

CONFIDENTIAL

YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE. THIS ISSUE:

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EXCESSIVE RAINFALL TO AFFECT MARKET FOR QUALITY COFFEE

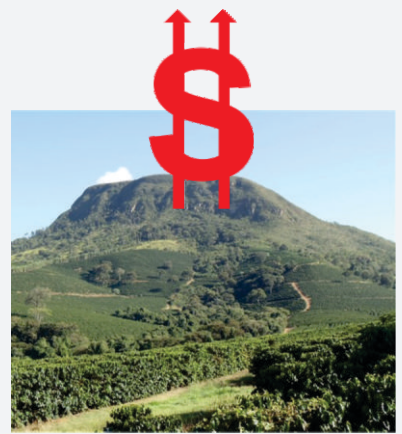
Out-of-season rains in Brazil are making coffee cooperatives apprehensive of entering into futures contracts. Some coops have decided to negotiate higher volumes of coffee only after the end of harvesting when it will be possible to evaluate the actual quality of the harvested product.

Source: Valor Econômico

PRICES OF BRAZILIAN AGRICULTURAL LAND SKYROCKET

Average prices of land for agriculture in Brazil rose 50% over the last three years, 16.5% in the last 12 months, pulled by increasing prices of grains, especially soybeans, and declining interest rates. Surveys show that in soybean areas like Sinop (Mato Grosso state) land prices increased more than 73%, from R\$ 9,000 (US\$ 4,500) to R\$ 15,600 (US\$ 7,800) per hectare. Prices for sugar cane land in Espírito Santo rose from R\$ 6,500 (US\$ 3,250) to R\$ 10,000 (US\$ 5,000) per hectare, a 54% increase. Prices of coffee land, that increased as coffee prices rose, have not fallen and stay at an average of US\$ 20,000.00 per hectare for areas in full production in the South Minas and Mogiana regions.

Sources: O Estado de São Paulo and P&A



NEW PATHS FOR CONILON IN BRAZIL

Brazilian Conilon (Robusta) growers are broadening their focus from production and yields to quality. Pulped natural Conilons from Espírito Santo now have premiums as high as 20%. Espírito Santo will produce 9.3 million bags of Conilon this year and expects to reach 18 million bags by 2019. Brazilian Conilons are exported to 26 countries including USA, Mexico, Germany, Belgium, Netherlands and Argentina.

Source: Globo Rural

MODERNIZATION OF FROST ALERT SYSTEM IN PARANÁ

The "frost alert" service offered by IAPAR, the Paraná Agronomy Institute, is now being sent by text message (SMS) to coffee growers, technicians and traders. The alert, sent free of charge to anyone interested in the service, is part of the Institute's goal to modernize its communication system. The frost alert by SMS helps growers to rapidly decide when and how to protect their coffee plantations. Thirty-seven years after the "dark-frost" of July 18, 1975, its traumatic effects – Paraná's production fell from 10.3 million to 380,000 bags – are still alive in the minds of the state's coffee growers including those born thereafter.

Source: Consórcio Pesquisa Café (Coffee Research Consortium)



RISING NUMBER OF SPECIALTY COFFEE FARMS

The number of specialty coffee farms has been expanding rapidly in Brazil. Ten years ago there were approximately 400 of these farms whereas today there are 35,000 farms dedicated to specialty coffee production. Most of these properties have one or more certifications or follow a sustainability standard according to BSCA (the Brazil Specialty Coffee Association). This trend supports the international recognition of Brazil as a major source of specialty coffees.

Source: Valor Econômico

COFFEE AND WELL-BEING IS CENTRAL THEME OF TV PROGRAM

Coffee was the main theme of one of July's "Bem Estar" (Well-being) morning show broadcast by Brazil's largest TV channel. The show, that focuses on issues related to a healthier way of life, invited two renowned cardiologists and a nutritionist from ABIC (the Brazilian Coffee Roasters' Association) to discuss the health benefits of coffee, including the improvement of functions related to the heart, memory, concentration and the prevention of several diseases.

