

Opportunities for East Africa in the World Arabica Market



World Coffee Conference

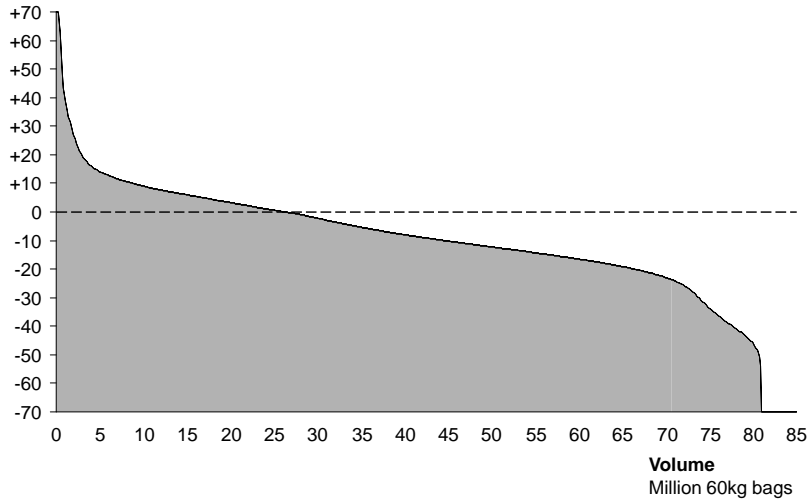
February 27, 2010

AGENDA

- **The specialty coffee market may grow by 10 million bags over the next ten years**
- East Africa could increase its Arabica coffee revenues by \$300 million
- East African coffee farmers could double their incomes

APPROXIMATELY 25M BAGS OF ARABICA SOLD AT A PREMIUM VERSUS THE NEW YORK C IN 2008

Global Arabica price differentials versus the New York C, 2008
Cents / lb

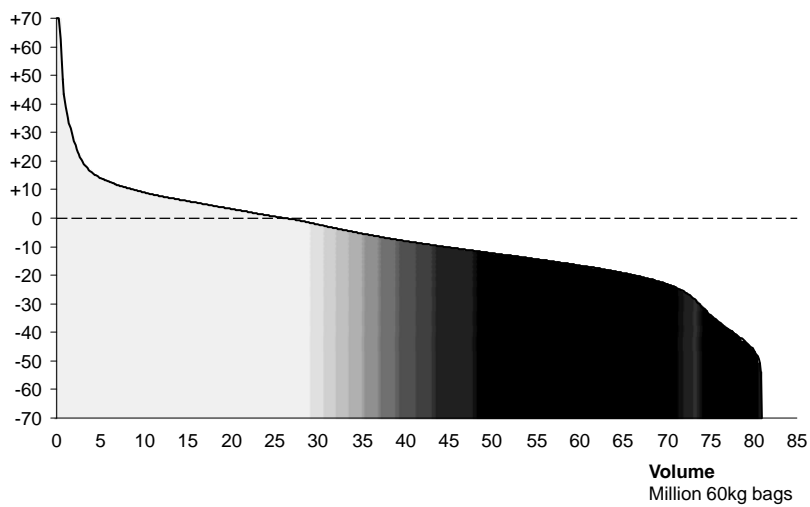


Source: TNS estimates

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BRAZIL ACCOUNTS FOR MOST OF THE COFFEE SOLD AT A DISCOUNT TO THE NEW YORK C

Global Arabica price differentials versus the New York C with Brazilian volume distribution, 2008
Cents / lb

