

**ANNUAL
REPORT
1997**

LA FAMILIA DE EQUAL EXCHANGE

por Victor Perezgrovas, La Unión Majomut

Desde 1986 se ha impulsado en varios países la creación de un sistema comercial que sea alternativo a la Bolsa de Valores de Nueva York. El sistema tradicional de mercado, en donde lo que se busca es obtener la máxima ganancia en el menor tiempo, ha dejado una historia de empobrecimiento de los pequeños productores del tercer mundo. Este sistema alternativo, el llamado comercio justo (fair trade), tiene un objetivo diferente: tener usas relaciones de intercambio que permitan una vida digna tanto al productor, como al industrial y al distribuidor. La premisa principal es que al consumidor se le pueda ofrecer un excelente producto y que se conozca que el dinero que él paga llega a productores preocupados por el desarrollo social en sus pueblos y la conservación y el mejoramiento del ambiente.

Desde hace varios años Equal Exchange participa en esta iniciativa que la hermana a organizaciones de pequeños productores de Nicaragua, Tanzania, Indonesia, México, Costa Rica, El Salvador, Guatemala, Perú y Colombia. Decimos que los que participamos en el sistema de comercio justo constituimos una familia y realmente nos sentimos así. No nos vemos como competidores ni como explotadores. Sentimos que tenemos una relación entre iguales, en donde todos nos preocupamos porque en nuestros distintos campos de acción y países, vayamos mejorando, vayamos creciendo y desarrollando nuestras capacidades.

Exactamente como en una familia nos sentimos orgullosos de que Equal Exchange continúe creciendo en su influencia en los Estados Unidos, lo cual es posible verlo en este reporte de 1997. Nos sentimos orgullosos también de saber que los pequeños productores de café somos parte importante de este trabajo.

Porque sabemos que Equal Exchange forma parte de este grupo, de la familia del comercio justo, los productores nos hemos preocupado por hacer nuestro mejor esfuerzo para proporcionar lo mejor de nuestra cosecha para este mercado. Como mencionan nuestros socios: "con el café que exportamos hacia Equal Exchange, mandamos también una parte de nuestra vida, de nuestro trabajo por conservar la naturaleza y mejorar nuestra organización." A cambio de ello, hemos recibido un precio justo por nuestro

producto. Pero más que eso, hemos recibido siempre un trato amigable, hemos recibido el apoyo para nuestros proyectos de mejoramiento de las condiciones de vida de nuestros socios y el acompañamiento de Equal Exchange a nuestro proceso.

Esto fue muy importante para nosotros en los últimos meses, en que las condiciones políticas de la región de los Altos de Chiapas se han agravado y provocado violencia y muertes en nuestras comunidades. El trabajo de La Unión Majomut buscando la independencia y la autonomía ha sufrido retrasos, muchas personas han tenido que salir de sus comunidades huyendo de la violencia y la cosecha de café de este año casi ha perdido totalmente.

Sin embargo, confiamos en que podremos salir adelante y las muestras de apoyo y solidaridad de Equal Exchange nos han ayudado a pasar estos momentos sabiendo que ahora y en el futuro, la familia del comercio justo seguirá creciendo con la seguridad de que por sobre las relaciones comerciales, las relaciones humanas basadas en la igualdad y la solidaridad nos permitiran seguir construyendo un mundo mejor.

Since 1986, the creation of a business system that is an alternative to the New York Stock Exchange has been promoted in several countries. The traditional market system, where the objective is to obtain the maximum gain in the least possible time, has left a history of impoverishment among small, Third World producers. The alternative system, known as fair trade, has a different purpose: to promote commercial relations that enable producers, industrialists and distributors to have a dignified life. The main premise is to offer consumers an excellent product and make them aware that the money they pay for the product goes directly to producers concerned with the social development of their villages and the conservation and improvement of the environment.

For several years, Equal Exchange has been participating in this initiative, uniting itself with small producers from Nicaragua, Tanzania, Indonesia, Mexico, Costa Rica, El Salvador, Guatemala,

Peru and Colombia. We say that those who participate in fair trade constitute a family, and we truly feel that way. We do not see ourselves as competitors or exploiters. We feel that we have a relationship among equals, where all of us, in our different countries and fields of action, are concerned with improving, expanding and developing our skills.

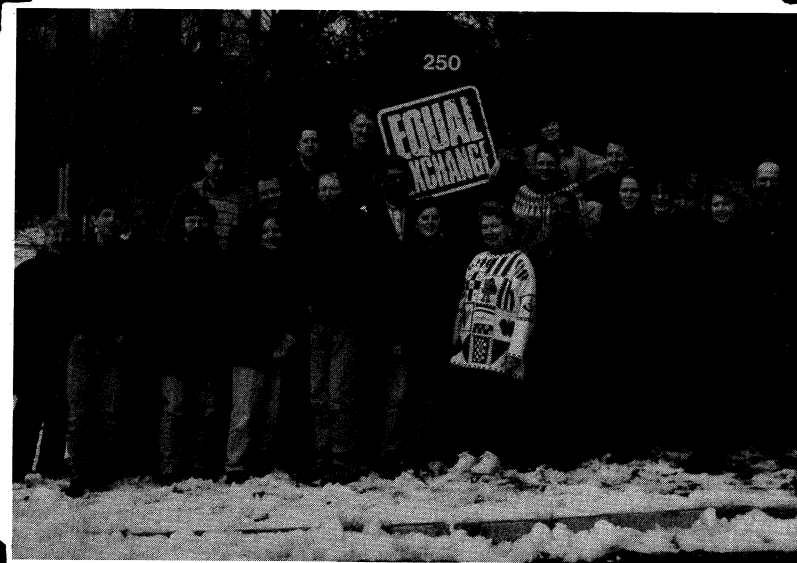
As in a family, we are proud that Equal Exchange's influence in the United States has continued to grow, as reflected in this annual report. We also feel proud that, as small coffee producers, we are an important part of this task.

