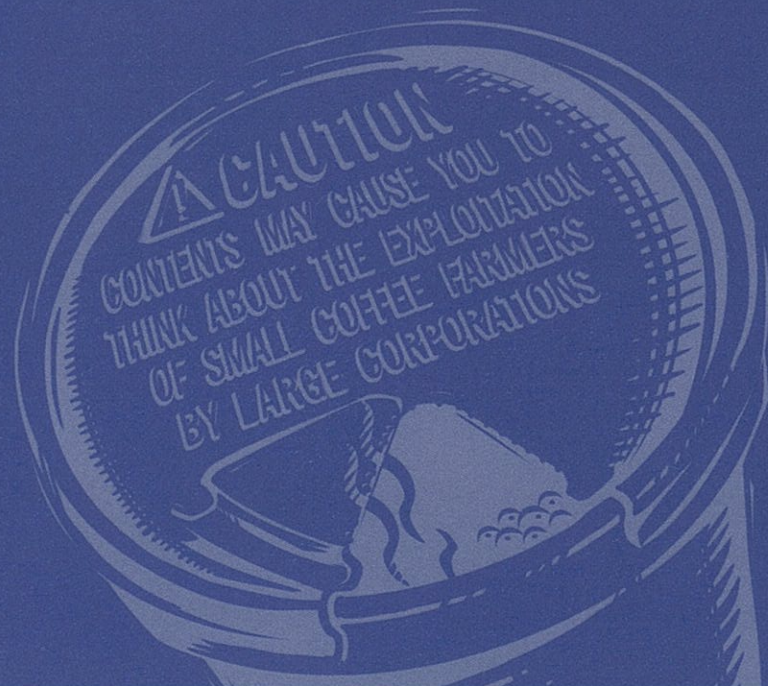


Equal Exchange was founded in 1986 to create a new approach to trade, one that includes informed consumers, honest and fair trade relationships and cooperative principles. As a worker-owned cooperative, we have accomplished this by offering consumers fairly traded gourmet coffees direct from small farmer co-ops in Latin America, Africa and Asia.



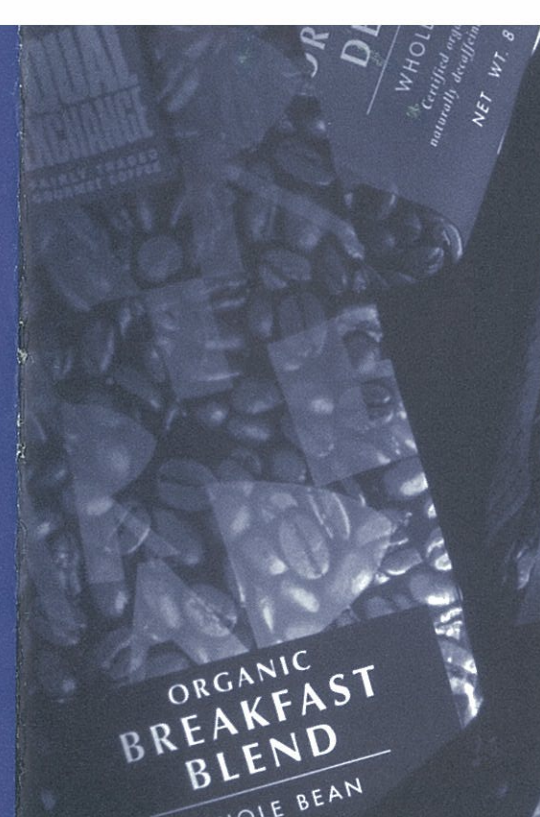
EQUAL EXCHANGE, INC.
251 Revere Street
Canton, MA 02021 USA
781.831.0303
info@equalexchange.com
www.equalexchange.com

Equal Exchange is a worker-owned co-operative.

1998 Staff

- | | |
|---------------------|---------------------|
| Clark Arrington | Bruce McKinnon |
| Virginia Berman | Beth Milardo |
| Eliza Brown | Jessie Myszka |
| Todd Caspersen | Rodney North |
| Rosario Castellón | Keith Olcott |
| Louise Cole | Yvonne Parker |
| Erbin Crowell | Elise Person |
| Ethan Cruze | L. Tremayne Powell |
| Truc Dang | Jonathan Rosenthal |
| Rink Dickinson | Mark Souza |
| Rob Everts | Ellen Sturgis |
| Thomas Hanlon-Wilde | Mark Sweet |
| Kevin Hollender | Mario Jose Teixeira |
| Kristin Howard | Gwyndolyn |
| María King | Witherspoon |
| Charlotte Mann | Lisa Woodside |

◀ from our successful 1998 ad campaign.