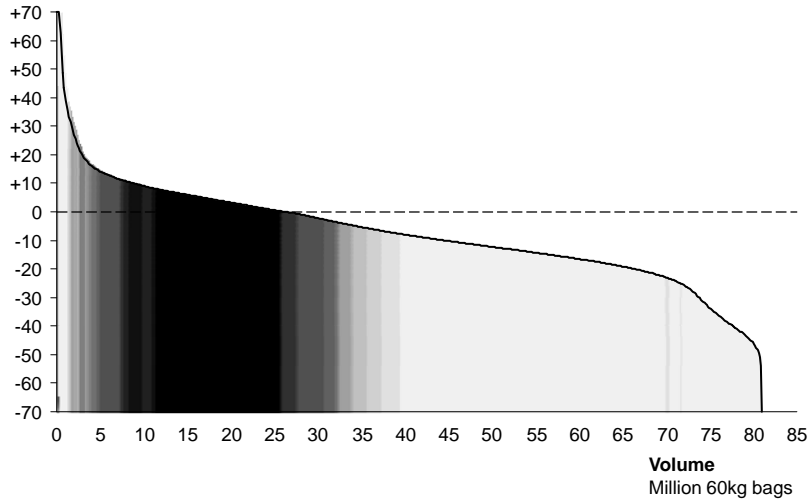


Source: TNS estimates

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ALMOST ALL COLOMBIAN COFFEE SELLS AT A PREMIUM TO THE NEW YORK C

Global Arabica price differentials versus the New York C with Colombian volume distribution, 2008
Cents / lb

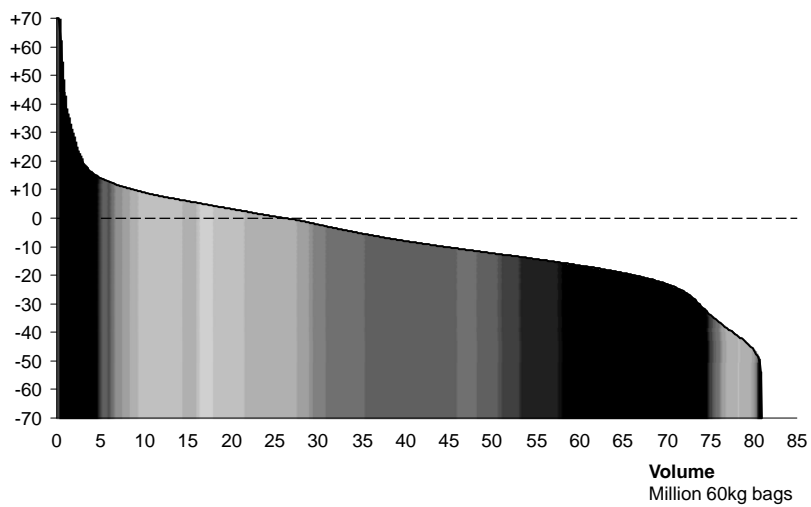


Source: TNS estimates

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EAST AFRICAN COFFEE PRICES VARY GREATLY

Global Arabica price differentials versus the New York C with East African volume distribution, 2008
Cents / lb