Because we know that Equal Exchange forms part of the fair trade family, we, the producers, have worked hard to give the best of our harvest to this market. As our members say: "With the coffee we export to Equal Exchange we also send a part of our life, and of our work to preserve nature and improve our lives."

In exchange, we have received a fair price for our product. But more than this, we have always been dealt with in a friendly way and we have received support for our projects to improve the living conditions of our partners. Equal Exchange has been with us at every step of the way.

This has been very important for us in the past months, when the political conditions in the Altos de Chiapas have worsened, bringing violence and death to our communities. The work of La Unión Majomut in seeking independence and autonomy has suffered delays; many people have been forced to leave their communities fleeing from the violence, and this year's coffee harvest is almost totally lost.

Nevertheless, we trust that we will be able to pull through. Knowing that the fair trade family will continue to grow, along with the show of support from Equal Exchange, has helped us through this difficult time. Above and beyond commercial relations, human relations based on equality and solidarity will enable us to continue to build a better world.



ANOTHER SNOWY APRIL IN CANTON, MA 1998



A NOT SO SNOWY DAY IN COLOMBIA WITH THE COLOMBIAN ASSOCIATION OF ORGANIC COFFEE FARMERS

SALES

Rink Dickinson, Director of Sales

Annual sales in 1997 totaled \$4.87 million, up 33% from 1996. Although some of this growth was due to including non-coffee sales (filters, equipment) the coffee business grew by 31%. This success was due to the continued strong position of the world coffee market, the growth of fair trade customers, some initial success with smaller independent supermarkets and, most importantly, the retention and growth of our loyal account base.

The year saw coffee prices climb rapidly and then slowly fall. As the commercial market fell, the organic coffee market began to experience premiums of \$.30 - \$.40 per pound — the highest we have seen yet. The overall high market position allowed Equal Exchange to pay farmers good prices while receiving a relatively high price from our customers.

Coffee sales to fair trade organizations were up significantly in 1997. Bridgehead Trading transitioned to buy all of their coffee from Equal Exchange and in that process became our single largest customer. Ten Thousand Villages, based in Pennsylvania, also grew rapidly and became one of our top ten customers. Regrettably, Pueblo to People, one of the fair trade organizations that inspired Equal Exchange's birth, was forced to close its doors due to poor financial performance.

One of the highlights of 1997 was the successful introduction of our campaign to build consumer support for fair trade. Loosely modeled after European campaigns to make fair trade coffee generally available to consumers, Equal Exchange worked with community groups and social justice organizations to build awareness and consumption of fair trade coffee. The greatest results have been seen in Madison, Wisconsin and Cleveland, Ohio. In each of these communities Equal Exchange coffee made its way onto the shelves of independent supermarkets, thanks to churches and environmental groups endorsing fair trade and educating citizens on how to use their coffee dollars to support small scale farmers and increase their consumer power. In a parallel effort, Equal Exchange's project with Lutheran World Relief has focused on parishes buying fair trade coffee and educating their members on fair trade and development issues.

Equal Exchange maintained its record of strong account retention and growth in 1997. Over 95% of our top 100 accounts from 1996 remained strong in 1997. The majority of them grew. This retention, coupled with significant new account growth, led to our strong performance. Equal Exchange's support comes from food cooperatives — our most important market — cafés and restaurants, fair trade organizations and distributors, natural food stores and independent groceries.

MARKETING

Bruce McKinnon, Marketing Director

Back in the autumn of 1996 we developed a three-year marketing plan, recognizing that while relationships with our partners and customers will differ, the values we communicate will remain the same. It's this principle that contributed to the notion of "Stakeholder Marketing: Same Value, Different Goals."

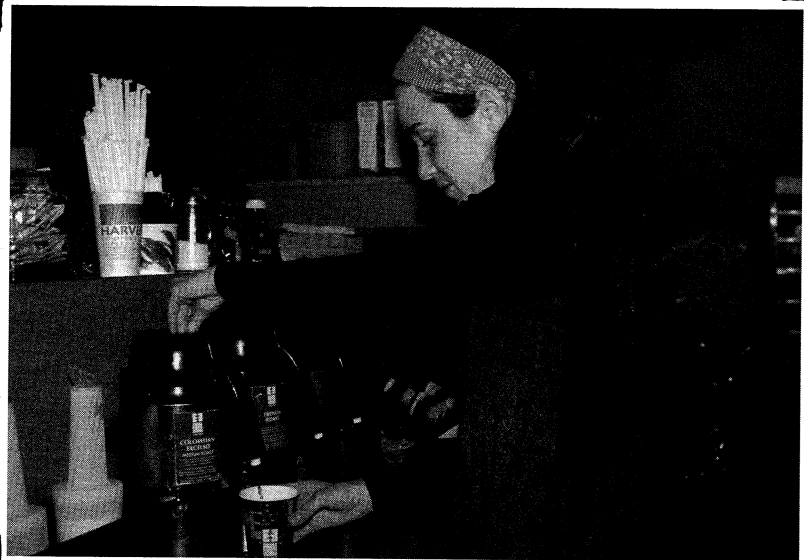
Through stakeholder marketing, our long-term goal is to create a relationship with every ethical consumer in the United States and thus build our brand and create sustainable demand for our small farmer partners. Of course, a relationship demands dialogue and we have been thrilled at the response to our campaign — more than 13,000 consumers calling or writing to find out how to support fair trade. The response has been so powerful that next year we will be looking at creating a direct mail program and hiring a new staff member to handle the inquiries.

