The space will allow us years of growth and it will allow us to slowly take roasting in-house. The new space has allowed us to rethink our operations. Jessie Myszka, fresh from her leave in her new position as Director of Distribution, has led us in this process.

In 2004 we had unprecedented success, raising \$776,000 of equity from Class B investor-supporters. This is the most equity raised in any year in our history. This success was due to the excellent work of our new Investment Coordinator, Alistair Williamson; the maturation of the Fair Trade market; and the growing understanding in the socially responsive investment world that some capital must be invested in affirmative mission-driven organizations that drive change in the market.

Equal Exchange means linking our future to that of our farmer partners. It also means shared ownership between mission-driven workers and investors who support the same mission. We expect to grow the network of consumers and producers, educate, and make modest profits every year. The success of Equal Exchange has been based on steady continuous improvement, great people, and the fostering of calculated risk and innovation. We thank you for engaging with us in this journey.



Rink Dickinson
President



Rob Everts
President



Products

The Cup of Excellence™ by Beth Ann Caspersen

This past year, Equal Exchange participated in an international coffee competition called The Cup of Excellence™ for the second year in a row. The event, created by a group of dedicated Brazilian coffee farmers and other organizations, brings together coffee industry professionals from around the world to judge the most exemplary coffees in a particular country. The Cup of Excellence™ competitions take place in Nicaragua, Honduras, El Salvador, and Brazil. As the Quality Control Manager at Equal Exchange, I served as a judge in this year's competition in Nicaragua.

The results of this year's Cup of Excellence™ competition were very exciting. The winners of the first, second, third, fourth, fifth, sixth, seventh, and ninth places in the competition were coffee beans produced by Fair Trade cooperatives, the first time that cooperatives have achieved this level of success in the competition. Equal Exchange participates in

the Cup of Excellence™ competition to support our cooperative partners in their effort to produce the highest quality beans. The event also provides Equal Exchange with the chance to share information with our partners about the kind of quality we require for our customers.

This year, Equal Exchange purchased extraordinary coffee from the Laureano Flores Cooperative, the 3rd place winner of the 2004 Cup of Excellence™, and offered it as a special limited edition brew called "Nicaraguan Organic Reserve." For those of you who were fortunate enough to experience this coffee, you may recall the light flavor of tangerine, a direct reflection of the growing environment and the skill of a true coffee farmer. Our Nicaraguan Organic Reserve is gone for now, but look for this and other limited edition coffees in 2005.

—Beth Ann Caspersen is the Quality Control Manager at Equal Exchange.



The Cooperative Chocolate Bar by Rodney North

The next time that you hear the claim that only large corporations can handle the complex supply chains necessary to bring products to market, consider the Equal Exchange chocolate bar.

In 2004 we launched a new product—a line of Fair Trade organic chocolate bars—to further our mission of bringing the benefits of Fair Trade to more farmers, to introduce the concept of Fair Trade to more Americans, and to take our work with cocoa to the next level. Producing chocolate bars meant working with many ingredients sourced from around the world, but it did not mean lowering our standards. We used the opportunity to show that even more complicated forms of international trade can be carried out in a way that benefits everyone.

As a result you could call our chocolate bars "co-op bars," since 11 cooperatives, including nine farmer co-ops, and two worker co-ops, contribute to their creation. Half of the

organic cocoa is sourced from the CONACADO co-op in the Dominican Republic (which also supplies the cocoa for our hot cocoa mix and baking cocoa). The other half comes from two new partners, the CACVRA and El Quinacho cooperatives in Peru. The organic sugar is provided by three cooperatives in Paraguay, and one co-op in Costa Rica. The organic milk is supplied by U.S. dairy cooperatives; and the organic almonds are sourced from yet another farmer co-op in Spain.

Helping us coordinate all the sourcing and production are our colleagues at La Siembra, a Fair Trade worker cooperative like Equal Exchange, in Ottawa, Canada. The ingredients then go to a venerable gourmet chocolate company in Switzerland to be transformed into superb chocolate bars. The result? Great chocolate for you and me, and a "grass-roots globalization" we can all feel good about.

—Rodney North is The Answer Man at Equal Exchange.



A Year of Growth by Kristin Howard

The same desire for fair, honest, and mutually-enriching connections that serve as the foundation of our purchasing practices also drives the relationships that we in the Sales Department have with our customers. Just as Fair Trade with producers is about much more than paying a fair price, we see our relationships with our customers as being about more than a simple exchange of goods.

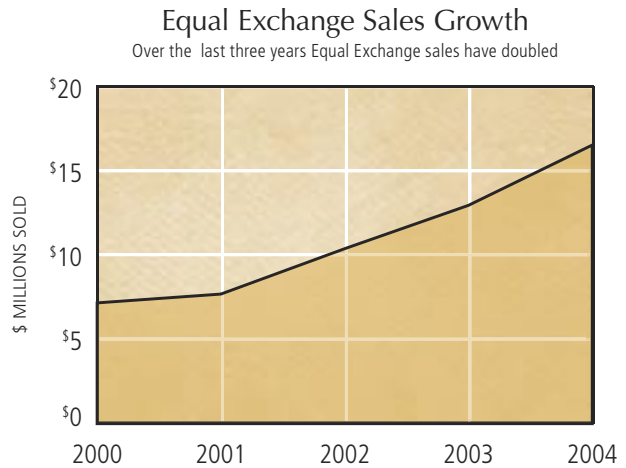
In 2004, our customer base of almost 2,000 restaurants, supermarkets, natural food stores, consumer co-ops, cafés, universities, Fair Trade retailers, and offices purchased more than two million pounds of roasted coffee from us, representing 13% growth over 2003. When we add the sales through our Interfaith Program, Equal Exchange grew in volume a total of 26% from 2003 to 2004, while total sales in dollars grew 27%.

Much of this growth has come from both our expansion into grocery items through distributors and our traditional base of bulk coffee sales to natural foods and food service accounts. Our grocery line, including packaged coffee, hot cocoa mix, baking cocoa, and our new chocolate bars, has gotten a strong response from retailers, and sales to distributors have almost doubled over the past year, from \$810,000 in 2003 to \$1,610,000 in 2004. At the same time we have continued to support our core bulk coffee sales with new products such as Organic Ethiopian coffee, Organic Colombian coffee, and our darkest-roasted coffee ever, Organic Midnight Sun.