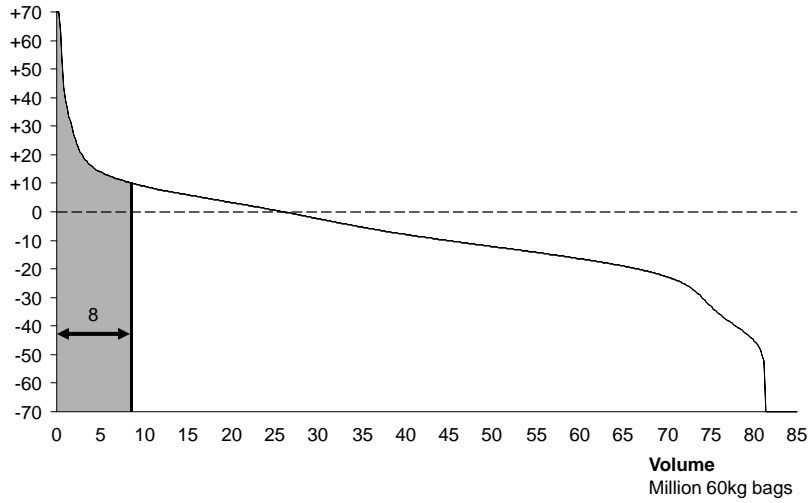


Source: TNS estimates

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8 MILLION BAGS RECEIVED A PREMIUM OF 10 CENTS / LB OR MORE

Global Arabica price differentials versus the New York C, 2008
Cents / lb

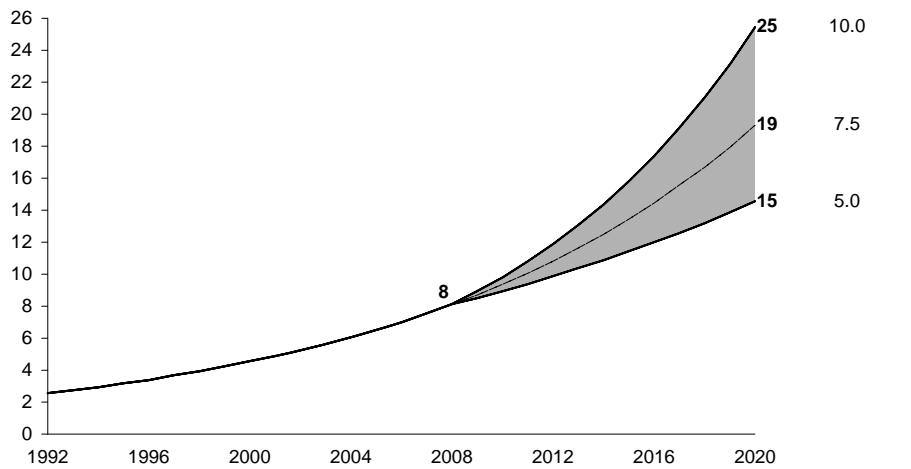


Source: TNS estimates

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THE SPECIALTY MARKET COULD REACH 19 MILLION BAGS BY 2020

Global specialty market*, 1992 – 2020 estimated
Million 60 kg bags



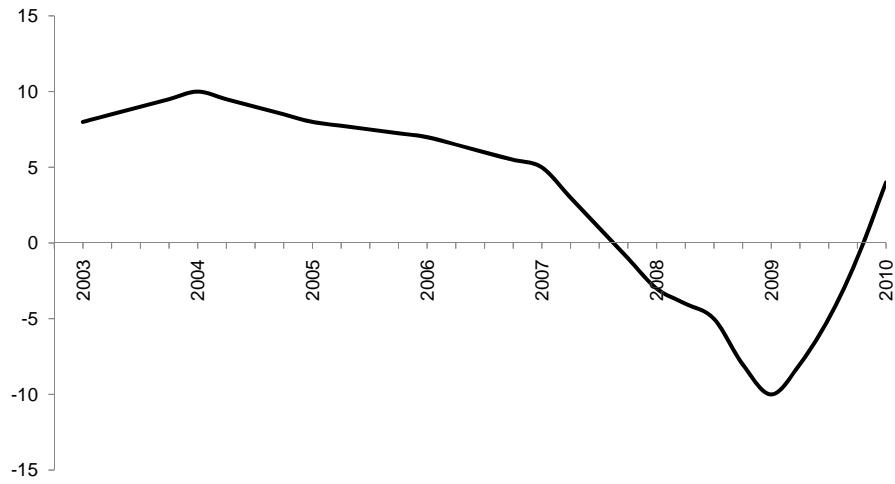
* Volume receiving a premium of 10 cents/lb or more in 2008 terms, based on estimated specialty market growth
Source: SCAA; Industry data and interviews; TNS analysis

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STARBUCKS IS BOUNCING BACK

Starbucks comparable store sales growth*

Percentage



* Company-operated stores open 13 months or longer. Quarterly data shown where available
Source: Starbucks