Our first full year on the internet has proved this to be a very valuable resource to our stakeholders, with an average of twenty users logging on to our website each day.

Our partnership with Lutheran World Relief, "Good Coffee for a Good Cause," — after a successful pilot period — was launched in the autumn and has proved to be a meaningful project. Hundreds of Lutherans have responded to the LWR brochure and articles in Lutheran publications. These inquiries resulted in more than 100 Lutheran churches joining during the first three months of the project. In the first quarter of 1998, this number has grown to more than 400.

Public relations has also been very fruitful for us this year, with our brand appearing an average of once a month in the trade journals. Next year we will be building on this success with new trade advertising, increasing our capacity to offer customers tastings and creating a higher profile in trade shows and events.

Finally, marketing worked very closely with the sales team developing an ad campaign in Madison to support recent distribution gains. The results have been very impressive and we are looking forward to supporting the organizing team in three new regions in 1998.



YET ANOTHER HAPPY CUSTOMER AT THE HARVEST
CO-OPERATIVE SUPERMARKET, CAMBRIDGE, MA



REYNA PICKING COFFEE AT THE START OF THE
HARVEST IN NICARAGUA, DECEMBER, 1997



SCHOOL VACATION DURING THE COFFEE HARVEST
IN NICARAGUA, DECEMBER, 1997



THE WEEKLY MARKETING MEETING, TUESDAY,
MARCH 24, 1997 — 10:00 AM

PRODUCER RELATIONS

Jonathan Rosenthal, Executive Director

Ironically, 1997, despite having some record high coffee prices, was a difficult year for many of our producer partners. The incredible volatility of the world coffee market created very challenging situations for the cooperatives to manage. They have all learned a lot about the commodity trade, sometimes the hard way.

We put an increased amount of energy into supporting these groups by training Tom Hanlon-Wilde, one of our key salespeople, to quickly step into a complex and crumbling situation with one of our most important trading partners, CECOOAC NOR in Peru. In what became daily conversations with colleagues in Peru, England and Europe — to other fair trade organizations — along with several field visits, Tom helped craft a strategy and gave valuable support and guidance as we worked collectively with TWIN Trading and several other sister organizations to help farmers hang on to their hard-earned gains of the last decade.

We also sent many new staff to visit farmers as part of our ongoing effort to develop our staff in Canton, MA and strengthen relationships with our trading partners. Over the course of the year, we sent separate delegations to Mexico, Guatemala, Costa Rica, Nicaragua, El Salvador and Peru.

We brought several of these staff directly into our producer relations work while we did an intensive international search for our first full-time producer relations coordinator. From a very qualified final group of candidates from the United States, Costa Rica, Bolivia and Nicaragua, we hired Rosario Castellon Garcia, former executive director of PRODECOOP (Nicaragua) and consultant for Max Havelaar Holland. Rosario will be moving to the United States with her family in June 1998 to join our staff and deepen our trading relationships with the fifteen producer groups in the nine countries where we currently work.





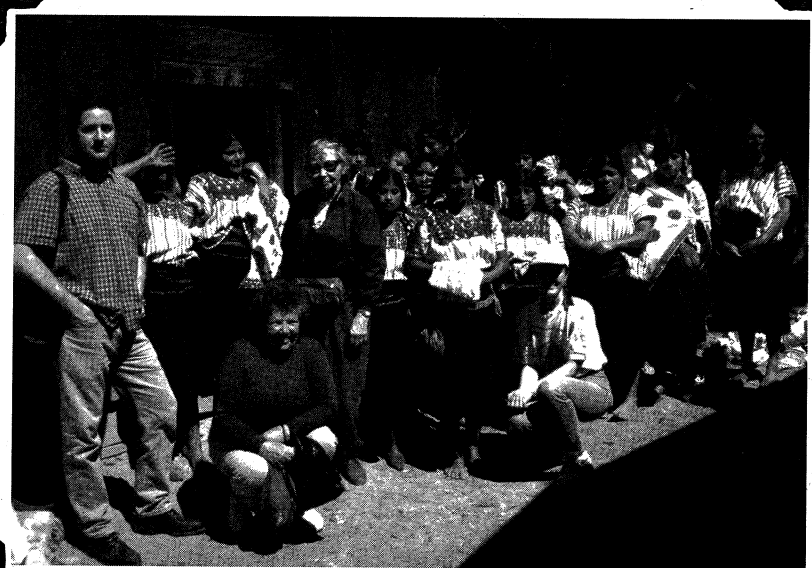
TOM DISCUSSING FAIR TRADE WITH PANUELA ON
A VISIT TO THE REGIONAL INDIGENOUS COUNCIL
OF CALDAS, COLOMBIA



