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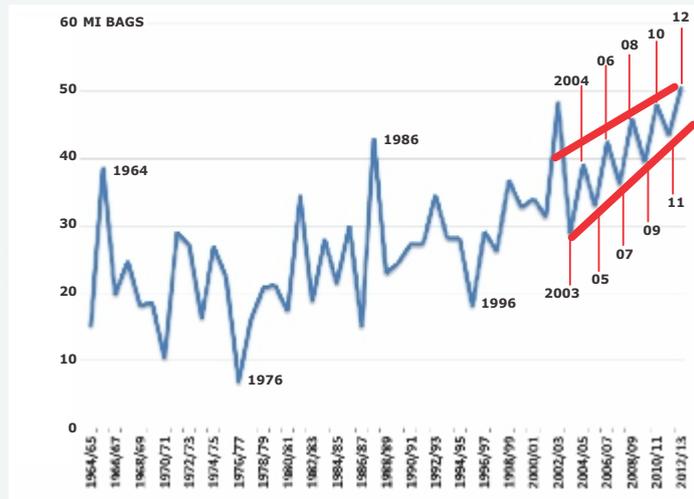
YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE. THIS ISSUE:

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END OF LARGE BIENNIAL CYCLES IN BRAZIL?

Brazilian coffee growing has always been associated with biennial cycles – “on year” of large production followed by “off year” of low production – which greatly affected market prices, but recently these large fluctuations have almost disappeared. The phenomenon, explained by P&A over an interview, has been happening for some years and is a result of several factors such as the increasing adoption of irrigation by growers, better fertilization, more use of mechanized harvesting apart from better agricultural practices like pruning of the trees and higher density planting. The adoption of technologies has led to growing output and higher yields which in turn contribute to reduce the variation between crop cycles. Brazil's current crop is expected to reach between 47 and 50 million bags.

Source: Financial Times



Sources: ICO and CONAB

ONE-THIRD OF THE WORLD'S COFFEE COMES FROM BRAZIL

Brazil represents 30% of the world's total coffee production which makes it the largest producing and exporting country. According to CONAB, Brazil had a 90% increase in coffee production from 1997 to 2012, using almost the same planted area. Although exports decreased in 2012 in relation to 2011, Brazil keeps the leadership in coffee exports. Supplying the world with Arabica and Robusta, naturals, pulped naturals and washed coffees, Brazil is also the world's largest source of sustainable coffee today.

Source: Embrapa Café

SECOND NATURAL LATE HARVEST COMPETITION ANNOUNCES WINNERS

The best natural coffee produced in Brazil, according to the 2nd Cup of Excellence Natural Late Harvest competition, was from South Minas, with 92.13 points in the SCAA scale. Second and third places also came from the same region with 90.30 and 90.20 points respectively. Winning lots above 90 points are considered “presidential coffees” and will participate in the international online auction on March 14th open to buyers worldwide.

Source: BSCA

IRRIGATION SYSTEMS ON THE RISE IN COFFEE, SOY AND CORN

According to the Brazilian Association of Machine and Equipment Industries (ABIMAQ), the adoption of drip irrigation in coffee grew 30 to 35% in 2012 whereas the entire sector, considering all cultures, expanded 20 to 25%. Systems such as central pivots have also grown specially in soy and corn. Drip irrigation requires average investments of R\$ 3.900 (US\$ 2,000) per hectare on average in Brazil largely compensated by gains of 25% or more in yields, depending on the conditions of plantations.

Source: IDEA Online

HALO BLIGHT DISEASE WORRIES GROWERS

Several coffee producing areas in Minas Gerais have reported the spread of the halo blight disease caused by the *Pseudomonas syringa* e pv. *garcae*. The bacteria penetrate coffee through wounds caused by other plagues, by harvesting and natural openings. Halo blight causes lesions in the leaves of a dark brown color, that may or may not present a yellow halo around them, and later cause branches to lose a large number of leaves.

Source: Pólo de Excelência do Café

BRAZILIAN CONSUMPTION KEEPS GROWING

ABIC, the Brazilian Coffee Roasters' Association, estimates that domestic coffee consumption will grow between 2.5% and 3% in 2013 reaching approximately 20.9 million bags. Brazil is the second largest coffee consuming market in the world after the United States.