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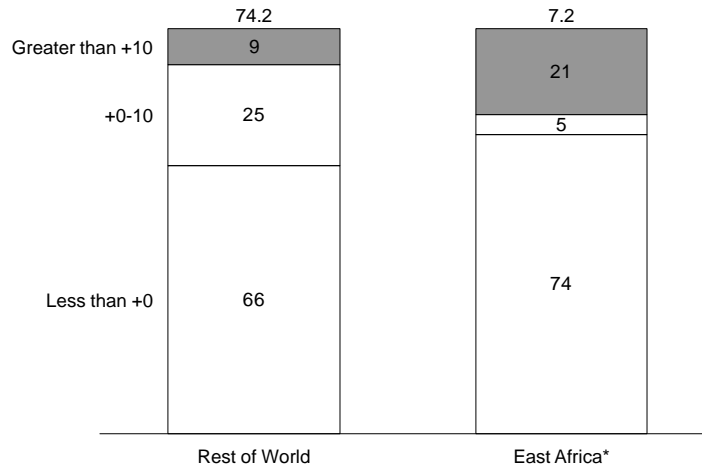
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21 PERCENT OF EAST AFRICAN ARABICA RECEIVES GREATER THAN 10 CENTS / LB ABOVE THE NEW YORK C

Estimated share of volume by differential to the New York C, 2008
Percentage of million 60kg bags

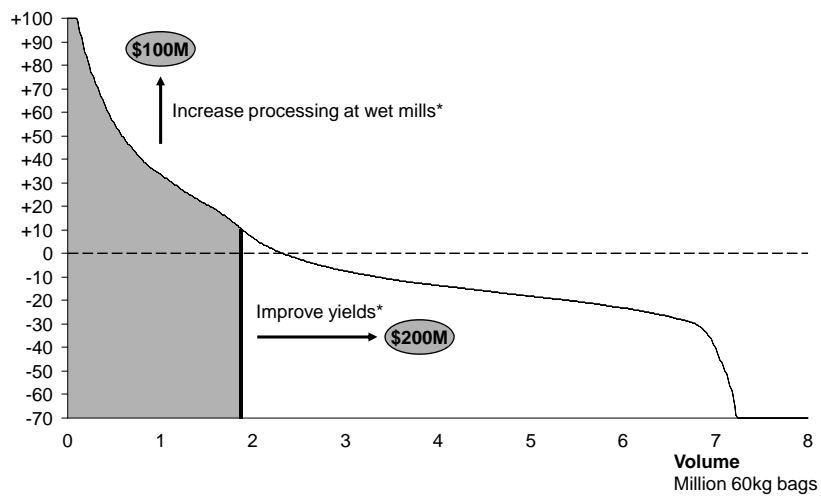


* Includes Ethiopia, Kenya, Tanzania, Uganda, Burundi, Rwanda, Zambia, Malawi, Zimbabwe, and South Africa
Source: TNS estimates

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EAST AFRICA HAS THE POTENTIAL TO INCREASE REVENUES BY \$300M BY INCREASING PROCESSING AT WET MILLS AND YIELDS

East African Arabica price differentials versus the New York C, 2008
Cents / lb

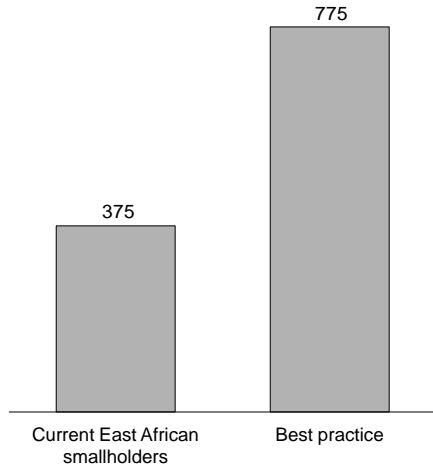


* Potential includes shifting to an average 50% share of wet milled coffee and 50% average yield improvements on volume receiving +10 cents / lb or more. Based on 2008 average NY C price of 132
Source: TNS estimates

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ADOPTING A NUMBER OF AGRONOMY BEST PRACTICES HAS THE POTENTIAL TO DOUBLE YIELDS

Estimated yield compared to best agronomy practices
Kg green / Ha



Agronomy improvement areas:

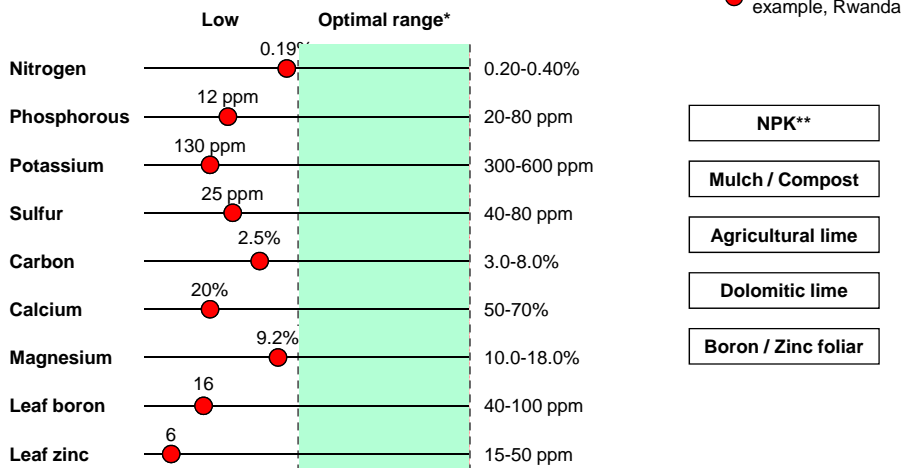
- Nutrition
- Integrated pest and disease management
- Rejuvenation and pruning
- Weeding, mulching, and erosion control

Source: TNS

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HEALTHY COFFEE TREES REQUIRE A PROPER BALANCE OF SEVERAL DIFFERENT NUTRIENTS THAT ARE DEPLETED OVER TIME

Most commonly deficient coffee nutrients



* Ranges shown are for soil content except where indicated as leaf content

** Impact shown for NPK regimen including both NPK 17:17:17 and 22:6:12+S

Source: OCIR Café; TNS

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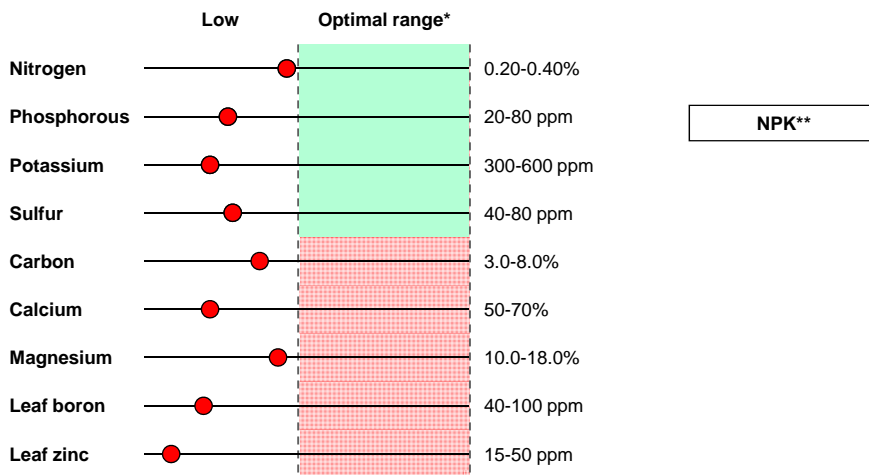
PROPER NUTRITION CAN DRAMATICALLY IMPROVE COFFEE YIELDS



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APPLYING NPK ALONE RESULTS IN ONLY A FRACTION OF THE BENEFIT TO THE COFFEE TREE

Most commonly deficient coffee nutrients



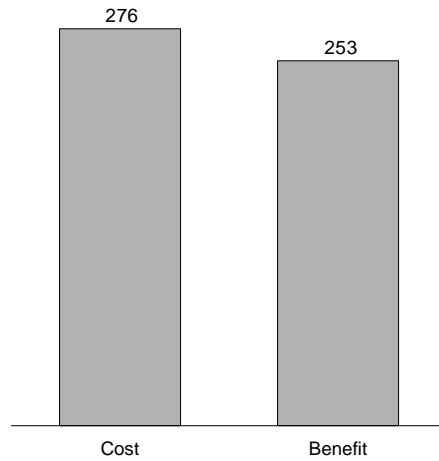
* Ranges shown are for soil content except where indicated as leaf content
 ** Impact shown for NPK regimen including both NPK 17:17:17 and 22:6:12+S
 Source: OCIR Café; TNS