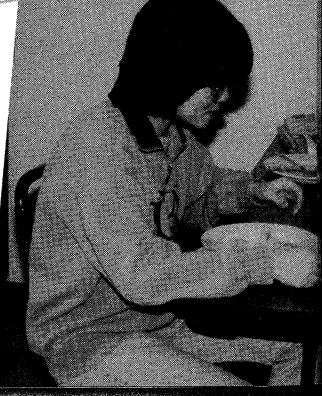
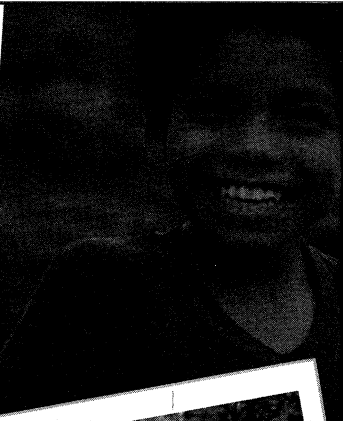
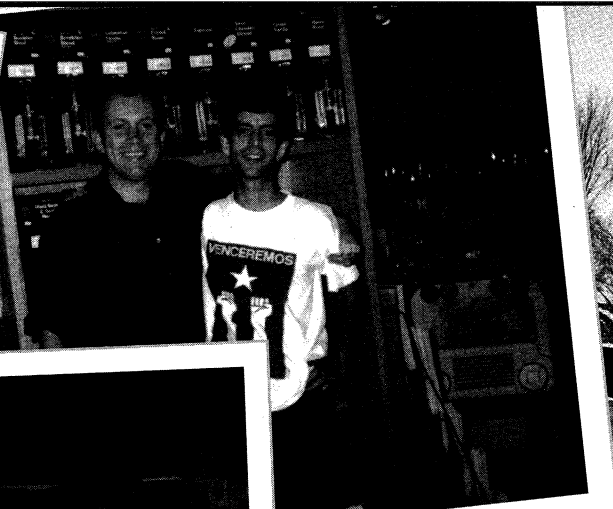
JUAN PEREZ PEREZ, ORGANIC PROMOTER WITH
LA UNIÓN MAJOMUT, DEPULPING COFFEE CHERRIES

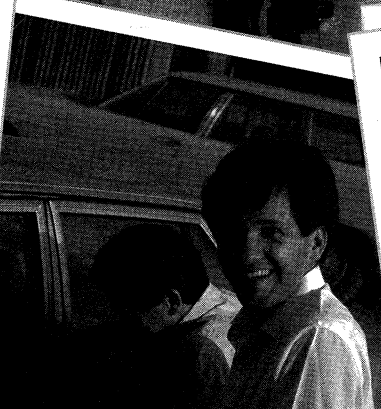
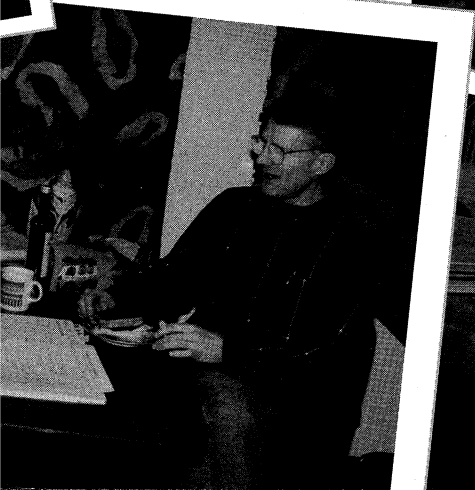
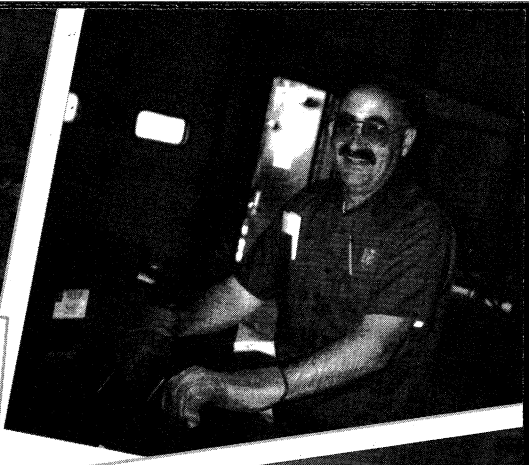


SHADE HAT — SHADE COFFEE, AT THE AGUA
FRIA BENEFICIO, EL SALVADOR, JAN., 1997



ERBIN WITH A DELEGATION FROM GLOBAL
EXCHANGE VISITING THE TS'OBOL ANTZETIK
WEAVING CO-OP IN CHIAPAS





OPERATIONS

Jonathan Rosenthal, Executive Director

After shouldering an increasingly heavy volume of shipping and the August UPS strike, our stalwart warehouseers, Ethan Cruze and Tremayne Powell, were joined by long-time friend of Equal Exchange, Mario Jose Teixeira. This created a bit of breathing space and freed up Truc Dang, the operations manager, to move into the office and pursue her true passion — working on computer systems and networks. Operations director Mark Souza — long the backbone of the warehouse, purchasing and equipment systems — also shed the warehouse part of his job so he could more fully focus on purchasing and equipment. We shipped 85,845 cases in 1997 — yet another Equal Exchange record. Our hats go off to our operations staff for continuing to get orders out the door within hours of receipt.