Sources: Valor Econômico and P&A

CARNIVAL IN RIO HONORED AGRICULTURE

"Vila Isabel", the winner of the Rio de Janeiro 2013 Carnival Parade, showed the importance of agriculture to thousands of Brazilians and tourists on February 11th. The beautiful floats, costumes and music of the "samba school" honored agriculture workers and growers of all products. Coffee was mentioned in the words of the theme song. Vila Isabel's parade focused on growers' festivities after a good crop.

Sources: Agência Brasil and Basf



COOXUPÉ LEADS COFFEE EXPORTS FOR 4th TIME

Cooxupé was the leading Brazilian green coffee exporter in 2012 with roughly 2.11 million bags exported mainly to Germany, USA, Belgium, Switzerland, Italy and Japan. Last year, the cooperative had a 13% share of the total coffee production in Brazil and a 19% share of the Arabica production of Minas Gerais. Cooxupé has set the goal of 2.5 million bags exported in 2013, an 18% growth compared to last year.

Source: Phábrica de Ideias

BRAZILIAN COFFEE WOMEN ATTEND IWCA EVENT

Brazil was one of the twenty countries present at the 3rd Convention of the Internacional Women's Coffee Alliance (IWCA) in Guatemala in February. The event celebrated the 10th anniversary of the organization, founded to strength the role of women in the coffee supply chain. The Brazilian delegation included a barista, a grower and a Q Grader (cupper), all of which are members of the recently created IWCA Brazilian chapter.

Source: Josiane Cotrim Macieira (on behalf of IWCA)

RECORD GRAIN CROP SIGNALS NEED FOR BETTER LOGISTICS

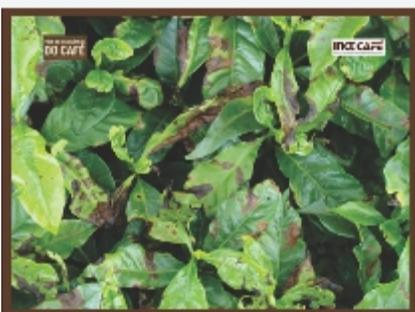
Favorable climate, strong demand and investments made in technology apart from abundant rural credit are contributing to a probable new production record in Brazil. With a grain crop expected to reach 185 million tons, the federal government is studying measures to improve logistics and storage facilities with funds from the Brazilian Development Bank (BNDES) and also through partnerships with the private sector. Ongoing discussions involve the concession of roads to private initiative since toll prices currently charged on the highways to Santos help to increase the so called "custo Brasil" ("Brazilian cost").

Source: Agência Brasil



Pictures of the Month

HALO BLIGHT DISEASE



Source: Pólo de Excelência do Café

NEW TRENDS IN COFFEE LOGISTICS AND STORAGE – THE BIG BAG REVOLUTION

The increasing Arabica and Robusta output in several countries in addition to the recent trend of larger and modern coffee mills in countries like Brazil, Vietnam and Indonesia, just to mention a few, are generating the need for more efficient logistics and handling of coffee inside the mills, between growers and mills, and also between mills and importers abroad.

Brazil, Vietnam, Honduras and Peru are some of the most dynamic origins in terms of increasing volumes due primarily to higher yields but also the expansion of planted area. According to the ICO, total coffee production totaled 144 million bags in 2012, compared to 134.4 million bags in 2011, a 7% increase. Although the world is suffering from a supply shortage of mild washed Arabicas (specially from Central America and Colombia), Robusta production seems to be growing at full pace, notably in Vietnam and Brazil. Recent news indicate a Vietnamese crop of more than 25 million bags of Robusta in 2012/2013 and the latest Brazilian crop estimate points to a Conilon output of at least 12 million bags this year.