Kristin Howard

Kristin Howard
Eastern Sales Manager



We continue to build programs that reach out to new customers and diversify our distribution. Sales through Fair Trade retail stores, such as Ten Thousand Villages, increased by 34%, surpassing their 2005 goals in 2004. We've invested in our Food Service program, improving our equipment systems and refining our strategies. We are already starting to see the rewards of this work; notably Food Service accounts that started purchasing in 2004 including: Indiana University Dining Service; Mugshots Coffeehouse and Juice Bar, in Philadelphia; and—in collaboration with our Interfaith Program—St. Louise Regional Hospital, in California.

Our solid and sustainable growth is due to our strong relationships with our customers. Creating partnerships is at the heart of our business and, in an industry where consolidation and anonymity are increasingly the norm, bringing people together and innovating with our customers will help us create a vibrant and dynamic future for Fair Trade.

A Sweet Tribute by Rob Everts

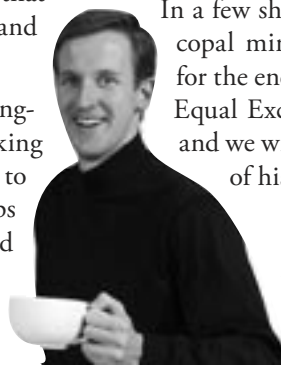
One million dollars in coffee sales. Five worker owners in the Equal Exchange cooperative. No sales to supermarkets. No tea. No cocoa. No chocolate bars. This is a snapshot of Equal Exchange in 1992 when Mark McKone-Sweet joined the company. What a run it was. Mark teamed with Rink to anchor the sales department over the next decade. It's impossible to list all of the accounts that came about as a result of Mark's skill, persistence, and relationship building.

But it wasn't just sales. Mark pioneered the notion of bringing our customers to meet our farmer partners. Speaking not a word of Spanish, he led clients on delegations to El Salvador, Costa Rica, and Mexico before the trips became an institution at Equal Exchange. He also had a passion for new products, and used his experience

from his MBA (which he earned at night) to establish the framework we use today to research and introduce new products such as our chocolate bars.

Mark always knew his life's calling was the church. And so it was that in the fall of 2004 he responded to the call and entered the Episcopal Divinity School in Cambridge, MA.

In a few short years he will be ordained as an Episcopal minister. We are deeply indebted to Mark for the energy, persistence, and love he poured into Equal Exchange. He has left an indelible imprint and we wish him success in this next exciting stage of his life. Thank you Mark.



< Mark McKone-Sweet enjoying a cup of java

Five Years Joining Faith & Fair Trade By Erbin Crowell

Five years ago, Equal Exchange launched an innovative initiative of education and outreach to communities of faith called the “Interfaith Program.” Our hope was to build upon the exciting success of our partnerships with Lutheran World Relief (LWR) and the American Friends Service Committee (AFSC), engaging places of worship directly in Fair Trade. Could we extend our model of partnership to other organizations and communities?

Five years later, few could have predicted the success and rapid growth of this effort. The Program has averaged 65% annual revenue growth over the past five years reaching 26% of Equal Exchange’s total sales by the end of 2004. Partner projects, which form the core of the program, grew from two in 2000 to include nine partnerships with denomination-based relief,

development, and human rights organizations (see page 6, bottom). This past year, participants in these projects and in the Interfaith Program helped us move over 345 tons of fairly traded coffee, tea, cocoa and chocolate products for small farmers and their communities.

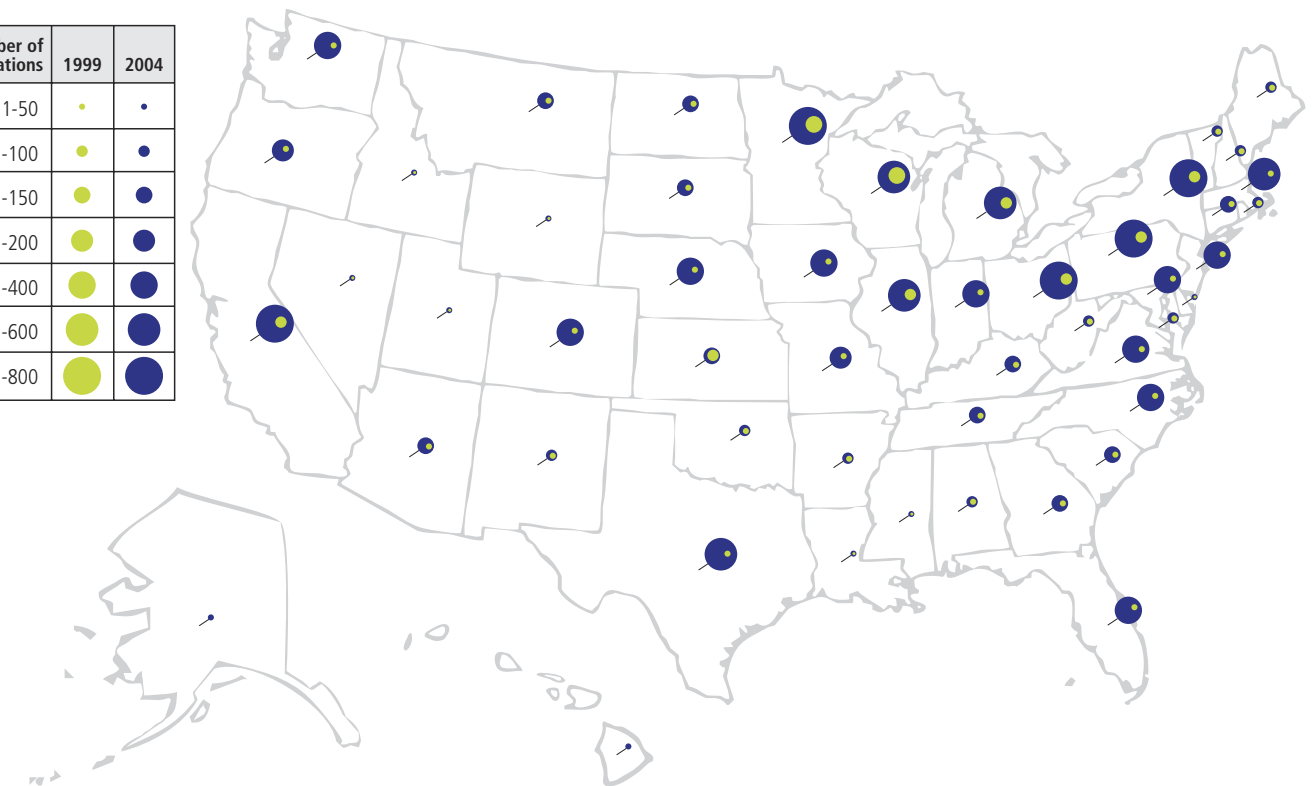
In an overwhelmingly depressed global economy, this effort has been one of empowerment; an opportunity for farmers in the fields to take more control over their lives, and for people in the pews to contribute directly to a vision of economic justice that speaks to their faith and values. To date, over 11,000 places of worship, faith-based schools, community organizations, and individuals have participated in the program and our partner projects, representing a broad range of faiths and denominations reaching beyond our formal partnerships. Across the country, these communities have become key leaders in the movement for Fair Trade,