ANNUAL REPORT 1998

Investing for Growth



Coming of Age

When we started Equal Exchange,

we had a simple dream: to create a small

worker controlled business dedicated to

spreading economic fairness instead of just making a

profit. Thirteen years into our experiment, we have

achieved far more than we ever thought possible.



LIABILITIES

1997	1998
\$963,430	\$1,025,404
Notes Payable - Lines of Credit	Notes Payable - Current
61,000	59,000
Notes Payable - Stockholders	Notes Payable - Current
29,600	29,600
82,000	50,703
Current Portion Long Term Debt	Accounts Payable - Trade
137,888	137,888
Accrued Expenses &	Other Current Liabilities
65,208	39,375
Patronage Rebates Payable	Patronage Rebates Payable
14,257	-
Total Current Liabilities	\$1,341,970
\$1,498,232	
Long Term Debt less current portion	301,000
268,409	
Deferred Patronage Rebates Payable	18,275
5,885	
Deferred Income Taxes	-
1,790,801	\$1,642,970
Total Liabilities	
1997	1998
666,534	894,332
Preferred Stock	Preferred Stock
39,124	47,060
Common Stock	Common Stock
(10,964)	(13,596)
Less Subscriptions Receivable	Less Subscriptions Receivable
\$216,832	\$216,112
Retained Earnings	Retained Earnings
1,039,526	1,143,908
Total Stockholder's Equity	Total Stockholder's Equity
\$2,830,327	\$2,786,878
Total Liabilities/Stockholder's Equity	Total Liabilities/Stockholder's Equity

INCOME STATEMENT

1997	1998
\$4,797,109	\$5,721,268
Sales	Sales
2,986,736	3,767,595
Cost of Sales	Cost of Sales
1,810,373	1,953,673
Gross Profit	Gross Profit
1,600,930	1,920,193
Operating Expenses	Operating Expenses
209,443	33,480
Income from Operations	Income from Operations
(77,745)	(181,551)
Interest Expense	Interest Expense
(13,500)	(3,372)
Charitable Contributions	Charitable Contributions
-	(915)
Loss on Disposal of Equipment	Loss on Disposal of Equipment
3,938	552
Interest Income	Interest Income
(87,307)	(185,286)
Total	(151,806)
(Loss) Income before Income Taxes	(Loss) Income before Income Taxes
52,859	(32,000)
Current	Current
(7,913)	(25,084)
Deferred	Deferred
44,946	(57,084)
Total	(94,722)
Net (Loss) Income	Net (Loss) Income
304,735	344,832
Retained Earnings Beginning of Year	Retained Earnings Beginning of Year
(37,093)	(33,998)
Less Preferred Stock Dividends	Less Preferred Stock Dividends
\$344,832	\$216,112
Retained Earnings End of Year	Retained Earnings End of Year
\$344,832	\$344,832

The Equal Exchange Model

To understand the full impact of Equal Exchange, it is necessary to look at our overall model of 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 capital. Funds are distributed as follows:

Fair Prices We negotiate prices directly with farmer organizations. We always pay farmer co-ops a fair trade premium of at least \$0.05/lb. above the coffee market. When the market price is low, we pay a guaranteed minimum price of \$1.26/lb., even when the prices fall as low as \$0.48/lb., as happened in 1992. As part of our effort to support sustainable agriculture, we pay an organic premium of \$0.15/lb. plus a quality premium when appropriate.

Producer Credit Equal Exchange shares risk with our farmer partners, paying up to 60% of the purchase price as credit as soon as contracts are signed prior to harvest. This credit is available up to 10 months in advance and is provided directly to the farmer co-op, with EE guaranteeing at least 25% of all advances.

Worker-Owner Rebates Up to 20% of profits (or losses) are allocated to the members of the Equal Exchange worker co-op as patronage rebates.

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

Dividends After taxes, we pay outside shareholders a dividend targeted at 5% in profitable years. For 1998, even though we sustained a loss, we paid our outside shareholders a dividend of 4%.