STAFF:

*Clark Arrington
Virginia Berman
Eliza C. Brown
Louise Cole
Erbin L. Crowell
Ethan Cruze
Truc Dang
Rink Dickinson
Rob Everts
Tom Hanlon-Wilde
Kristin Howard
Alicia Leinberger
Charlotte Mann
Bruce McKinnon*

*Beth Milardo
Jessie Myszka
Rodney North
Keith Olcott
Yvonne Parker
Elise Person
L. Tremayne Powell
Jonathan Rosenthal
Mark S. Souza
Ellen S. Sturgis
Mark Sweet
Mario Teixeira
Gwendolyn D. Witherspoon
Lisa Woodside*

BOARD OF DIRECTORS:

*Clark Arrington
Bob Burke
Erbin L. Crowell
Rink Dickinson, Chair
Myrna Greenfield
Jean Mason
Michael Rozyne
Mark Sweet
Lisa Woodside*

WORKER CO-OP

Erbin Crowell, Worker-Owner Coordinator

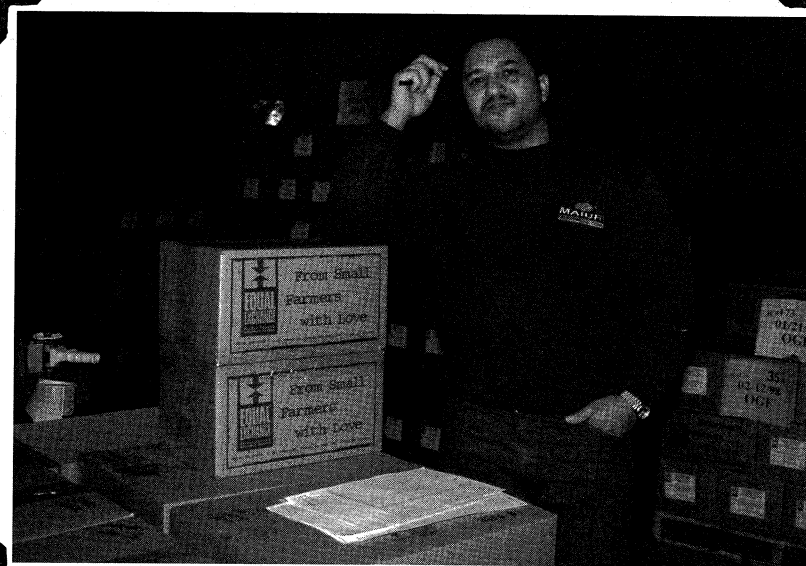
Like our trading partners in Latin America, Africa and Asia, Equal Exchange is a cooperative. Where the farmers are members of the coffee-growing co-ops, the workers at Equal Exchange are the members of our co-op. To become a member, an employee must have worked with the company for a full year, be voted in by other members and have purchased a voting share of stock. As worker-owners, we elect the board of directors and hold six of the board's nine seats. In profitable years we share in a limited patronage dividend.

By giving workers a stake in the success of their business and a voice in its day-to-day operations, worker-ownership seeks to transform a workplace from a traditional hierarchy of owners, managers and wage-earners into a community of owners and entrepreneurs. We share in the risks and rewards of building a successful business driven by the mission of fair trade. It is not always a smooth process, and it does present challenges. But these challenges are what democracy is all about and, like everything else, democracy takes practice.

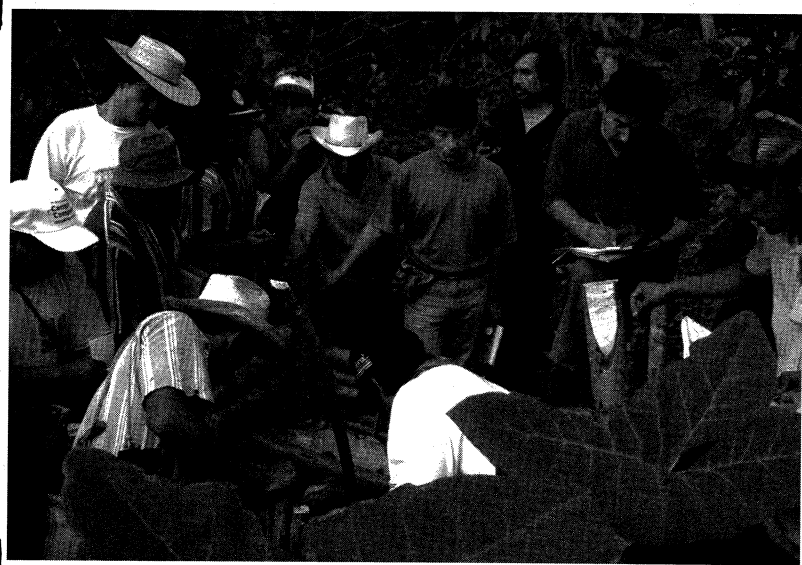
The past year saw great discussion, debate and progress in building our model. Among the highlights was our retreat with Ownership Associates of Cambridge, MA, focusing on balancing the "Rights and Responsibilities" of worker-ownership. Recognizing the need for building an educated and engaged worker-owner body as we grow, we also established "Exchange Time," a weekly educational forum which has covered everything from small group democracy to the growing debate over federal organic certification.