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APPLYING NPK ALONE TO ACIDIC SOILS IS NOT COST EFFECTIVE

Estimated annual cost/benefit of NPK application for acidic soils*
\$/ha

ILLUSTRATIVE EXAMPLE



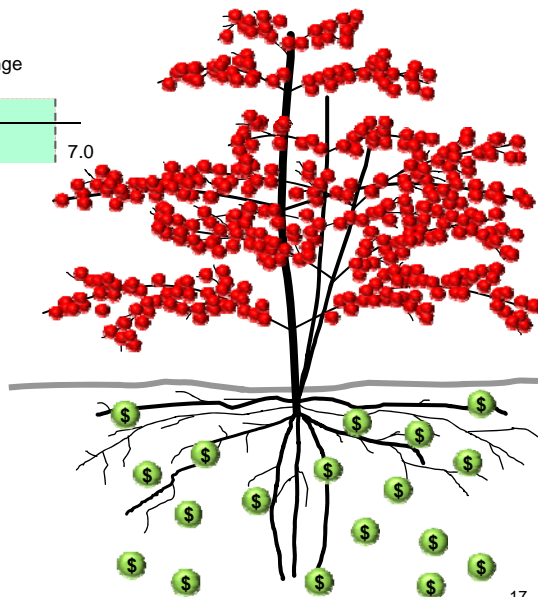
* Estimated yield improvement after 3 years of application, assuming a farm-gate price average of 60 cents/lb. Estimates are based on an example district in Rwanda requiring lime. Actual cost and benefit will vary depending on specific farm soil conditions
Source: TNS