Retained Earnings The remaining profits are retained by Equal Exchange to further the mission of fair trade. In the event that we dissolve the corporation, and all obligations are paid, the remaining funds or assets would be used to support other fair trade activity, such as training and other support for producer co-ops.

Pay Ratio In keeping with our commitment to economic fairness, the internal pay ratio from highest to lowest does not exceed 3:1 at Equal Exchange. This is an extremely equitable ratio compared to conventional business.

Profit Distributions	1998	1997
Net Operating Income	\$(177,425)	\$135,636
Charitable Contributions	(3,372)	(13,500)
Income Taxes	57,084	(44,946)
Shareholder Dividends	(33,998)	(37,093)
Worker Owner Rebate	28,991	(14,257)
Retained Earnings	\$(128,720)	\$25,840

ASSETS	1998	1997
Current Assets		
Cash	\$140,565	\$330,376
Accounts Receivable	494,527	565,048
Inventories	1,706,087	1,509,518
Prepaid Taxes	74,629	62,955
Prepaid Expenses & Other Current Assets	21,596	7,375
Deferred Income Tax Benefit	24,000	18,801
Total Current Assets	\$2,461,404	\$2,494,073
Property and Equipment	597,547	517,393
Less Depreciation & Amortization	(314,095)	(199,838)
NET Property and Equipment	\$283,452	\$317,555
Deferred Patronage Rebates	10,342	-
Deferred Income Tax Benefit	14,000	-
Other Assets	17,680	18,699
Total Assets	\$2,786,878	\$2,830,327

For a full financial report please contact Clark Arrington, our Capital Coordinator, at 781-830-0303 x229 or carrington@equalexchange.com

We have built a dedicated staff of 30 fair traders. We have grown our family of trading partners to include coffee and tea growers in 9 countries in the developing world. Here in North America, thousands of retail stores, cafes, churches and other groups have joined us in our efforts to build a more just system of commerce. As a fair trade organization we are also active participants in international forums from coffee trade conferences and co-op business associations to community groups and solidarity networks. As a working alternative to conventional business, we are constantly refining our understanding of what's possible.

The fruits of many years of labor became much more apparent in 1998. Some of the most noted accomplishments:

We sold over a million pounds of coffee from 15 small farmer cooperatives, helping them to build a better future for themselves and their families. We successfully fused a traditional community organizing model with our sales outreach. We professionalized and developed our

staff. We continued to grow our community of investors. We transitioned to a new accounting system, upgrading our systems to deal with our rapid growth. We created a powerful partnership with over 1,000 churches nationwide, building a strong base for our partners in fair trade. We shipped 2,000 cases of coffee per week. We responded powerfully to both the human rights crisis in Chiapas and the devastation of Hurricane Mitch. We opened a regional office on the West Coast. Our national advertising campaign created much greater awareness of fair trade and our brand. We received great attention in various national and regional media and several new books. Overall, we are proud of our leadership and influence in a rapidly changing market.

Our growth and success also brought many difficult challenges in 1998. Many of our operational systems showed signs of wear. Things that worked well when we were selling \$1 million of coffee were not as elegant at \$6 million. For the first time in a decade, we

began to sustain operational losses. As we began to understand what was happening, we made the necessary changes and brought the operation back into the black by the beginning of 1999. In spite of these challenges, we were able to turn our company around without any layoffs.

At the same time, our worker cooperative came of age. The democratic structures that had always been in place in theory became real. And, for the first time, the board of directors was led by a non-founder. Our dreams were being put into place steadily, powerfully and continuously. Instead of 3 dreamers, however, there are now 30 of us building bigger, more complex and creative dreams!

By going beyond the conventional, we continue to be called foolish by some as we deepen our search for justice, wholeness and a better world. We thank you, once again, for being part of journey and allowing us to be part of yours. Together, we are building a better way of doing business and hope for a more just world.

Extending Our Influence

NEW CAMPAIGNS • NEW CUSTOMERS • NEW PARTNERS

MARKETING

Bruce McKinnon

Director of Marketing

national ad campaign has been effective in its primary goal of raising awareness of our brand and our fair trade message amongst ethical consumers. A third of the sample recognized the brand Equal Exchange, an excellent result after only two years of advertising. We are all encouraged by the success of this campaign in reaching concerned consumers and developing more consistent look and message, developing a strong national ad campaign, and initiating an outreach effort with the press. In 1998, we were excited to begin to see the fruits of these efforts. As I finish my time here at Equal Exchange I am proud of the work that we have done as a department and the results that we are only beginning to see.

