

World Coffee Conference 2010
International Coffee Organization



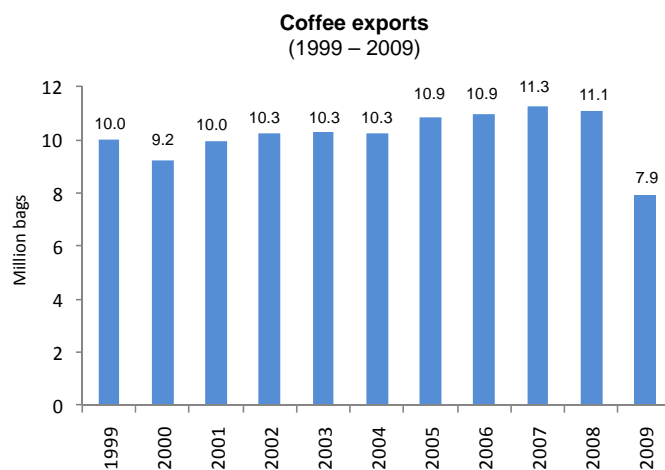
Colombian coffee sector outlook

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General Manager

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In 2009, Colombia exported 7.9 million bags due to a decrease in coffee production



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Three main factors, beyond the control of coffee producers, caused the decrease in coffee production in 2009

- **Unfavorable weather conditions:** A lengthy La Niña Phenomenon increased the average rainfall in coffee growing areas by 40%.
- **Lower application of fertilizers:** In 2008, fertilizer application fell by 30% with respect to 2007.
- **Coffee leaf rust and Coffee berry borer:** Change in weather trends in coffee growing areas produced an increase in these two pests and diseases.

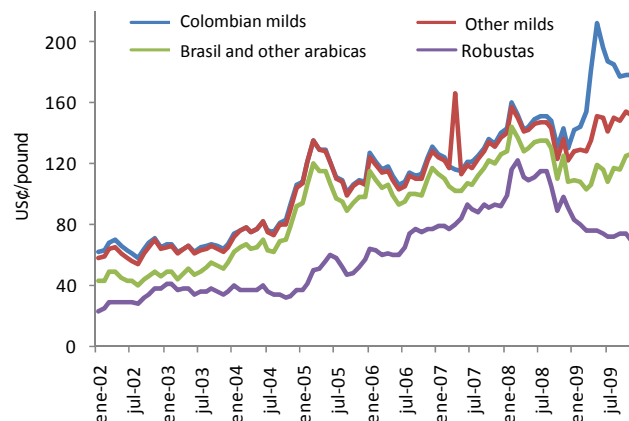
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The drop in production caused an increase in the international price of Colombian coffee

International price
(2002 – 2009)



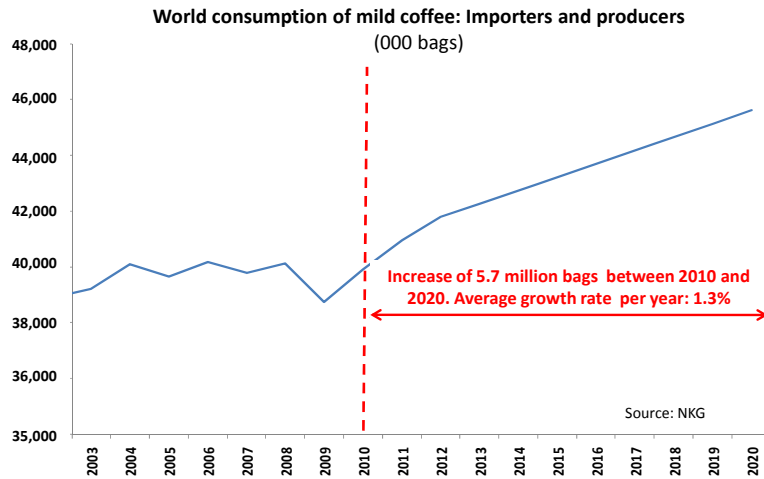
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In the medium term, coffee market analysts forecast an increase in mild coffee consumption



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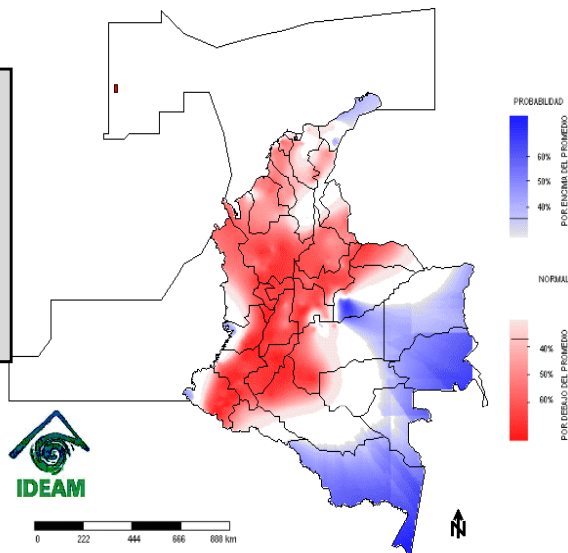
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El Niño Phenomenon effects in the Colombian Andean Region