Sources: ABIC and TV Globo



BOOM OF TRENDY HOME MACHINES IN BRAZILIAN COFFEE MARKET

Following the coffee lifestyle trend in Brazil, companies are investing in new domestic machines that feature modern design and technology. Phillips, whose brand portfolio includes Senseo and Saeco, has recently launched six coffee machines for home use, from simple single-dose models to the more expensive and sophisticated superautomatic machines. The Brazilian coffee machine market grows 27% per year.

Source: Valor Econômico

STARBUCKS HAS AMBITIOUS PLANS FOR BRAZIL

Starbucks intends to open hundreds of coffee shops over the next 5 years in Brazil as part of the company's expansion plan for Latin America. Starbucks is perceived as an aspirational brand in Brazil, specially among teenagers and youngsters. The most popular preparations are lattes and frappuccinos, considered premium beverages. Starbucks arrived in the country in 2006 but to this day it has only 38 stores.

Sources: Financial Times and P&A

PELÉ IS NEW STAR OF BRAZILIAN AGRIBUSINESS CAMPAIGN

The National Agriculture Confederation (CNA) has launched a new global campaign to promote the Brazilian agribusiness, the "Brazil Agro Team", that has the ex-soccer player Pelé as the main star. The campaign aims to consolidate the image of Brazil as a source of sustainable agricultural products by showing sustainable practices adopted by the majority of growers like the conservation of biodiversity, soil and water.

Source: CNA



Pictures of the Month

FOCUS ON CONILON



Source: Roberto Seba, Espírito Santo

US\$ 5.2 BILLION STRATEGIC PLAN FOR THE BRAZILIAN COFFEE BUSINESS

The Brazilian Ministry of Agriculture, Livestock and Food Supply has unveiled the 2012/2015 Strategic Plan for the Development of the Coffee Sector that it developed in consultation with the institutions that represent the private sector, from growers to industry, from seed to cup.



The main objectives of the plan are to retain the current market share of Brazil in the world market, to promote domestic coffee consumption, and to support small growers. Expansion of production will favor higher yields over new plantings. Quality and sustainability are important pillars of the plan.

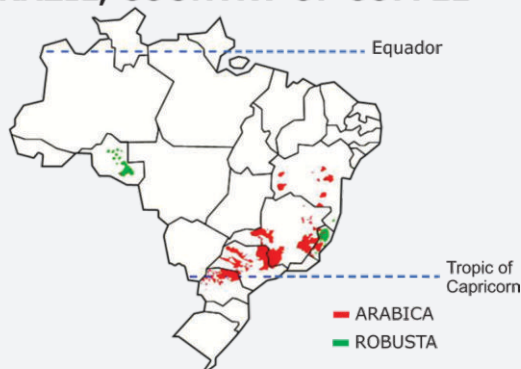
Three scenarios are considered for world coffee consumption in 2020: 173, 164 or 167 million bags per year. In order to retain a market share of 35%, Brazil will need yields of 29.0, 27.7 or 26.3 bags per hectare respectively assuming an increase of planted area of 25, 20 or 15% respectively over the 2.3 million hectares under coffee today.

Since the yields above are substantially higher than the current four-year average of 22 bags per hectare, the plan proposes to increase the current budget for research, development and innovation, technology transfer and extension services. Irrigation, nutrition, and use of newly developed varieties will be high priority items. Training will focus on sustainable agriculture practices in order to advance a voluntary certification system (PIC) whose standards range from land use to product quality and efficient farm management.

The funds allocated to marketing will also be larger than before in order to retain market share, to add value to coffee and to take advantage of two major sport events to happen in Brazil, the 2014 World Cup and the 2016 Olympic Games. Marketing actions will address the diversity of coffees the country offers from its several producing regions ("one country, many flavors"), quality improvement and sustainability to reposition Brazil as the "country of coffee".

Financing of coffee inventories will have credit lines of about US\$ 0.6 billion per year in the period. Another US\$ 0.8 billion will be allocated annually to financing of cultivation and commercialization, recovery of plantations damaged by hail, storms and drought, and a put-and-call program besides working capital for the roasting and soluble industries.