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EFFICIENT UPTAKE OF NUTRIENTS REQUIRES PROPER SOIL ACIDITY

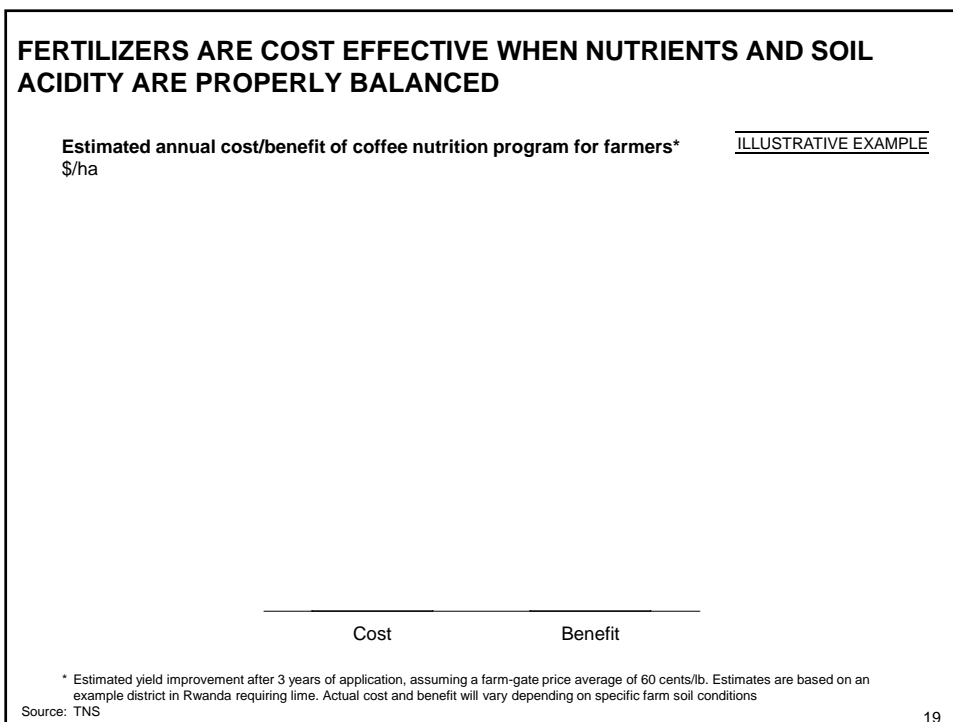
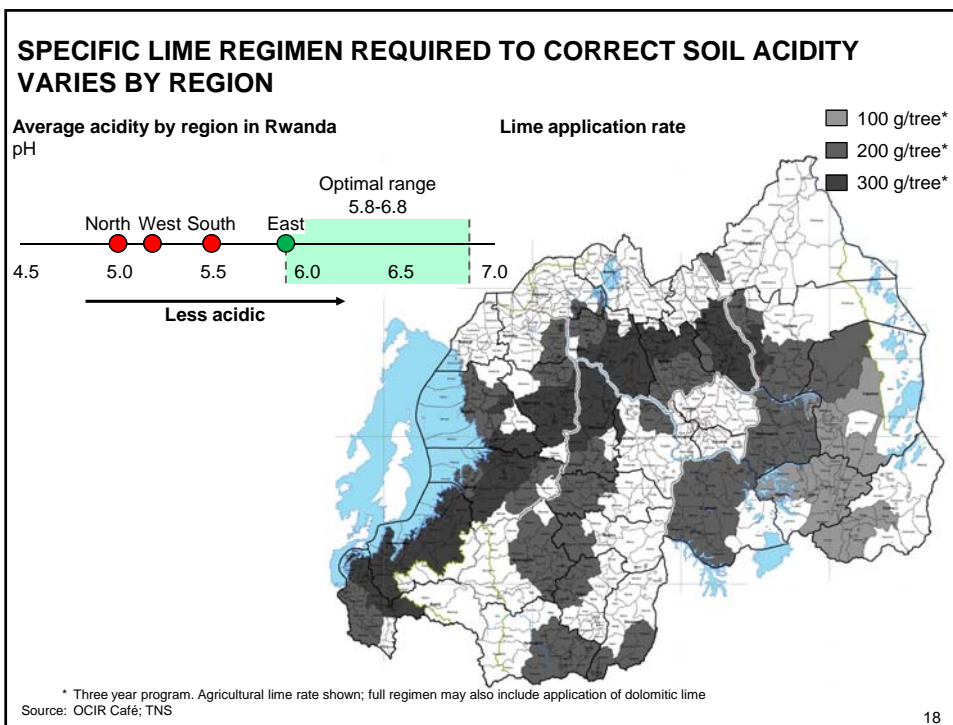
Soil acidity
pH

Rulindo



Source: OCIR Café; TNS

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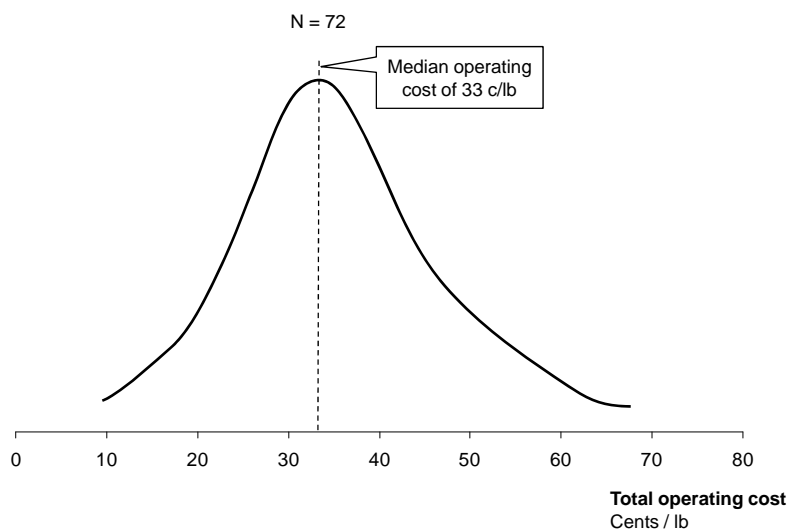
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APPROXIMATELY HALF OF EAST AFRICAN WET MILLS OPERATE OVER 30 CENTS / LB