Above photo (from left to right): Carol Smith, First Presbyterian Church, Fond du Lac, Wisconsin; Diego Perez Lopez, CIRSA Cooperative, Chiapas, Mexico; & Hope Kolly, Equal Exchange.

Growth in Participating Congregations, 1999-2004

Number of Congregations	1999	2004
1-50	•	•
51-100	•	•
101-150	•	•
151-200	•	•
201-400	•	•
401-600	•	•
601-800	•	•



“I ask you not to give up; consumers and producers must continue to walk together. We are all working together in this cooperative effort for the good of all....we are all in the same struggle for a life of peace.”

—Diego Perez Lopez, President of CIRSA Cooperative, Chiapas, Mexico

both through their direct purchasing power and as centers for education and advocacy.

This past year was one of new initiatives and milestones for the program. Our new organic chocolate bars generated a lot of excitement among congregations looking for new ways to support Fair Trade. We launched a new initiative reaching out to faith-based institutions such as schools and retreat centers, while all of our partnerships continued to grow dramatically. In 2004, a partner of eight years, the LWR Coffee Project, grew over 60% in volume, fueled in large part by the “90-Ton Challenge,” an initiative of LWR and the Women of the Evangelical Lutheran Church in America, which dramatically increased participation among Lutheran parishes. The Unitarian Universalist Service Committee (UUSC) Coffee Project reached 500 participating congregations—representing an astonishing 50% of Unitarian Universalist congregations!

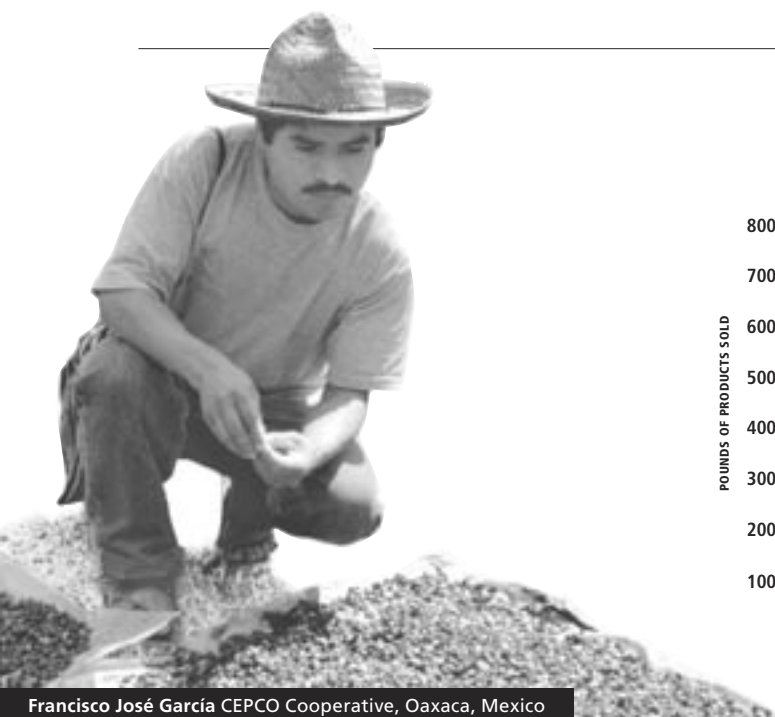
We also expanded our work connecting our project partners with our farmer partners. For example, over the past couple of years we have worked with LWR in Nicaragua to support programs in income diversification such as

ecotourism, and coffee quality development, including a “cupping camp” training for cuppers working with coffee co-ops. With UUSC, we supported women’s leadership training at cooperatives in Guatemala. And in the fall of 2004, United Methodist Committee on Relief responded to our appeal for support for CONACADO, our trading partner for cocoa in the Dominican Republic, by making an emergency grant for food, tools, clothing, and medicines so that the families could continue to farm in the wake of Hurricane Jeanne.

After five years developing this program, I will be stepping aside as director to take on a new project at Equal Exchange. I am thankful for the opportunity to work with our partners in building the Interfaith Program, for the thousands of congregations who joined us in this work, and for the great group of people working with me in the department. I’m looking forward to watching the program as it develops in new directions.



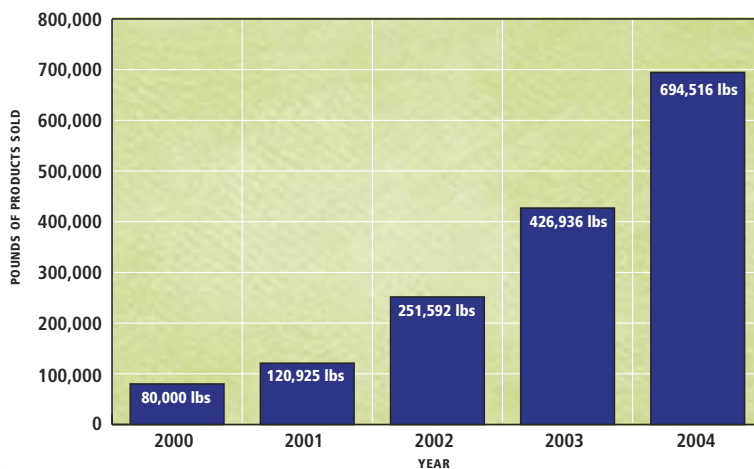
Erbin Crowell
Director, Interfaith Program



Francisco José García CEPCO Cooperative, Oaxaca, Mexico

Interfaith Program Volume Sold

Coffee, Tea, Chocolate & Sugar



Faith-Based Partnerships in 2004 include:

- American Friends Service Committee (1999)
- Lutheran World Relief (1996)
- Unitarian Universalist Service Committee (2001)
- Catholic Relief Services (2003)
- Mennonite Central Committee U.S. (2003)
- United Church of Christ (2004)
- Church of the Brethren (2002)
- Presbyterian Church (USA) (2001)
- United Methodist Committee on Relief (2002)

...and the more than 11,000 congregations, offices, schools, and retreat centers of various faiths and denominations that have supported us in helping small farmers build a better future for themselves and their families.