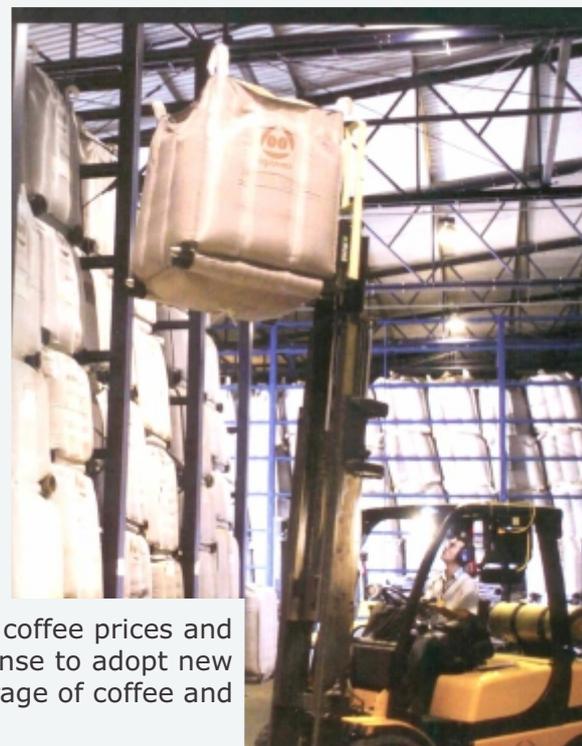
There is also an ongoing qualitative shift, with the increasing share of differentiated coffees – consistent good quality and large volumes – in several markets. Differentiated coffees are being sought after by companies that need high volumes of coffee with specific qualities such as the leading international coffee shop chains and single-serve systems. In any case, be it Arabica or Robusta, more production means that more coffee needs to be transported from the farms to the mills and cooperatives, stored in a safe and efficient way and shipped to the industry.

One of the most important changes in logistics is the gradual replacement of traditional jute bags with big bags of different sizes in mills and warehouses. A big bag is generally made from the resistant material polypropylene and comes with a set of handles for hoisting, making it easy to be handled and eliminating the need for pallets. A big bag is strong enough to hold up to 1,500 kg of green coffee (the equivalent of 25 bags of 60kg), and can be stacked up to four units high, or more if a proper structure is built, optimizing storage room. Big bags have low unit costs and can be reused many times if well cared for. The polypropylene fabric allows for the printing of information about the product (or the grower/origin) on the bag, facilitating the identification of products and organization inside the mill.

The adoption of the big bag system generates enormous reduction of labor costs related to storage, since a single worker is able to operate the forklift or crane to pile and transport the big bags around. This new system is also very dynamic, allowing coffee to be stacked and transported from one place to another faster and efficiently. The time of loading and unloading is also reduced by the use of big bags, reducing freight costs and optimizing logistics. Big bags have the additional advantage of facilitating traceability, since the bags can be equipped with a code/chip that is part of a computerized system that controls storage, if the mill chooses to work this way.

Several coffee mills and cooperatives in Brazil have chosen to work with big bags only, enjoying economies of scale, increasing efficiency and reducing costs, specially those related to labor. There are also specific cases where coffee growers are delivering their coffee in big bags to the cooperatives, making the system even more efficient.

With the ever more competitive coffee market, falling international coffee prices and unstable economies in traditional consuming countries, it makes sense to adopt new technologies that result in savings in labor costs, transport and storage of coffee and help growers and millers around the world to be more sustainable.



Credit: Cooxupé

Brazilian Prices

February 28, 2013

Main Producing Regions / Farm Gate

Arabica Naturals (R\$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	315,00 ↓
Mogiana-SP fair average quality T.6	310,00 ↓
South Minas fair average quality T.6	310,00 ↓
Arabica Pulped Naturals (R\$/ 60 kg bag)	
Cerrado-MG	325,00 ↓
South Minas	320,00 ↓

4,3%

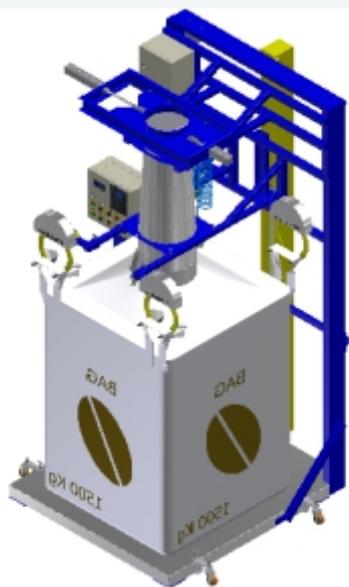
Conilon/ Robusta (R\$/ 60 kg bag)	
Colatina-ES fair average quality	278,00 ↓
BM&F (US\$/ 60 kg)	
Mar 2013	166,65 ↓
May 2013	171,40 ↓
Sep 2013	180,50 ↓
Real R\$/ Dolar US\$	
February 28	1,97 ↓