Research carried out at the end of the year demonstrated that our national ad campaign has been effective in its primary goal of raising awareness of our brand and our fair trade message amongst ethical consumers. A third of the sample recognized the brand Equal Exchange, an excellent result after only two years of advertising. We are all encouraged by the success of this campaign in reaching concerned consumers and developing more consistent look and message, developing a strong national ad campaign, and initiating an outreach effort with the press. In 1998, we were excited to begin to see the fruits of these efforts. As I finish my time here at Equal Exchange I am proud of the work that we have done as a department and the results that we are only beginning to see.

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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 St. Francis (Philadelphia)
- Sisters of St. Joseph
- Sisters of the Sorrowful Mother
- And our 184 individual shareholders

The fruit we reap is more than dollars and pounds of coffee – it is also human relationships.



Reaping the Rewards

CHAIR OF THE BOARD'S REPORT

Clark Arrington Chairperson of the Board

In 1998, for the first time in the 13 year history of Equal Exchange, a non-founder was elected chair of the board of directors. This event represented the beginning of the final stage in our company's transition from a founder-led and controlled business to a true worker-cooperative with democratically-elected governing bodies. As chair, I am proud to be part of the growth and development of this extraordinary community of fair traders.

the relationship between Equal Exchange's founders, Michael Rozyne, Rink Dickinson and Jonathan Rosenthal, and its other stakeholders is not and never has been a conventional one. The founders never capitalized on their success; that is they were never "bought out" by the other worker-owners. From its inception, the company was organized as a fair trade worker cooperative with outside shareholders. All of our worker-owners pay the same amount for their membership shares and have the same shareholder voting rights as the founders.

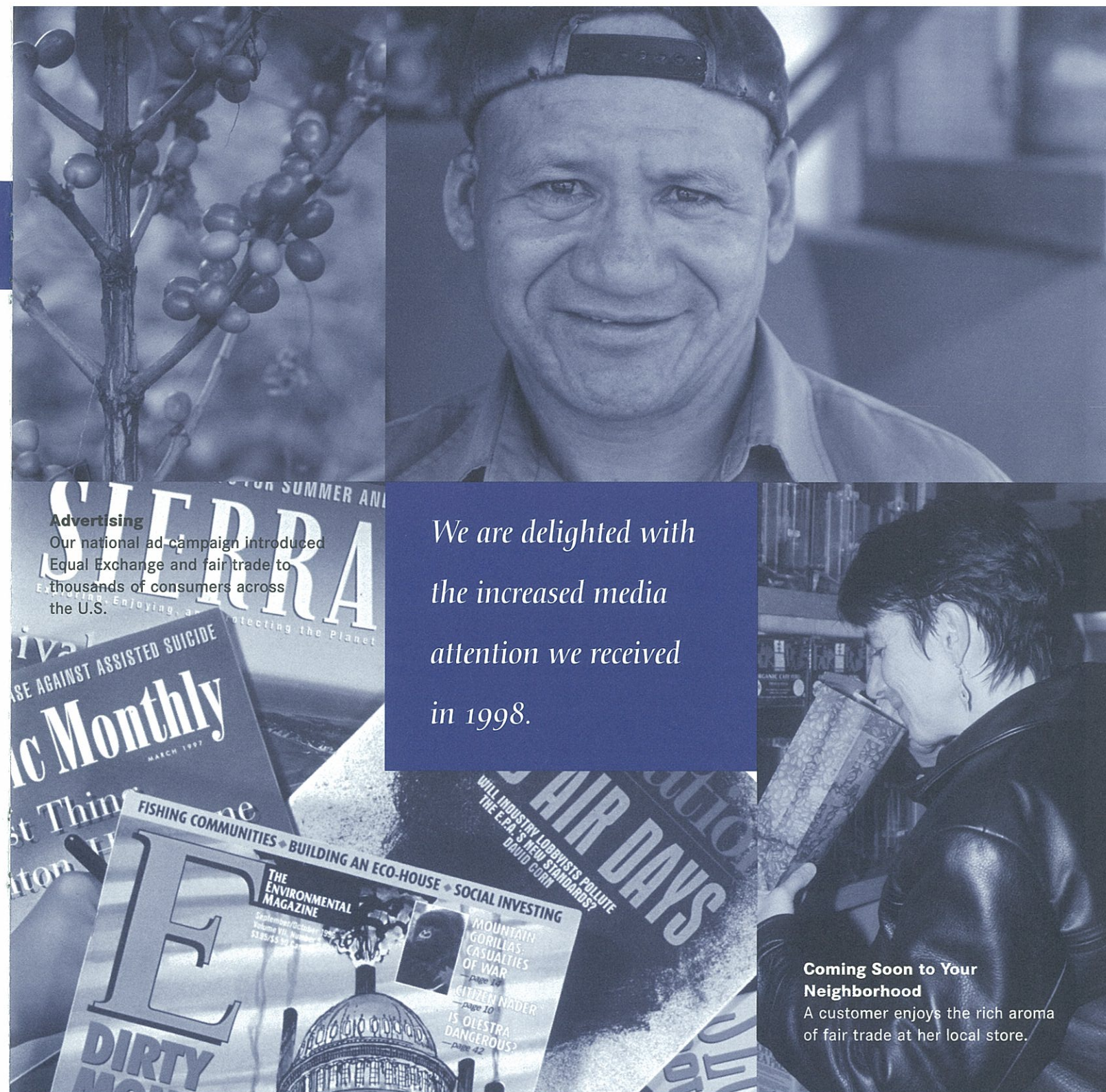
The board, which normally meets quarterly, met over seven times in 1998, reflecting the immense amount of change and development which took place over the year. Among our more noteworthy accomplishments was