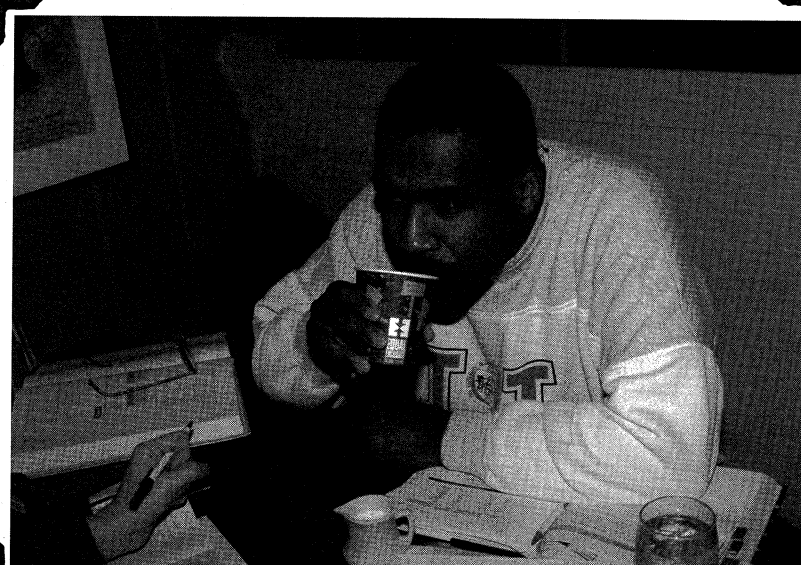
MARK SOUZA — SURROUNDED BY HIS CHERISHED
COFFEE PLANTS — "CUPS" FOR QUALITY.



FROM SMALL FARMERS —
AND MARIO — WITH LOVE



SHARING COMPOSTING TECHNIQUES AT CAMPESINO
À CAMPESINO CONFERENCE, CHIAPAS, MEX., 1997



AN EARLY MORNING CUP OF EQUAL EXCHANGE
COFFEE AT PENTIMENTO RESTAURANT, BELMONT, MA

FINANCE & ADMINISTRATION

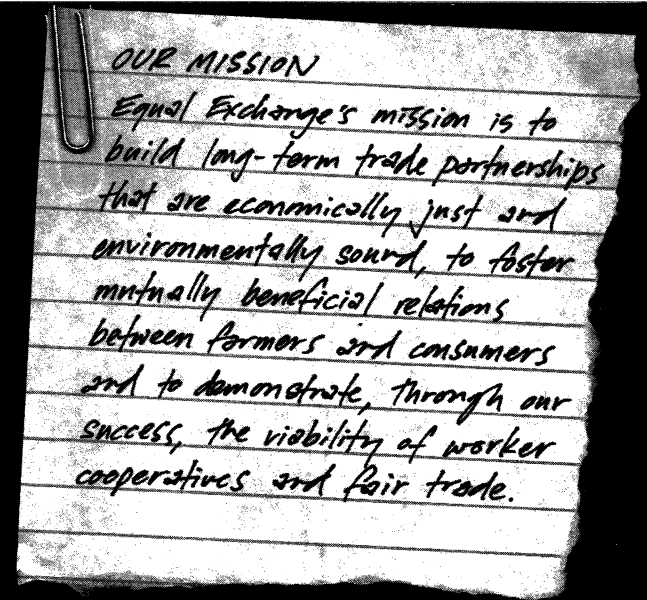
Ellen Sturgis, Director of Finance & Administration

Equal Exchange enjoyed another record-breaking growth year and the finance department rose to the challenge. The most significant change was the single-handed implementation of a new accounting/finance software package (Great Plains Dynamics) by Lisa Woodside. This has given us more comprehensive accounting information and huge flexibility in reporting options. Stage two of the implementation (purchasing and inventory) has been delayed until Summer 1998 when new staff will be fully trained.

Lisa was joined in the fall by a flurry of new staff: Elise Person in accounts receivable and Ellen Sturgis as director of finance and administration. In early 1998, we added Gwyn Witherspoon in invoicing and Louise Cole as office manager. How did Lisa ever do it all by herself?

We had a strong year financially, a result of increased sales and incredible productivity (read: low expenses) by our staff. Growth caused receivables to grow by over 45%, with more customers taking more time to monitor. Inventory peaked at \$1 million in midyear, as we purchased one million pounds of fair trade coffee. In this, we are indebted to our financial partner, Shared Interest, a United Kingdom-based fair trade lender who supplies us with a \$1 million line of credit so that we may offer advanced credit to our producers. We would also like to acknowledge Cooperative Fund of New England and Fleet Bank. Both increased their lines of credit to us in 1997.

We launch into 1998 expecting a leaner year, as systems are developed and staff put in place to prepare for the next tier of growth. With our new department, the priority will be on producing more timely financial information. We say good bye to Jim Kofalt, who has been our invisible staff person these last four years, helping Lisa produce financial statements. Thanks Jim, and best of luck!