Source: www.qualicafex.com.br

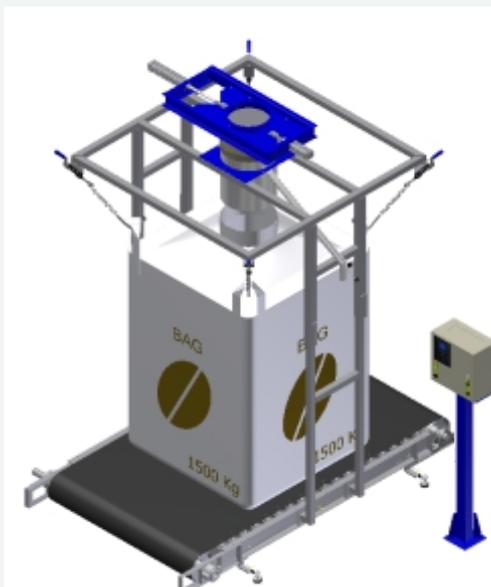
BIG-BAG SCALES AND FILLERS: SMARTBAG, FLOWBAG AND BALBAG

Different countries and companies operate with different sizes of big bags. Likewise, different roasters require the shipment of coffee in different sizes of big bags. As a result, millers and exporters have to fill and weight different sizes of big bags in their mills, often with the use of different pieces of equipment for different size bags. Pinhalense has reacted to this need and developed a unique line of machines that can fill and weigh big bags with sides from 1.00 to 1.50m and heights from 1.00 to 2.00m.

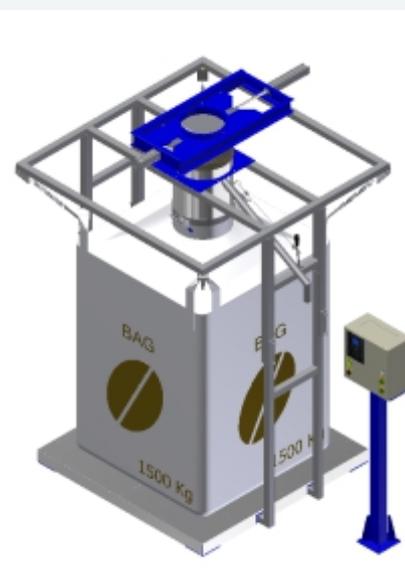
The new Pinhalense line of big-bag fillers has adjustable height and width to accommodate different big-bag sizes, its own load cell weighing system connected to a PLC for direct connection to control and automation systems, and three models to suit different applications: SMARTBAG, FLOWBAG and BALBAG.



SMARTBAG



FLOWBAG



BALBAG

The SMARTBAG has been designed for large volumes and requires a single operator. The FLOWBAG, recommended for intermediate volumes, is equipped with a belt conveyor that allows the big-bags to be moved sideways quickly to speed up operation and to facilitate forklift maneuvering. Smaller volumes, not only coffee but also milling rejects, can be handled by the BALBAG.

Whereas the SMARTBAG is compatible with and adjusts itself to big-bags of different sizes, the FLOWBAG and BALBAG are supplied for a specific big bag size within the size ranges in the first paragraph above. The specifications of these three highly efficient machines, that feature quick loading, high precision, safe operation, and automation (more sophisticated and complete at SMARTBAG), can be accessed at the link: <http://peamarketing.com.br/coffidential/big-bag-scales-and-fillers.pdf>

The new machines have been already sold to several clients after lengthy trials at the factory. An impressive number of orders have already been booked for delivery in Brazil and abroad in coming weeks.

The use of big bags in modern coffee mills and warehouses is not restricted to shipment of finished products to clients. Big bags are also used to receive coffee from growers and collection centers in some countries and to replace conventional bags and silos at intermediate storage of incoming, semi-finished and finished products. This may require the deployment of big-bag fillers in several different positions in the processing line, from reception to dispatching. In addition, warehouse logistics – transport and storage of big bags – has to be designed for and/or adapted to these new conditions.

Pinhalense projects for new mills and warehouses may include, upon the client's request, the design of storage facilities for big bags that maximize the use of floor space with the deployment of unique big-bag piling solutions.