the establishment of a "management council," a weekly forum for information sharing, problem-solving and strategizing. The council brings together the executive director, all department heads, the worker-owner coordinator, the board chair and other staff to help guide our organization.

In summary, it was a very busy and productive year. While our ability to deliberate together and resolve complicated issues was tested, our growth and maturity as a cooperative corporation was substantial. But rather than just surviving, we have blossomed and flourished as a community.

1998 Board of Directors

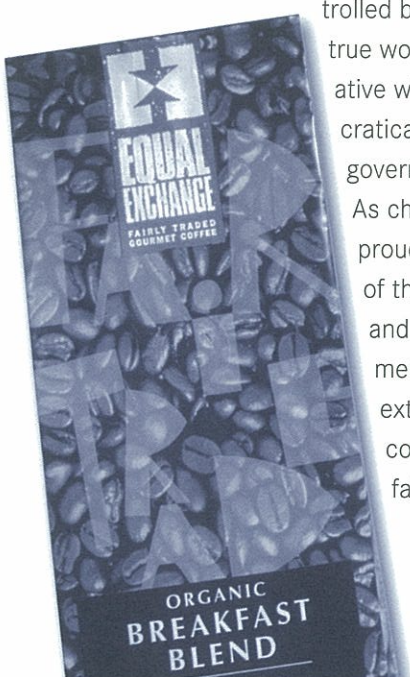
Clark Arrington	Jean Mason
Bob Burke	Jessie Myszka
Erbin Crowell	Michael Rozyne
Rink Dickinson	Mark Souza



We are delighted with the increased media attention we received in 1998.

Coming Soon to Your Neighborhood

A customer enjoys the rich aroma of fair trade at her local store.