CAPITAL

Clark Arrington, Capital Coordinator

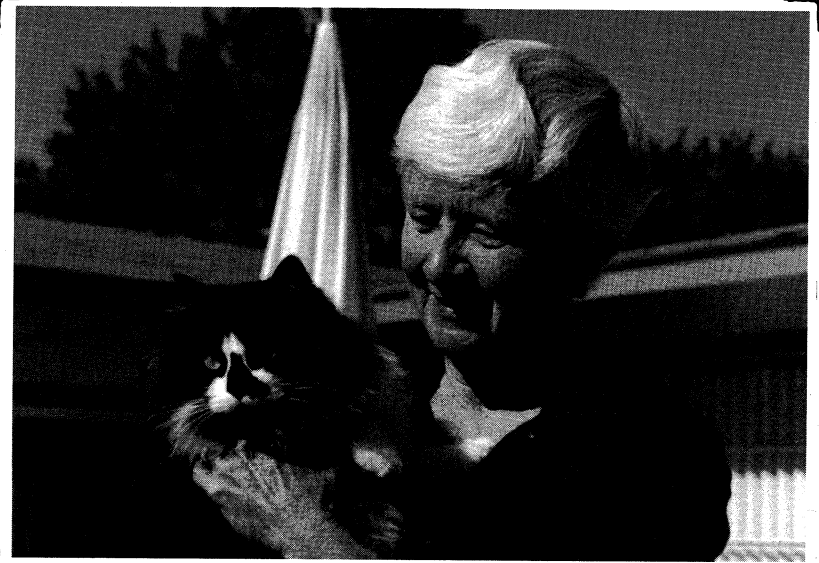
The year 1997 will be recorded as another growth year for Equal Exchange's capital efforts. In August we launched our third major private offering and by the end of the year had increased the amount of our outstanding preferred stock by over \$160,000. The increase included the offset of the repurchase of over \$60,000 in redeemed shares. Our marketing department produced a capital brochure that proved very effective in explaining our unique approach toward capital formation and, at the same time, attracting potential investors.

Most importantly Equal Exchange hired a director of finance and administration, Ellen Sturgis, who will play a vital role in making us more effective in providing information and data to our investor stakeholders. Ellen will also contribute significantly to helping us address our ongoing need for larger amounts of equity capital as we continue to grow. We were very fortunate to attract Ellen to our team as her technical skills, understanding and experience in cooperative and corporate finance are unique and ideally suited for the challenges facing Equal Exchange.

Our goals for 1998 are to raise an additional \$150,000, develop a five-year strategic plan for the capital and finance departments and look at how capital fits into the overall organization, either as a department of its own or as part of the newly formed finance team. We are looking forward to these challenges and to the continuing support, trust and encouragement we receive from our loyal base of shareholders. Without them, Equal Exchange would only be a dream.



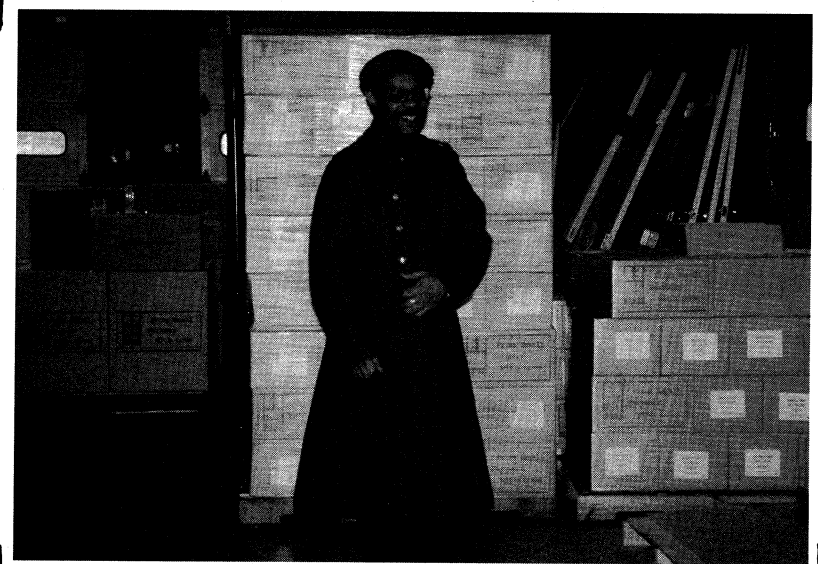
DRYING COFFEE BEANS AT THE ERNESTO CHE
GUEVARA COOPERATIVE, MASATEPE, NICARAGUA



DOMINIC AND CAROL COSTON OF PARTNERS FOR
THE COMMON GOOD 2000, ONE OF OUR FIRST INVESTORS



LISA AND ELLEN CRUNCHING THE
NUMBERS OVER CAPPUCCINOS



CLARK, ALWAYS IN SEARCH OF WORKING
CAPITAL FOR EQUAL EXCHANGE

BALANCE SHEET

ASSETS

Current Assets

Cash	\$330,376
Accounts Receivable (net)	565,048
Total Inventory	1,509,518
Prepaid Expenses	7,375
Prepaid Income Taxes	62,955
Deferred Income Taxes	18,801
<u>Total Current Assets</u>	<u>2,494,073</u>

Property & Equipment	361,145
Leasehold Improvements	156,248
less Accumulated Depreciation	(199,838)
Net Property & Equipment	317,555

Other Assets

18,699

TOTAL ASSETS

\$2,830,327

LIABILITIES

Current Liabilities

Accounts Payable	\$252,737
Advances Under Line of Credit	963,430
Short Term Notes Payable	120,600
Current Portion Long Term Debt	82,000
Other Short Term Payables	79,465
<u>Total Current Liabilities</u>	<u>1,498,232</u>

