2nd World Coffee Conference, Bahia 23 - 25 September 2005

Lesson emerging from the crisis :
New paths for the coffee sector

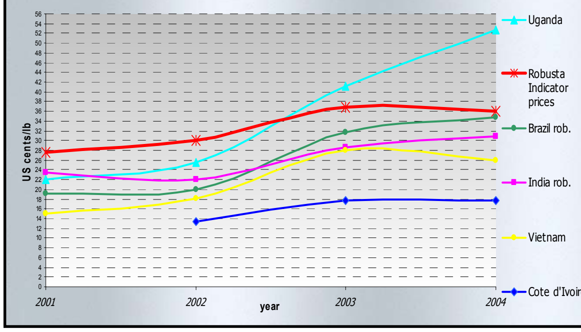
Session 2 : Coffee policies in a market economy

Giuseppe Lavazza

LAVAZZA ITALY'S FAVOURITE COFFEE

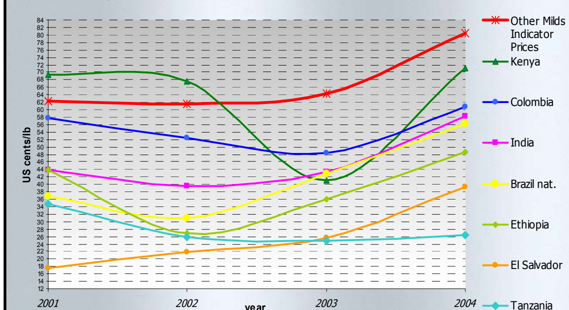
Average prices paid to growers in selected countries VS ICO Robustas Indicator Prices

Source : Intl Coffee Org.



Average prices paid to growers in selected countries VS ICO Other Milds Indicator Prices

Source : Intl Coffee Org.



Coffee Production of selected countries as % of Total

	1989	1990	1996	1997	2001	2002	2003	2004
Brazil	26,08 %	29,28 %	28,27 %	26,37 %	28,81 %	39,76 %	27,78 %	34,19 %
Colombia	13,73 %	15,25 %	10,51 %	12,30 %	11,25 %	9,75 %	10,69 %	10,17 %
Costa Rica	2,44 %	2,75 %	2,06 %	2,52 %	2,03 %	1,59 %	1,74 %	1,69 %
Cote d'Ivoire	5,10 %	3,15 %	4,70 %	4,19 %	3,37 %	2,58 %	2,59 %	1,72 %
Ethiopia	3,65 %	3,12 %	3,16 %	2,94 %	3,52 %	3,03 %	3,73 %	4,42 %
Guatemala	3,69 %	3,51 %	4,37 %	4,25 %	3,44 %	3,34 %	3,48 %	3,05 %
India	1,90 %	3,03 %	3,19 %	4,68%	4,66 %	3,83 %	4,33 %	4,29 %
Indonesia	7,31 %	7,97 %	7,46 %	7,55 %	6,41%	5,56 %	6,23 %	5,74 %
Mexico	5,37 %	5,01 %	4,94 %	4,84 %	3,94 %	3,28 %	4,39 %	3,42 %
Uganda	2,06 %	2,09 %	4,15 %	2,57 %	2,97 %	2,38 %	2,42 %	2,43 %
Vietnam	1,07 %	1,49 %	5,51 %	6,96 %	12,31 %	9,48 %	14,68 %	11,05 %

Source : Intl Coffee Org.