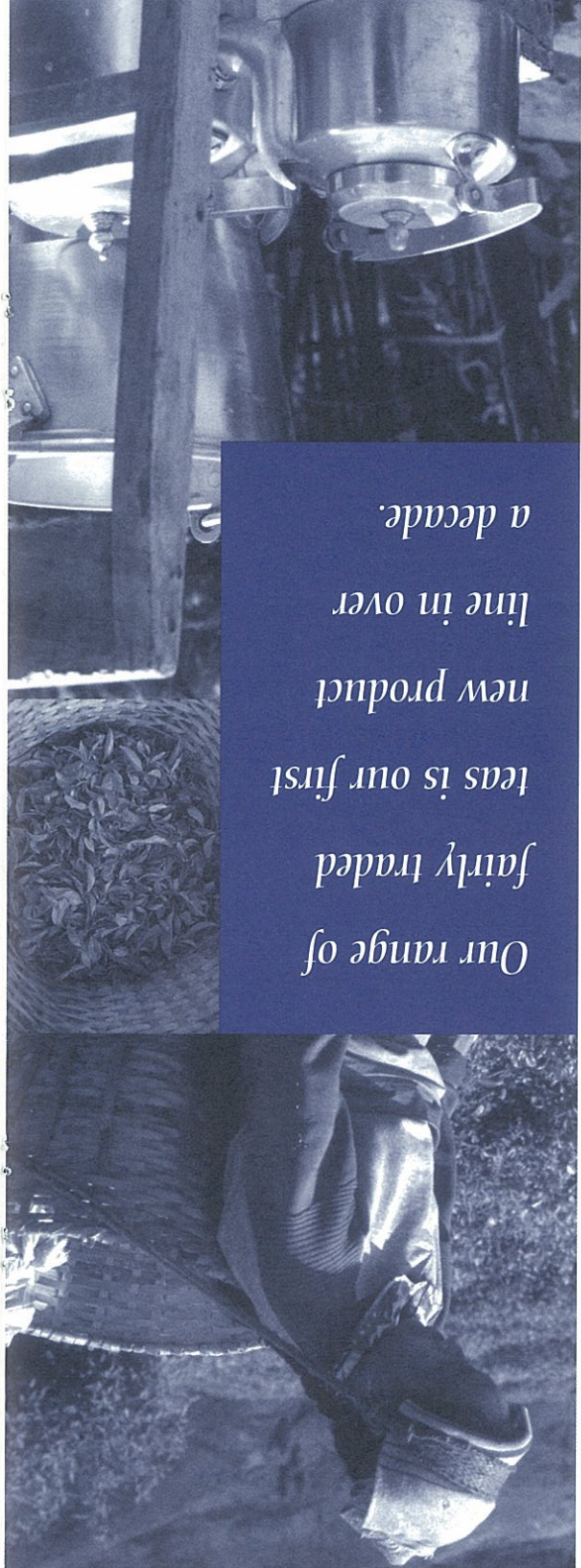
stage to a fully fledged national initiative with astounding results. Over 1,000 churches participated in the Darjeeling, India, designed entirely program and the 160,000 or so participants consumed over a quarter of a million dollars worth of coffee, tea giving our customers an opportunity to add another fair trade strong support base for our farmer partners and an inspiring and educational project for church members seeking to do justice in their daily lives.

With the establishment of TransFair USA, an independent fair trade certifier, Equal Exchange became the largest "Fair Trade Certified" brand in the U.S., adding an independent certification of our current trading standards. Eight years ago, when Equal Exchange became the first U.S. company to officially adopt European fair trade standards, there were no certifiers in the U.S. and we carried this banner on our own. After many years, we are proud to see the coffee industry begin to take fair trade seriously. Finally, we were proud to usher in Equal Exchange's first new product line in over a decade: a range of organic fair trade teas from Darjeeling, India, sourced from both a small farmer initiative and a progressive fair trade tea garden, the tea gives our customers an opportunity to add another fair trade item to their shopping baskets!

In summary, its been an exciting year for marketing at Equal Exchange, one that has brought us nearer to reaching our goals, offered inspiring successes and pointed the way for future opportunities.

SALES DEPARTMENT
Rink Dickinson
 Director of Sales

Annual sales in 1998 totaled \$5.72 million, up 18% from 1997, building on the increasing consumer and trade interest in fair trade. At first glance, our normally high account retention rate declined. However, closer analysis revealed that the loss of almost 10% of our top accounts was almost entirely due to industry consolidation combined with several bankruptcies.



*Our range of
 fairly traded
 teas is our first
 new product
 line in over
 a decade.*

and continuing to improve our financial reporting capacity. Y2K here we come!