Relationships: The End and The Means

by Phyllis "Felicia" Robinson

At Equal Exchange, we are always striving to strengthen our relationships—whether it's with farmers, co-op administrators, café owners, or students—to bring purpose and quality into our daily interactions. Relationships serve both as the end and the means of our business model, the result of our work and how we carry it out. Unlike the conventional market, where it's the bottom line that counts, Fair Trade allows us to put our relationships at the forefront of what we do. Each of us plays a role in this endeavor that is both a business and a social movement.

Equal Exchange works with our trading partners in a variety of ways. In some cooperatives we've focused our attention on quality. We've led trips to help educate our clients and customers about the co-ops and the lives of the farmers. Several times a year we also bring farmer representatives to the U.S. to meet with consumers, students, and restaurant and store owners, so that more people can learn about the Fair Trade movement. Last year, our own staff spent approximately 48 weeks visiting our trading partners: learning, exchanging ideas with farmers, leading trainings...and purchasing products.

It's important to remember that the cooperatives carry out their business in the context of greater political, economic, social, and environmental conditions. We were deeply saddened when Hurricane Jeanne caused the loss of thousands of lives in Haiti and the Dominican Republic, as well as hundreds of thousands of lives lost in Indonesia caused by the Tsunami. In both cases, through the relationships we've built over the years with food cooperatives and our interfaith partners, we were able to contribute more than \$30,000 toward relief efforts for the survivors. Fundraising and the solidarity with our trading partners will continue into 2005 and beyond.

All of this is to say that when you look deep into your cup of Equal Exchange coffee, tea, or cocoa, or feel a piece of chocolate melting in your mouth, consider not only the hard-working farmer, but also the myriad evolving and deepening relationships that have helped to bring you these savory products.



Phyllis L. Robinson

Phyllis "Felicia" Robinson
Producer Relations Coordinator

2004 Highlights



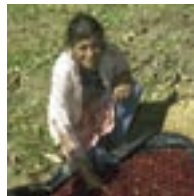
BOLIVIA

Las Yungas Boliva, on the eastern slopes of the southern Andes, is the home of our three Bolivian partners: Alto Sajama, Antofagasta and Coaine. Our visit in the fall of 2004 showed the cooperatives putting their Fair Trade premiums to work investing in processing infrastructure to improve their already excellent quality beans. Alto Sajama used the premiums to improve its individual members' wet processing facilities, such as new fermentation tanks, and drying patios. Coaine and Antofagasta invested in improving the centralized processing facilities, such as raised drying beds, storage sheds, and new depulpers. By investing the premiums in this way, the farmers are demonstrating their commitment to quality and our long-term partnership.



TANZANIA

In May, Raymond Kimaro and Malulu Igobeko, representatives of the Kilimanjaro Native Cooperative Union, visited Cleveland and met with the United Church of Christ Justice and Witness Ministries. They also spoke at a gathering of Fair Trade allies at Pilgrim Church in Cleveland, including church members active in the United Church of Christ Coffee Project, Heinen's shoppers, and activists from the InterReligious Task Force on Central America.



EL SALVADOR

Students and faculty from Goshen College in Indiana, participated in a January Interfaith trip to El Salvador to meet with coffee farmers. On their return they shared their experiences with other members of the college, their region, and the Mennonite community. They wrote articles for several newspapers and magazines and gave presentations to churches and other groups. Their excellent work contributed to an impressive growth of more than 200% in the volume of fairly traded coffee purchased by Mennonite congregations and organizations through the Mennonite Central Committee Coffee Project in 2004.



DOMINICAN REPUBLIC

The 9,000 member CONACADO cooperative is the major source for Equal Exchange's fairly traded organic cocoa. They supply all of the cocoa for our hot cocoa mix, which in 2004 became a bestseller in U.S. natural food stores. CONACADO also provides half of the cocoa for the new line of gourmet chocolate bars that we successfully launched in September of 2004.

From Our Producer Partners



GUATEMALA

Through our partnership with the Unitarian Universalist Service Committee, we succeeded in funding a second year of a leadership development program for women associated with the Manos Campesinas cooperatives in Guatemala. During the first year of funding (2003), women active in the cooperatives participated in a 10-month training program. They discussed and analyzed topics such as the role of women, cooperative structure and development, women's rights, and issues related to CAFTA and globalization. During 2004, a second round of training began which will continue to strengthen the women's leadership skills.



PERU

In southern Peru, CECOVASA has made great strides in categorizing their coffee by zone and in improving the quality of their coffee. In 2004, they used their Fair Trade premiums to build a cupping laboratory. According to Miguel Paz, Sales Manager of CECOVASA: "The lab is the most important tool we have for the work that we're doing in quality. Step by step, we are advancing." Not only has CECOVASA invested in a new building and equipment, they are also investing resources to train their staff. Recently, they hired a new Quality Control Manager to run the laboratory and train the producers in quality.

In northern Peru, CEPICAFE began the construction of its own dry mill with loans and income generated through Fair Trade coffee sales. The mill will be used to sort and process coffee as well as to homogenize and pack sugar and process fresh fruits into jams. Owning their own mill will enable CEPICAFE to have more control over the quality of the coffee beans in the last step of processing before it is exported out of Peru. It will also help them to lower their costs of production, increase their income by allowing them to offer third party services, and provide many jobs to members of the surrounding communities.