- Decrease in rain volume
- Increase in sun shine
- Increase in temperature



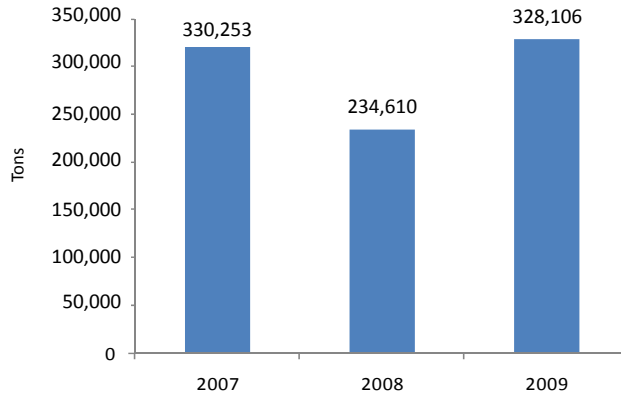
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In 2009, the volume of fertilizers required to maintain crop yields was applied to coffee plantations

Fertilizer sales in coffee growing areas *
2007 – 2009



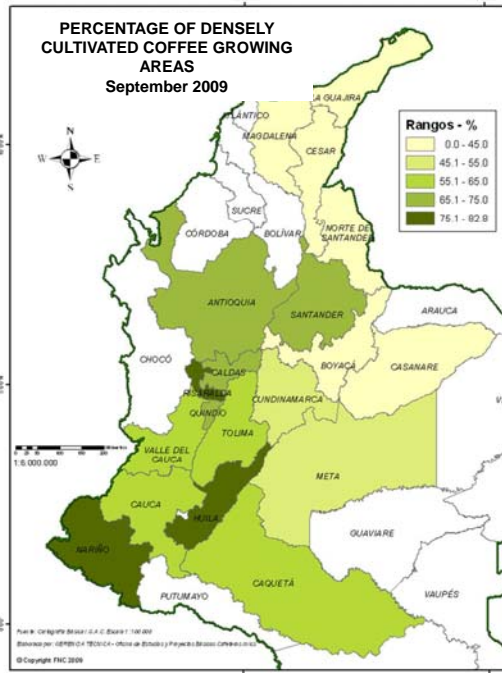
Source: Agroinsumos del Café
*Estimated

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...In 2010 at least 100,000 hectares renovated in previous years and with an estimated production of 1.2 million bags, will become productive

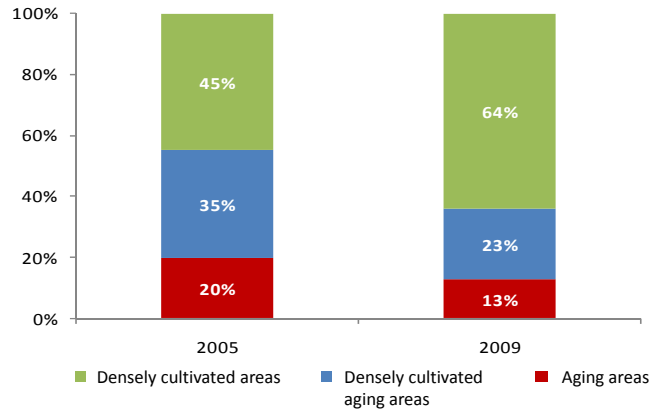


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The Colombian coffee sector is capable of meeting the growing demand for mild coffee

Coffee plantations age level
(2005, 2009)



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The Colombian coffee sector has unique competitive advantages

1. Fresh coffee availability throughout the entire year.
2. Great variety of cup profiles to meet the taste of every consumer.
3. Scientific knowledge developed by Cenicafé.
4. Biodiversity-friendly coffee farming.
5. The existence of coffee institutions whose mission is to improve the economic and social development of coffee growers and their families.

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In Colombia, the renovation of coffee plantations is achieved with two different programs:

Competiveness Program

- Designed to maintain crop productivity in densely cultivated coffee growing areas.
- To encourage fertilizers grants USD¢7/tree.
- To avoid a decrease in income, it limits renovation to 20% of the coffee area owned by each coffee grower.

“Permanencia, Sostenibilidad y Futuro” Program - PSF

- Designed to renovate 300,000 hectares cultivated in aging coffee trees.
- Grants bank loans in favorable financial conditions: i) A public collateral fund pools the credit risk; ii) 40% of the debt's principal is paid by the government; iii) Interests is paid by a Coffee National Fund.
- Aimed at improving income and reducing poverty affecting small producers.