Competitive advantages as function of :

- ✓ Production costs and Productivity
- ✓ Quality standard
- ✓ Commercial performance

The European* coffee market: Segments weight

Source : ACNielsen

	Y.e. AM05		Y.e. AM04		Y.e. AM03	
	mio Euro	tons	mio Euro	tons	mio Euro	tons
Total coffee**	7.601	939.796	7.521	933.698	7.668	940.658
⇨ R&G	69.8%	85.0%	70.0%	85.8%	70.5%	86.5%
⇨ regular	55.7%		56.2%		56.8%	
⇨ light***	2.0%		2.2%		2.1%	
⇨ dec	6.5%		6.6%		6.7%	
⇨ espr	5.6%		5.1%		4.8%	
⇨ Soluble****	30.2%	15.0%	30.0%	14.2%	29.5%	13.5%

*Euro 11: B,D,CH,DK,ES,F,GK,IRL,I,NL,UK
** Excluded Greek coffee: (0,8 Weight in Value) ***Excluded CH ****Excluded Spain

The European* coffee market: Segments Trend

(vs previous year)

Source : ACNielsen

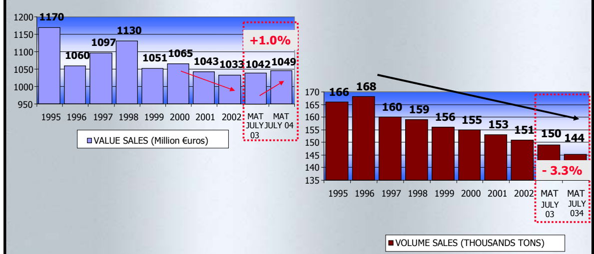
	Y.e. AM05		Y.e. AM04	
	mio Euro	tons	mio Euro	tons
Total coffee**	1.1%	+0.6%	-1.9%	-1.8%
⇨ R&G	0.7%	-0.4%	-2.6%	- 2.6%
⇨ regular	0.3%		-3.0%	
⇨ light***	- 8.4%		-0.0%	
⇨ dec	- 0.5%		-4.2%	
⇨ espr	+11.1%		+4.6%	
⇨ Soluble****	+2.0%	+ 7.0%	-0.3%	+3.2%

*Euro 11: B, CH,D,DK,ES,F,GK,IRL,I,NL,UK

** Excluded Greek coffee: (0,7 Weight in Value) ***Excluded CH ****Excluded Spain

FRANCE : Coffee Market decreasing in volume

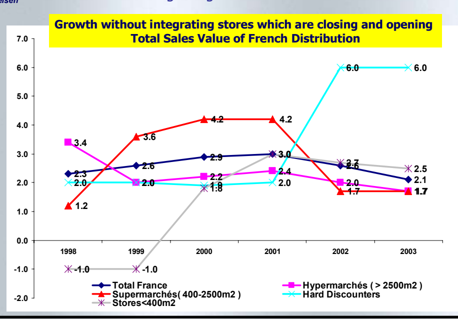
Roasted coffee is still decreasing in volume **but experiencing a new trend in value sales.**



FRANCE : Hard Discount

Only Hard Discounters are more dynamic during the 2 last years, taking profit from the beginning of Euro in France…

Source: Nielsen

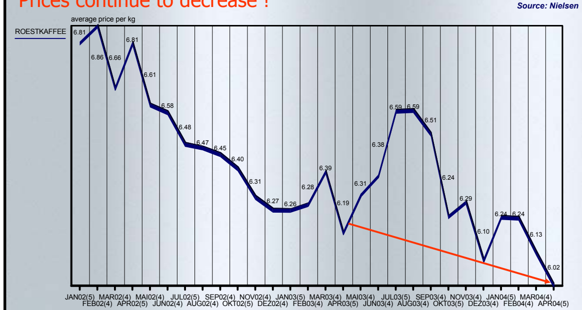


GERMANY: Roast and Ground Average Price (€/kg)

grocery w/o Aldi + drugstores

Prices continue to decrease !