MEXICO

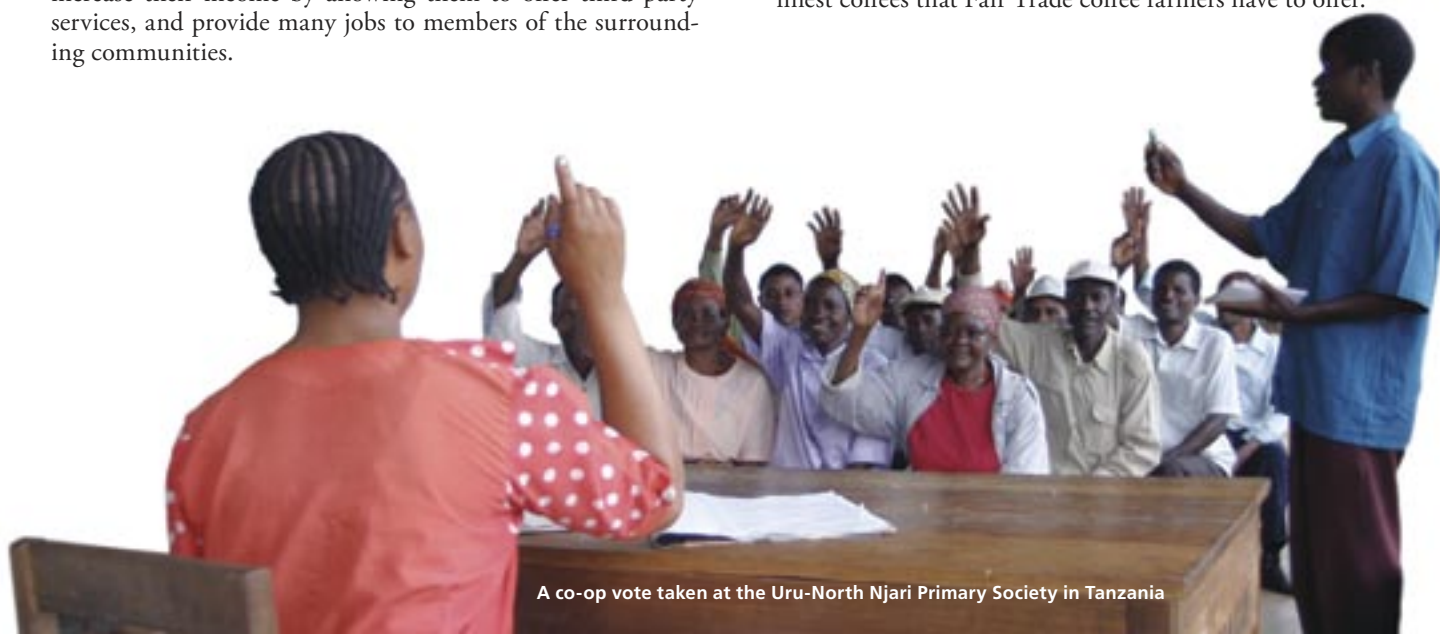
In southern Mexico, CEPSCO was able to use the profits from their sales to the Fair Trade market to build a cupping lab in their central Oaxacan offices and renovate the lab located in their dry processing mill in Ixtepec. They also installed an electronic machine to separate the coffee beans by color. They contracted a cupping specialist to assist CEPSCO in building a system to help control and improve post-harvest processing, evaluate the quality of the beans coming to the dry mill, design a system matching the preferences of the buyers, and elaborate descriptive profiles of each of their coffees so that they can distinguish one profile from another.



NICARAGUA

Last July, Equal Exchange invited six cuppers from Nicaraguan cooperatives to come to our offices and participate in the first annual "Cupping Camp." For six days the group of Nicaraguans and staff of Equal Exchange's Quality Control and Purchasing Departments sorted and graded beans, compared roasting techniques, cupped coffee samples from all over the world, then discussed their characteristics, scored the coffee, and compared their ratings. They shared experiences from their cooperatives, techniques they have developed, lessons learned, and even a few "trade secrets."

Through years of solidarity and exchanges throughout the cooperative supply chain, Equal Exchange has made great strides in achieving a common vocabulary with our Fair Trade partners. As a result of this hard work, Equal Exchange is now better able to communicate effectively with our producer partners and the quality control personnel working at the mills. In the end, this allows farmer cooperatives to understand the needs of coffee buyers here in the U.S., while also allowing us to sell the finest coffees that Fair Trade coffee farmers have to offer.



A co-op vote taken at the Uru-North Njari Primary Society in Tanzania

Travel Journal Excerpts

Producer visit to Las Colinas
El Salvador, January 2004

Having worked with Salvadoran war refugees during the 1980s I came here remembering the stories I'd heard of extreme poverty and violence. In a country where land tenure and economic structures have favored the very wealthy, Las Colinas stands out as an example of how Fair Trade benefits small farmers. Las Colinas's processing facility, main building, and many of its coffee plots are on land that once belonged to a single foreign landowner. The co-op leaders led us through all the phases of depulping, washing, fermenting, drying, milling, and sorting the coffee for export. The co-op's knowledge of coffee farming and its passion for this work makes me proud to be part of our trading relationship with Las Colinas.

Anna Utech
Director, Interfaith Program (2005)
Equal Exchange

Producer visit to CECOVASA
Peru, July 2004

I am interested to see how people's lives are changed as a result of participation in Fair Trade. One man in the CECOVASA coffee co-op told me, "It's very simple...because of Fair Trade my kids are in school and we don't need to have them work to help the family earn money." It's something we take for granted in the States—that kids go to school. Here in the coffee growing region, it's something that parents long to provide to their children, to give them a chance at a hopeful future. The region is so remote, and people feel ignored by their government and most coffee buyers. One speaker at a reception commented that Equal Exchange has visited here more often than their congressional representative!

Jim Desmond
Sales Representative
Equal Exchange

Producer visit to CECOCAFEN
Nicaragua, January 2004

So far on this trip I've met some of the bravest and most dedicated people that I've ever known: people who have had the courage to take on a repressive and heavy-handed government and agitate for fairness and human dignity... people who have risked physical harm, imprisonment, and torture to stand up for what they believe in...people who have discovered the benefits in working with each other in co-ops, which have become the essential organizing venue for agricultural and social change in Nicaragua...These are the people that we help when we buy Fair Trade products.