Long Term Debt

268,409

Deferred Expenses

24,160

TOTAL LIABILITIES

1,790,801

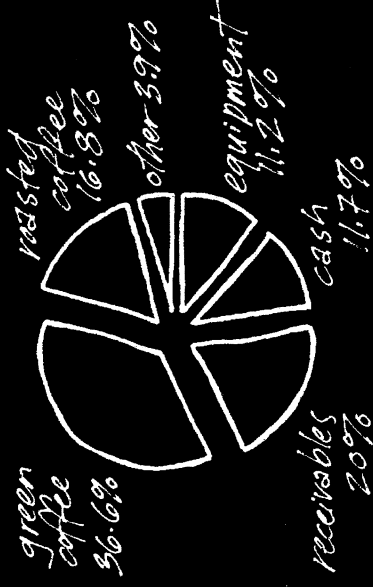
STOCKHOLDERS' EQUITY

Common Stock	39,124
less C/S Subscriptions Receivable	(10,964)
Preferred Stock	666,534
Retained Earnings	344,832
<u>TOTAL EQUITY</u>	<u>1,039,526</u>

TOTAL LIABILITIES & STOCKHOLDERS' EQUITY

\$2,830,327

ASSETS 1997



FINANCIAL SUPPORTERS INCLUDE:

- COOPERATIVE FUND OF NEW ENGLAND
- ADRIAN DOMINICAN SISTERS
- MARIANIST SHARING FUND
- PARTNERS FOR THE COMMON GOOD 2000
- SCHOOL SISTERS OF ST. FRANCIS
- SETON ENABLEMENT FUND
- SISTERS OF CHARITY OF THE INCARNATE WORD
- SISTERS OF CHARITY OF NEW YORK
- SISTERS OF CHARITY OF THE BLESSED VIRGIN MARY
- SISTERS OF MERCY OF THE HOLY CROSS
- SISTERS OF ST. FRANCIS (PHILADELPHIA)
- SISTERS OF ST. JOSEPH
- SISTERS OF THE SORROWFUL MOTHER

... AND OUR 170 INDIVIDUAL SHAREHOLDERS.

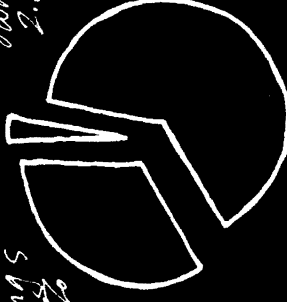
INCOME STATEMENT

	1997	1996
Sales:		
Coffee	\$4,657,521	\$3,491,495
Non Coffee	<u>134,720</u>	<u>119,798</u>
Total Sales:	4,792,241	3,611,293
Cost of Sales	<u>(2,986,736)</u>	<u>(2,119,383)</u>
Gross Profit	1,805,505	1,491,910
Operating Expenses	<u>(1,596,062)</u>	<u>(1,135,803)</u>
Total Income from Operations	209,443	356,107
Interest Expense	(77,745)	(55,322)
Other Income/Expenses	<u>3,938</u>	<u>(6,846)</u>
Net Operating Income	135,636	293,939
Charitable Contributions	(13,500)	(27,200)
Provision for Income Taxes	<u>(44,946)</u>	<u>(112,449)</u>
Net Income	\$77,190	\$154,290

EQUITY 1997

retained
earnings
33.2%

worker
owners
2.8%



preferred shareholders 64.0%

THE EQUAL EXCHANGE MODEL

To understand the full impact of Equal Exchange, it is necessary to look at the total fund allocation. Equal Exchange is building a new business model in which profits are accountable to a variety of stakeholders upholding our mission—not just to those controlling the capital. Funds are distributed as follows:

Trade: We negotiate price directly, and pay at least the current market price directly to the farmer cooperatives. We always pay a fair trade premium of at least \$0.05/lb. above market. When the market is lower than the cost of production for the farmer, we pay a guaranteed minimum price of \$1.26/lb., even when the price goes as low as \$0.48/lb., as it did in 1992. In addition, Equal Exchange pays an organic premium of \$0.15/lb. plus a quality premium when appropriate.

Credit: We provide up to 60% of the purchase price (or the guaranteed minimum) as credit as soon as contracts are signed prior to the harvest. This credit is available for up to 10 months in advance and is given directly to farmer cooperatives. Equal Exchange shares risk with the farmers, guaranteeing at least 25% of all advances.

Patronage Rebates: Up to 20% of profits are allocated to the members of the Equal Exchange worker co-op (of 28 workers, 19 were members at the close of 1997; approximately 14% will accrue to these 19 members).

Taxes: We pay corporate taxes on all profits except the patronage rebates paid to Equal Exchange worker-owners.

Dividends: After taxes, we pay outside shareholders a dividend targeted at 5%, if a profit is made. For 1997, we will pay a 6% dividend.

Profits: The remaining profits are retained by Equal Exchange to further the mission of fair trade. For example, if we dissolve the corporation, after all obligations are paid, the remaining funds or assets would be used to support other fair trade activity, such as training for farmer cooperatives.

Here's how Equal Exchange allocated profits over the last two years:

	1997	1996
Net Operating Income	\$135,636	100.00%
Charitable Contributions	(13,500)	9.95%
Income Taxes	(44,946)	33.14%
Shareholder Dividends	(37,093)	27.35%
Worker Owner Rebate	<u>(14,257)</u>	<u>10.51%</u>
Retained Earnings	\$25,840	19.05%
	\$293,939	100.00%
	(27,200)	9.25%
	(112,449)	38.26%
	(13,872)	4.72%
	<u>(38,995)</u>	<u>13.27%</u>
	\$101,423	34.50%

This annual report is dedicated to the memory of the forty-five men, women and children killed by paramilitaries on December 22, 1997 in the village of Atecol, Chenalhó in the state of Chiapas, Mexico.

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