BRAZIL, COUNTRY OF COFFEE



In a nutshell, the 2012/2015 plan will disburse a total of US\$ 5.2 billion in roughly three years to benefit 200,000 growers, specially small-holders, to irrigate 225,000 hectares, to improve cultivation practices in 650,000 hectares, to plant new varieties in 650,000 hectares, to advance sustainable agriculture practices, to reposition the country as a key source of quality coffees produced sustainably, and to finance the crop and its commercialization (stocks and futures market instruments). Most funds will come from the Brazilian Coffee Fund (Funcafé) with other government sources contributing the remainder.

Brazilian Prices

July 31, 2012

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	415,00 ↑
Mogiana-SP fair average quality T.6	410,00 ↑
South Minas fair average quality T.6	410,00 ↑
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	475,00 ↑
South Minas	470,00 ↑

+ 15,9%

Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	295,00 ↑
BM&F (US\$/ 60 kg)	
Sep 2012	225,55 ↑
Dec 2012	227,70 ↑
Mar 2013	234,75 ↑
Real R\$/ Dolar US\$	
July 31	2,04 ↑

Source: www.qualicafe.com.br

PINHALENSE FACILITIES: THREE FACTORIES AND HEADQUARTERS

Much has been written in this section about Pinhalense machines but little has been said about where they are produced and by whom. Pinhalense has today three manufacturing units all located in the town of Espírito Santo do Pinhal in the Mogiana coffee region of the state of São Paulo, a labor force of about 600 people and a group of suppliers that employ over 1,000 workers in Pinhal itself and the surrounding municipalities where they are located.

The oldest and main factory that used to be in the outskirts of the town has now been involved by the urban area in whose midst it today is. With almost 200,000 square feet of build-up area, this facility that doubles as headquarters still congregates the company most vital functions: machinery and mill design, production of key components, assembly, research and development, and the central office. The apparently unruly mixture of small and mid-size red-tiled godowns and modern metal-tile warehouses bears witness to the different growth phases Pinhalense underwent. A technical revolution took place under these roofs in the last ten years as the company increased its sales four-fold with a labor force that shrank to about half of its all time high record. Computer-aided manufacturing, assembly lines for the best selling items, and just-in-time techniques are combined in what is today the heart of the largest green coffee processing equipment manufacturer in the world. The bulk of the highly skilled labor force – over 80% – still works in this central facility that produces the main items of equipment made by Pinhalense using state-of-the-art equipment, from laser cutting to automated computer controlled machining centers.



Besides its usual traditional functions, the central office encloses the national sales department and the mill design and layout division that develops projects that respond to clients' needs. This computer-aided-design (CAD) facility has a small team of experts that replaced the draftsmen that one time added to 20. Responsible for a continuous flow of new and upgraded products and holding over 30 patents, the research and development group is strategically encroached in a transition area between the office and the factory. Although most tests are real scale and take place in clients' facilities under actual operating conditions, the product development division has an in-factory secluded testing area where prototypes are developed and tested prior to full trials on farms and mills. Export sales are housed at the offices of P&A Marketing International elsewhere in town.

Pinhalense's second industrial unit, located in the main access to town, combines product finishing, painting, warehousing of finished products and truck and container loading for the domestic and foreign



markets. This unit grew from a modest 30,000 square-feet to the current 115,000 square-feet in the last five years with load-bays compatible with 40' containers and the largest trucks and trailers on the road today. A record number of 40 trucks and containers per day were loaded in this facility several times in the first quarter of 2011. At peak-time, in the months immediately before harvesting starts in Brazil, the finished product warehouse may hold a couple of hundred wet lines of all sizes and as many as 300 or 400 driers. At mid-year machinery to be dispatched is mostly for dry milling: cleaning, hulling, grading and separation machines, transport equipment and silos.

Opened in the early weeks of 2011, Pinhalense's third and newest industrial area is located on the highway from São Paulo to Pinhal. Originally planned to manufacture a line of new Pinhalense products – weed-cutting machines and equipment to pick coffee harvested to the ground – this facility had its area doubled in 2012 to also produce elevators, conveyors and silos. A large land area behind these two warehouses is expected to accommodate further Pinhalense expansion in future years.