David Scovronick
Bulk Department Head
Greenstar Cooperative Market
Ithaca, NY



Worker-Owner Voices



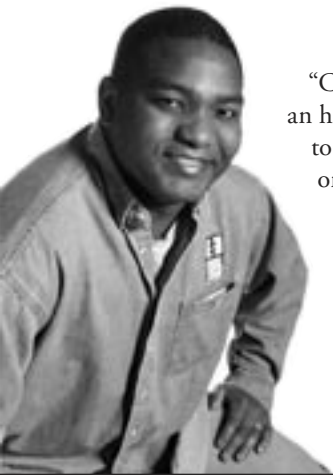
“When I first came to Equal Exchange I thought that the term worker-ownership related to stock options. Over time I’ve learned that it encompasses so much more, that it’s a key part of the decision-making process. It not only improves the work environment, but has strengthened my sense of commitment to my own work.”

Hope Kolly
Worker-owner
since 11/18/04



“There’s an energy created by the co-op structure that ties me to Equal Exchange and the work that we’re doing.”

Deepak Khandelwal
Worker-owner
since 10/20/04



“Coming from a third world country, it’s an honor to be able to work and contribute to the people who depend on the land in order to survive. And it’s also a privilege to work for a worker-owned company, where you can vote for the people who help to run your company.”

Bernardo Fernandes
Worker-owner
since 4/18/01

“Worker-ownership is a lot of work! It involves planning and facilitating meetings and elections; serving as a resource for our 55 worker-owners; and helping to get people excited about concepts like bylaws and financial statements. But ultimately it’s all worth it because we have more control over the quality of our work life and the pursuit of our mission.”



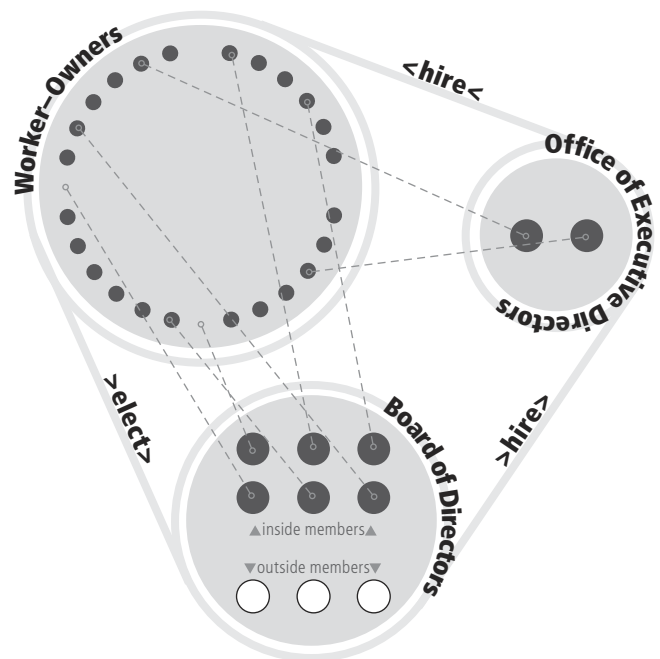
Alison Booth
2004 Worker-owner Coordinator
Worker-owner since 1/2/03

“Fair Trade requires farmers to organize themselves democratically and to promote participation and transparency. At Equal Exchange, we hold ourselves, as U.S. business people, to those same principles.”



Lynsey Miller
Worker-owner
since 4/7/03

Worker-Owner Model



Income Statement by Denise T. Abbott

Rapid growth is again the hallmark of our financials. Sales grew from \$13 million to \$16.5 million. We also relocated in August of 2004 to a building we purchased for \$3.2 million. The additional space allows us room to expand inventory storage when necessary and proceed with our roasting production plans. Twenty additional community members were added to help with

the increased activity. These substantial investments in our future resulted in lower profits compared with 2003, yet remained within our projected goal. We will continue to invest in 2005 as we install new roasting machinery, and expand our roasting production to our new premises.

—Denise T. Abbott is the Director of Finance and Administration at Equal Exchange.

	2004	2003	2002
Total Sales	\$16,535,000	\$13,007,000	\$10,425,000
Cost of Sales <small>(coffee/tea/chocolate, roasting, packaging, shipping)</small>	\$10,263,000	\$7,878,000	\$6,420,000
Operating Expenses <small>(marketing, sales, administration, education)</small>	\$5,639,000	\$4,486,000	\$3,699,000
Other Expenses <small>(mostly interest on loans)</small>	\$275,000	\$163,000	\$137,000
Total Costs	\$16,177,000	\$12,527,000	\$10,256,000
Income before Taxes	\$358,000	\$480,000	\$168,000
Taxes	\$155,000	\$195,000	\$75,000
Shareholder Dividends	\$96,000	\$82,000	\$72,000
Annual Retained Earnings <small>(reinvested in the business)</small>	\$107,000	\$203,000	\$21,000

A Record of Success

Through two recessions and three U.S. presidents Equal Exchange, our supporters and partners, have demonstrated that you can live by cooperative principles, practice Fair Trade, and thrive.

Graph 1

In the past 15 years coffee prices have soared and plummeted causing a crisis for 25 million farmers and their families. Through this we have continued to pay farmers a fair and guaranteed price.

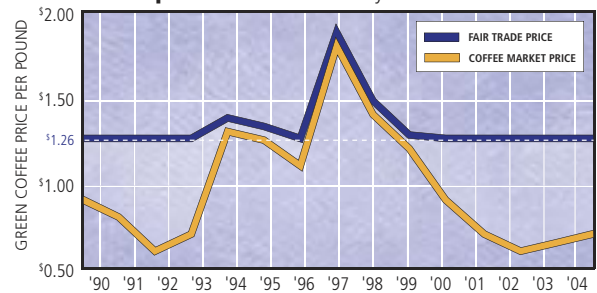
Graph 2

Over that same 15 years, while paying those farmers a premium, Equal Exchange has been able to grow both rapidly and sensibly. Since 1990 we have recorded an average annual sales growth of 24% and have incurred a loss just once.