CAPITAL
Clark Arrington
 Capital Coordinator

Department, has been contributing to raise more capital. Our capital constituency continues to be rooted in the social investor and faith-based investor communities. As we continue to grow our need for equity capital also increases. Plans for the future call for more focused and tailored investment programs for our key constituents. For example, we have established a Youth Investor Program and have begun to discuss the merits of offering greater returns to larger and more long-term investors. We will also explore our shareholders. As we grow and welcome new people into our community, it is with some regret that we feel those days slipping away. In response to these rapid changes, we have increased the capacity of the Capital Team by adding, on a part-time basis, Rob Everts and Lakisha Burke. Lakisha began working at Equal Exchange in 1998 as a co-op student intern from Northeastern University and stayed with us to provide research and administrative support. Rob, our lead organizer with the Sales Department, has been contributing to our structure as a worker-owned cooperative - is colored by our mission of fair trade.

This year we welcomed five new workers into our cooperative, growing to 19 members. And as we have grown in number, we have also grown as owners and as a community. For example, we approved an introductory curriculum for worker-ownership at Equal Exchange, orienting new workers to our unique business model, the basics of fair trade and workplace democracy. We also welcomed the innovative work of the Tea Committee, endorsing their proposal to create our first new product line in a decade, and supported a mutual funds.

The future looks exciting, challenging and transforming.

WORKER CO-OP
Erbin Crowell
 Worker-Owner Coordinator

As a pioneer in the US fair trade movement, Equal Exchange represents a dramatic alternative to conventional business. Everything we

do - from our trading standards to our structure as a worker-owned cooperative - is colored by our mission of fair trade.

This year we welcomed five new workers into our cooperative, growing to 19 members. And as we have grown in number, we have also grown as owners and as a community. For example, we approved an introductory curriculum for worker-ownership at Equal Exchange, orienting new workers to our unique business model, the basics of fair trade and workplace democracy. We also welcomed the innovative work of the Tea Committee, endorsing their proposal to create our first new product line in a decade, and supported a mutual funds.

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Spreading Our Message

Natural Foods Expo

Charlotte Mann, our outreach coordinator, talks with a potential customer at the Baltimore Natural Foods Expo.



Once again we were faced with an extremely volatile world coffee market. While high prices are good for farmers, volatility creates difficulties for everyone. Despite these challenges, we were able to secure adequate supplies of coffee from our producer partners, though our gross margin was the lowest it has been in many years.

As we continued our strong growth through our traditional account development, we also developed our use of community organizers to build local support in a number of regions. This program continues to be exciting as it builds fair trade awareness and builds Equal Exchange loyalty while helping us secure new accounts. Interestingly, the success of this organizing work also created, for the first time, a direct fair trade competitor. We are thrilled at the amount of fair trade awareness that we have created.

As part of our strategy to deepen relationships in key regions, we opened a regional sales office on the West Coast. For the first time, we can offer these accounts a



human presence that had never been possible previously.

And as we worked to deepen existing relationships we also made significant inroads, for the first time, into larger supermarket chains who are bringing the fair trade message to a wider audience.

PRODUCER RELATIONS

Jonathan Rosenthal President

Our producer partners in Latin America got a pleasant surprise in 1998: after years of smiling through our “fair trade” gringo Spanish, they were greeted by Rosario Castellón, our new producer relations coordinator from Nicaragua, and Maria King, our purchasing assistant from the Dominican

Republic. Mark Souza, Director of Operations, and I breathed a deep sigh of relief to have such capable native Spanish speakers on staff.

It was an important year to have increased our capacity. When Hurricane Mitch struck Central America in the fall, we were able to respond quickly, sending out action alerts and promoting the disaster relief work of several trusted allies such as Lutheran World Relief, Oxfam America and the America Friends Service Committee.

We also added several new producer groups in Latin America, welcoming CECOFAEB from Bolivia, CEPICAFE from Peru, Las Colinas from El Salvador and CECOCAFEN from Nicaragua. In the last four years, Equal Exchange has gone from working with 6 producer groups to working with well 15 small farmer cooperatives. I am proud to say that our expanded team has professionalized our approach, strengthened our unique credit program, deepened our relationships and widened our community of producers while keeping a steady supply of coffee in stock.

Investing Internally

OPERATIONS DEPARTMENT

Mark Souza

Director of Operations

Our two worker owners in the warehouse, Mario Teixeira and Tremayne Powell, shipped a record 98,924 cases of coffee plus numerous cups, grinders, tea and more in 1998. While we continued to grow steadily, we still managed to maintain our same day shipping and low out of stock service.