Distribution of wet mills by operating costs
Percentage



Source: TNS survey

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SIGNIFICANT OPPORTUNITIES EXIST TO REDUCE WET MILL OPERATING COSTS

TechnoServe client cost reduction over time
Cents / lb

CLIENT EXAMPLE

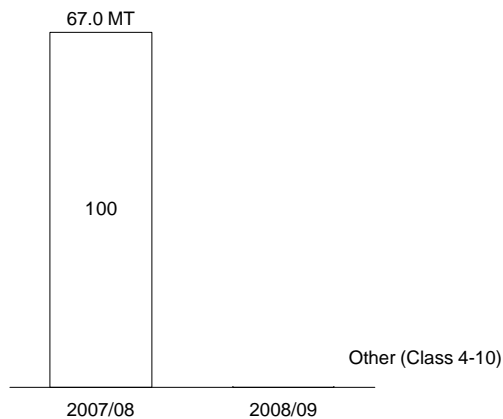
2007/08 2008/09 Best practice

Source: TNS analysis

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IRIA-INI COFFEE QUALITY HAS INCREASED AFTER PARTNERING WITH TECHNOSERVE IN SEPTEMBER 2008

Quality distribution of Iria-ini Coop coffee volume
Percentage



Iria-ini improved quality by:

- Improved cherry selection practices and cleanliness standards
- Reduced over fermentation by checking fermentation level, rather than rely on a fixed time
- Improved drying practices

Source: Iria-ini Coop; TNS

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IRIA-INI COFFEE PRICES HAVE INCREASED DUE TO IMPROVED COFFEE QUALITY

Iria-ini Coop average coffee price relative to Kenya auction average*
Cents / lb

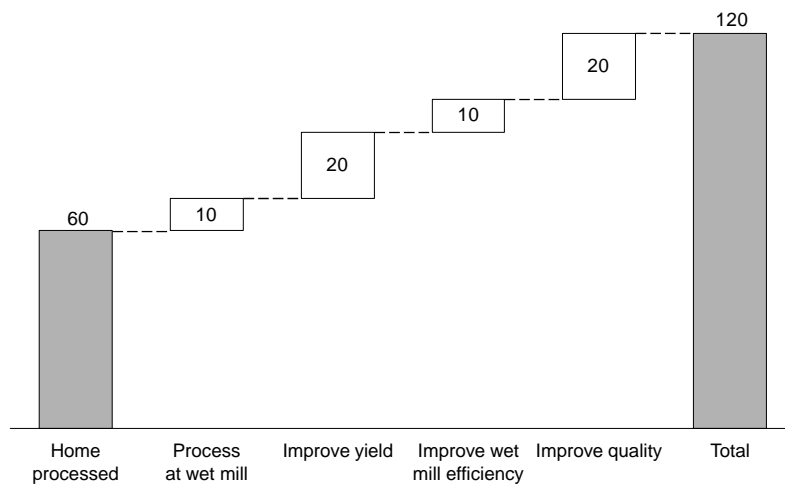


* Average late harvest figures
Source: Iria-ini Coop; KNCE

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EAST AFRICAN SMALLHOLDERS HAVE THE OPPORTUNITY TO DOUBLE THEIR INCOMES

Illustrative farm-gate income increase potential*
Cents / lb



* Income increase shown in terms of original volume to illustrate change in farmer income after yield improvements
Source: TNS analysis

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SUMMARY

The specialty market may grow by 10 million bags over ten years. There is an opportunity for East Africa to provide 2 million of the incremental 10 million bags.

East Africa could increase its Arabica coffee revenues by \$300 million. This would be achieved through a combination of increased processing at wet mills and yield improvement.

East African coffee farmers have the potential to double their yields. Maintaining a proper balance of nutrients and appropriate soil acidity can achieve this result.

East Africa farmers could double their incomes. Increasing use of wet mills, making wet mills more efficient, better agronomy practices and quality enhancements could significantly raise farmer incomes.

Achieving these results will be a marathon not a sprint. Next steps include: developing a deep understanding of the economic and agronomic situation; developing the mechanisms that will enable these gains to be captured and relentlessly pursuing efficiency and excellence.