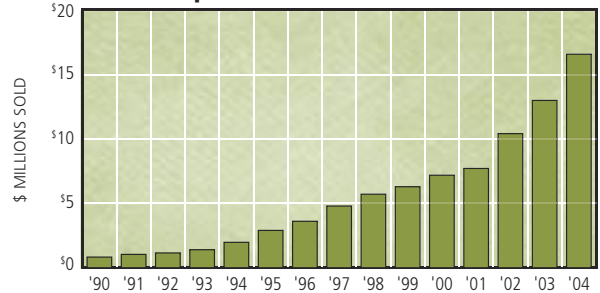
Graph 3

Finally, through it all we have delivered a consistent and fair return to our investors. Over the past 15 years shareholder dividends have averaged 5.17%.

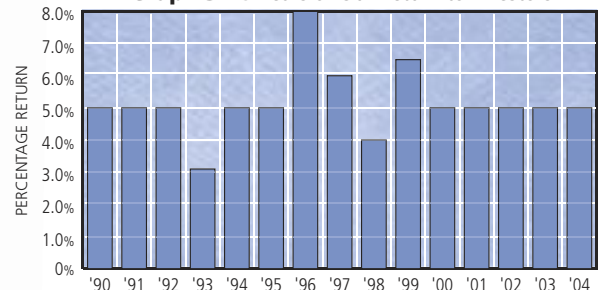
Graph 1: Boom and Bust Cycle of Coffee Prices



Graph 2: 15 Years of Our Sales Growth



Graph 3: 15 Years of Our Return to Investors



Board Report

“Visioning” the Future by Beth Ann Caspersen

In 2004 Equal Exchange successfully grew by 27% in sales. This is the third consecutive year of impressive growth in sales, trends, and as a worker owned cooperative. The Fair Trade movement in the United States is still young, but it is starting to mature; and we continue to lead the charge.

The Equal Exchange Board of Directors approved the introduction of a line of organic, Fair Trade chocolate bars and sugar in 2004. Both product lines have increased the interest of our longtime customers and have assisted in opening new markets. The question for Equal Exchange and the Board is: What next? Where will Equal Exchange be in 15 or 20 years from now?

In 2004, the Equal Exchange Board of Directors began thinking and investigating our future through a process that we are calling “Visioning.” This process is still in the early stages of development, but reflects the entrepreneurial spirit that is alive and thriving here at Equal Exchange. Our objective is complex: it requires creative energy grounded in reality together with the ability to dream. Our track record proves that we have the talent to think outside of the proverbial box and to push the boundaries of both the Fair Trade and Cooperative movements. Visioning will take time, energy, patience, and a willingness to experiment. Stay tuned.



Don Wilfredo Herrera Mendoza & family CECOAFEN Cooperative, Matagalpa, Nicaragua

Beth Ann Caspersen
Board of Directors Chair



Our Financial Backers

This is a sampling of our backers who have helped to support our mission:

14 Co-op & Social Funds, including:

- Agricultural Co-op of Oaxaca
- Calvert Social Investment Foundation
- Co-op Fund of New England
- National Cooperative Bank
- Partners for the Common Good
- Shared Interest Society, UK

18 Religious Groups, including:

- Dominican Sisters of Hope
- Seton Enablement Fund
- Sinsinawa Dominican Sisters
- Sisters of Charity of BVM
- Sisters of the Sorrowful Mother
- Sisters of the Incarnate Word
- Sisters of Saint Francis
- Society of Catholic Medical Missionaries
- Peace with Justice Project
- Women of the Evangelical Lutheran Church in America

Over 300 Individual Shareholders including the Webbers of Detroit, Michigan.

Leonard and Margaret Webber first invested in Equal Exchange in 1996 and have made four additional investments since that time.

“Margaret and I have always been interested in socially responsible investing, looking for projects that match the philosophy of how we live our lives. We try to make purchases that reflect our beliefs, like driving a hybrid car and eating organic food as much as possible. We strongly believe in the Fair Trade commitment to pay a guaranteed price to growers, so they don’t suffer from global market forces. Being heavy coffee drinkers, Equal Exchange is our coffee—our only coffee. It’s important to us to support democratic cooperatives; so the experience with Equal Exchange has been very gratifying. It’s easy to encourage others to invest in Equal Exchange.”

—Leonard Webber

Capital Report

What is My Investment Doing? by Alistair Williamson

Before we sell a pound of coffee, we must first buy the beans, ship them to the U.S., roast and package them, and deliver them to stores. This takes money. So as we grow we seek new funds from investors and lenders. In 2004 much of these funds went toward buying green, unroasted beans; over 3.7 million pounds of them.

\$2,000 buys the green bean harvest from a small family farm, which typically supports 6-8 people. So a \$10,000 investment buys the crop of five farms,

giving hope and livelihood to perhaps 35 people—children, grandparents, and all—on a steep mountainside in western El Salvador. Or southern Peru.

Having paid a fair price to the farmers, we roast and package the coffee and sell it for a fair price to consumers. Out of that we make a small profit; enough to give investors a fair return for the use of their money.

Next harvest we will do it all again, as we have each year since 1986. And with

the continued support of investors and consumers we will buy from five more family farms, and then ten more, and then yet fifty more. These tiny steps toward a more decent world, taken dollar-by-dollar and farm-by-farm, are what your investment is doing.

Alistair Williamson
Investment Coordinator



Audited Financial Statements

These financial statements are extracts from the Audited Financial Statements of Equal Exchange, Inc. for the years ending December 31, 2003 and 2004. This independent audit was conducted in accordance with auditing standards generally accepted in the United States of America by the firm of Morris and Morris P.C., Certified Public Accountants of Needham Heights, Massachusetts.