In the office, our purchasing team shifted as Mark Souza expanded his responsibilities to become Director of Operations. To make that possible, he was joined by a bilingual purchasing assistant and market savvy producer relations coordinator. This support enabled us to improve our quality standards and strengthen our credit program while creating clearer and more professional relations with all our producer partners across the world.

We imported more than 1.5 million pounds of green coffee from 15 farmer cooperatives in 9 countries. We are expecting a lot of excitement in 1999 as we continue to manage our growth, improve our quality control and deepen our purchasing relationships with almost 20 different producer groups.

FINANCE &

ADMINISTRATION

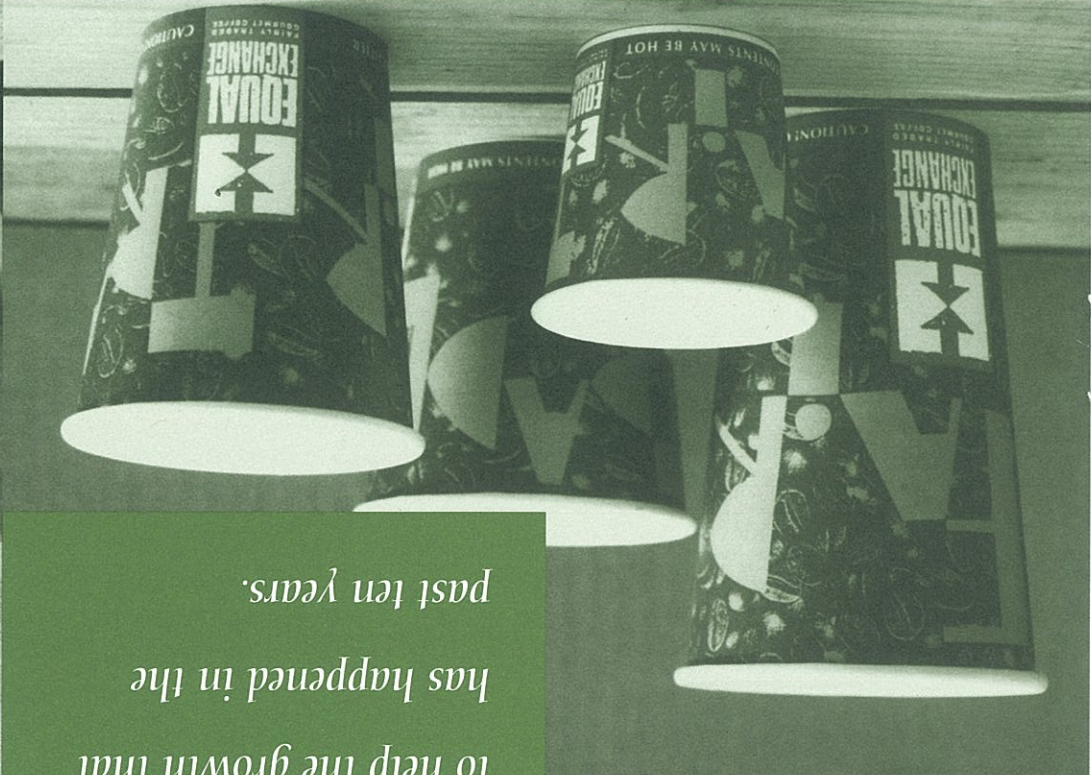
Jonathan Rosenthal

President

Change was the operative word for the finance and administration department in 1998. We attempted to quickly build a department of five to give us the capacity we needed to catch up with the strong growth of the previous years. In the midst of this change, Lisa Woodside, our Financial Manager

for the past five years, moved on to become a software consultant; Louise Cole, our office manager, left after completing a one year interim commitment and Ellen Sturjis, our Director of Finance left for other pursuits and to spend more time with her family. We are excited to introduce Denise Abbott, our new Director of Finance, under whose tutelage we are continuing to strengthen our Finance and Administration Department. Working with her are Gwyn Witherspoon, A/R clerk; Ethan Cruze, A/P and invoicing clerk; Renie Marsh, office manager; and Truc Dang, computer coordinator. We began 1998 with the goal of building a strong finance department. With this team in place, we now will focus on refining systems, becoming more adept at using our accounting software

We established systems to help the growth that has happened in the past ten years.



Mark Souza
Director of Operations



Ethan Cruze
Invoicing



Gwyndolyn
Witherspoon
A/R Clerk