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To mitigate price and exchange rate volatility, FNC has implemented the following instruments:

Contract for future delivery of coffee

- Designed to mitigate price volatility and to encourage a risk management culture among coffee growers.
- The delivery of coffee can be negotiated on a fixed price or to-be-fixed basis.
- Coffee growers can cover their risk by up to 50% of their crop.

Income Protection Contract

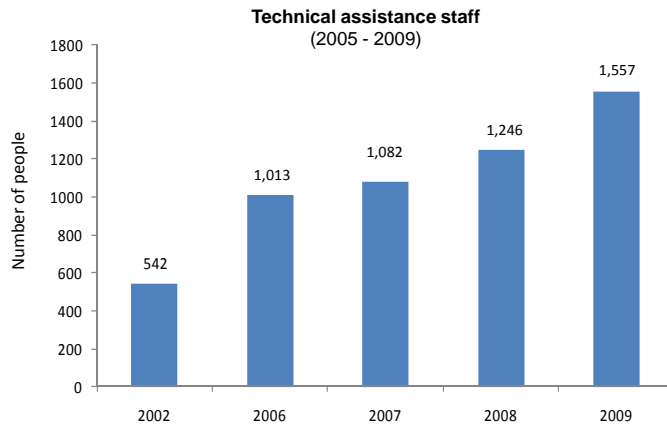
- Designed to guarantee a minimum price per kilo of parchment coffee for up to 50% of the crop.
- Coffee growers pay a low premium per kilo protected (USD 5/125 kg coffee).
- Backed by financial instruments (options and forward contracts, etc.).

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To guarantee coffee quality and the efficient transfer of technology, FNC offers technical assistance to coffee growers through an Extension Service



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The average age of coffee growers is 54, therefore encouraging young growers is a priority

**Innovative Models – Young Coffee Growers
2007 – 2009**

Department	Youngs	Hectares	Value of land (000 USD)	Loans for renovation (000 USD)
Antioquia	42	244	850	88
Tolima	17	112	250	54
Santander	24	124	850	108
Risaralda	21	118	660	36
Quindío	28	159	385	99
Magdalena	44	240	425	122
Norte de Santander	50	406	225	122
Caldas	9	56	225	N.A.
Valle	21	142	400	N.A.
Total	256	1.601	4.270	628

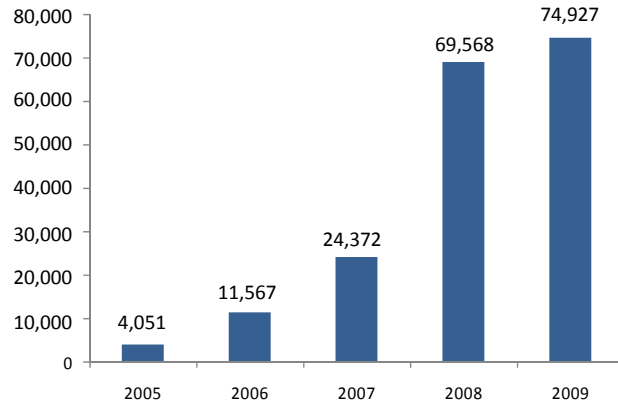
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The increased participation of coffee growers in the production of specialty coffees, has allowed them to significantly increase their income from coffee growing

Coffee growers participating in specialty coffee programs
2005-2009



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Promotion of domestic consumption

Generalities:

- Implemented in alliance with the Colombian coffee industry
- **Objective:** To make coffee the most consumed and most enjoyed beverage.
- **Goal:** To increase coffee consumption by 30% in a six-year period.
- **Strategic actions:**
 - ✓ Attract new consumers
 - ✓ Coffee and health
 - ✓ Increase per capita consumption
 - ✓ Ensure client loyalty



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Conclusions:

- 2009 was an atypical year for Colombian coffee, in which three factors beyond the control of producers significantly affected production volumes.
- As a result, in 2009 Colombia exported 7,9 million bags of coffee. In 2010, Colombia's coffee production will recover because of the following factors:
 - ✓ The projected increase of 5.7 million bags in mild coffee world demand over the next 10 years.
 - ✓ The decrease in the volume of rainfall due to El Niño Phenomenon classified by experts as moderate in nature.
 - ✓ The recovery of fertilizer levels necessary for the proper development of the crop.
 - ✓ The entry into production of 100,000 hectares of renovated coffee trees, with production estimated at 1.2 million bags.

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Conclusions:

- Due to the fact that 64% of the coffee growing areas are densely cultivated and are in the optimal stage of production, Colombia is capable of producing between 11 and 12 million bags, if weather conditions continue to be favorable.
- At the same time, FNC has launched the following programs to ensure the sustainability and profitability of coffee growing:
 - ✓ Coffee Renovation Program
 - ✓ Programs for managing risks associated with volatility in international prices and exchange rates
 - ✓ Technical assistance to growers
 - ✓ Innovative models - Young coffee growers
 - ✓ Program for the production of specialty coffees
 - ✓ Promotion Program for domestic consumption

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