BALANCE SHEETS

	<u>Dec. 31, 2004</u>	<u>Dec. 31, 2003</u>
CURRENT ASSETS:		
Cash	\$805,724	\$286,313
Accounts Receivable	1,461,109	1,369,401
Note Receivable - Other	35,000	40,000
Inventories	4,094,456	3,628,932
Prepaid Expenses and Other Current Assets	109,506	72,942
Prepaid Income Taxes	92,378	-
Deposits	168,345	160,000
Deferred Income Tax Asset	<u>88,000</u>	<u>68,000</u>
TOTAL CURRENT ASSETS	<u>6,854,518</u>	<u>5,625,588</u>
PROPERTY AND EQUIPMENT, at Cost	4,077,454	878,834
Less: Accumulated Depreciation and Amortization	<u>(591,163)</u>	<u>(604,313)</u>
	3,486,291	274,521
DEFERRED FINANCING COSTS	38,103	-
OTHER ASSETS	<u>12,018</u>	<u>16,893</u>
TOTAL ASSETS	<u>\$10,390,930</u>	<u>\$5,917,002</u>

BALANCE SHEETS Continued

CURRENT LIABILITIES:

Notes Payable - Lines-of-Credit
Mortgages and Notes Payable, Current
Note Payable - Stockholder
Accounts Payable - Trade
Accrued Expenses and
 Other Current Liabilities
Patronage Rebates Payable

TOTAL CURRENT LIABILITIES

MORTGAGES AND NOTES PAYABLE, Non-Current

DEFERRED INCOME TAXES

COMMITMENTS AND CONTINGENCIES

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY:

Preferred Stock; Authorized 299,800 Shares;
 Issued and Outstanding, 107,188 Shares in
 2004 and 79,413 Shares in 2003
Common Stock; Authorized 200 Shares;
 Issued and Outstanding, 60 Shares in
 2004 and 49 Shares in 2003
Less: Common Stock Subscriptions Receivable
Retained Earnings

TOTAL STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

INCOME STATEMENTS

SALES

COST OF SALES

GROSS PROFIT

OPERATING EXPENSES

INCOME FROM OPERATIONS

OTHER (EXPENSE) INCOME:

Interest Expense
Charitable Contributions Expense
Loss on Disposal of Equipment
Interest Income

INCOME BEFORE INCOME TAXES

PROVISIONS FOR INCOME TAXES:

Current
Deferred

NET INCOME

RETAINED EARNINGS, Beginning of Year

Less: Preferred Stock Dividends

RETAINED EARNINGS, End of Year



Purchasing coffee at Uru-North Njari Primary Society in Tanzania

STATEMENTS OF CASH FLOWS

<u>Dec. 31, 2004</u>	<u>Dec. 31, 2003</u>		<u>Dec. 31, 2004</u>	<u>Dec. 31, 2003</u>
		CASH FLOWS FROM OPERATING ACTIVITIES:		
\$2,042,682	\$1,435,989	Cash Received from Customers	\$16,443,278	\$12,609,295
186,324	197,000	Cash Paid to Vendors and Employees	(15,795,608)	(13,423,628)
-	9,600	Income Taxes (Paid)	(300,160)	(141,313)
530,503	352,811	Interest Paid	(239,080)	(163,613)
426,900	318,158	Interest Received	<u>4,075</u>	<u>3,122</u>
<u>89,471</u>	<u>77,494</u>	Net Cash Provided by (Used for) Operating Activities	<u>112,505</u>	<u>(1,116,137)</u>
3,275,880	2,391,052	CASH FLOWS FROM INVESTING ACTIVITIES:		
3,184,728	571,000	Cash Paid for Purchase of Property and Equipment	(712,802)	(301,670)
80,000	-	Cash Paid for Deferred Financing Costs	(57,512)	-
=	=	Cash (Advanced) Repaid on Note Receivable	<u>5,000</u>	<u>10,000</u>
<u>6,540,608</u>	<u>2,962,052</u>	Net Cash (Used for) Investing Activities	<u>(765,314)</u>	<u>(291,670)</u>
2,947,680	2,183,855	CASH FLOWS FROM FINANCING ACTIVITIES:		
160,399	130,149	Proceeds from Issuance of Preferred Stock	709,815	504,458
(57,276)	(51,535)	Proceeds Received from New Long-Term Debt Borrowings	-	396,000
<u>799,519</u>	<u>692,481</u>	Proceeds Received from Dividend Reinvestment	66,001	58,630
<u>3,850,322</u>	<u>2,954,950</u>	Proceeds Received from Common Stock Subscriptions	30,009	21,211
		Net Cash Advances (Payments) Under Notes Payable - Lines of Credit	606,693	(122,252)
		Repayments of Mortgage and Notes Payable - Current	(116,949)	(11,400)
		Repayment of Notes Payable - Stockholder	(9,600)	-
		Preferred Stock Dividends Paid	(96,259)	(82,183)
		Cash Paid to Retire Preferred Stock	(11,990)	(28,853)
		Cash Paid to Retire Common Stock	<u>(5,500)</u>	<u>(7,320)</u>
		Net Cash Provided by Financing Activities	<u>1,172,220</u>	<u>728,291</u>
<u>\$10,390,930</u>	<u>\$5,917,002</u>	NET INCREASE (DECREASE) IN CASH	519,411	(679,516)
		CASH, Beginning of Year	<u>286,313</u>	<u>965,829</u>
		CASH, End of Year	<u>\$805,724</u>	<u>\$286,313</u>
		RECONCILIATIONS OF NET INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
		Net Income	<u>\$203,297</u>	<u>\$285,272</u>
		Adjustments to Reconcile Net Income to Net Cash Provided by (Used for) Operating Activities:		
		Depreciation and Amortization	227,553	173,520
		Loss on Disposal of Equipment	4,948	1,951
		Changes in Assets and Liabilities:		
		(Increase) in Accounts Receivable - Trade	(91,708)	(398,047)
		(Increase) in Inventories	(465,524)	(1,269,124)
		(Increase) in Prepaid Expenses and Other Assets	(36,564)	(14,979)
		(Increase) in Prepaid Income Taxes	(92,378)	-
		(Increase) in Deferred Income Tax Asset	(20,000)	(3,000)
		Decrease in Other Assets	4,470	-
		Increase in Accounts Payable	177,692	111,238
		Increase (Decrease) in Accrued Expenses	221,524	(96,933)
		(Decrease) Increase in Accrued Income Taxes Payable	(112,782)	56,687
		Increase in Accrued and Deferred Patronage Rebates Payable	11,977	37,278
		Increase in Non-Current Deferred Income Taxes	<u>80,000</u>	<u>-</u>
		Total Adjustments	<u>(90,792)</u>	<u>(1,401,409)</u>
		Net Cash Provided by (Used for) Operating Activities	<u>\$112,505</u>	<u>\$(1,116,137)</u>

Equal Exchange Staff



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