Source: Nielsen



GERMANY: Espresso Price (€/kg)

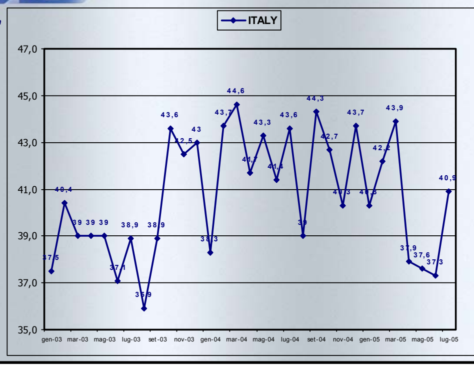
Source: Nielsen

ITALY: Roast and Ground Price (€/kg)

Source: Nielsen

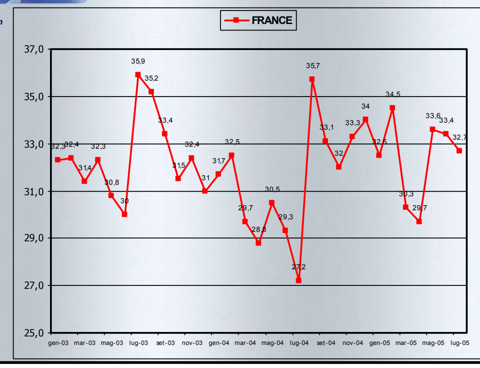
PROMOTIONAL INTENSITY INDEX

Source: Nielsen

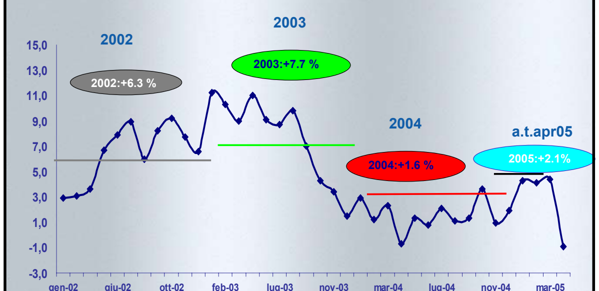


PROMOTIONAL INTENSITY INDEX

Source: Nielsen

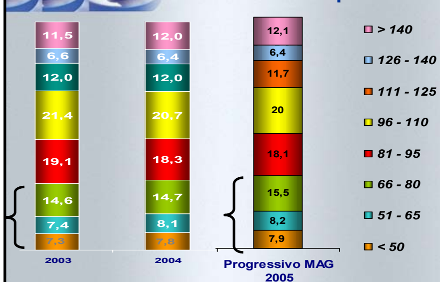


ITALY – Sales – Total Grocery Value changes vs previous years



Souce: ACNielsen Trade*Mis

ITALY – Variation of price scale Total Grocery % share on price index range

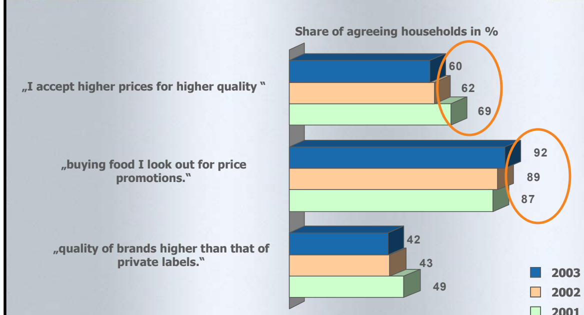


Total share of products with prices 20% below average
29.3% → 32.5%

* 100= media categoria

Source: ACNielsen Trade*Mis –

GERMANY: Consumers and Price



Source: ACNielsen Haushaltspanel 2003

Federal Republic of Germany
Percentage distribution of not-decaffeinated Green coffee net imports by main sources
- in % -

Countries of origin	2003	2004
Brazil	30,63	27,19
Vietnam	13,21	18,59
Columbia	11,08	8,74
Indonesia	6,88	6,50
Peru	5,21	5,74
Honduras	4,26	4,90
Ethiopia	4,16	4,58
Papua New Guinea	4,31	3,47
El Salvador	2,33	3,11
India	1,86	1,89
Guatemala	2,45	1,71
Kenya	1,84	1,67
Uganda	1,85	1,61
Costa Rica	1,80	1,56
Mexico	1,27	1,42
Nicaragua	0,62	0,96
Tanzania	1,75	0,96
Rwanda	0,29	0,76
Burundi	0,69	0,76
China	0,61	0,74
Others	2,90	3,14
Total	100,00	100,00

Source: Statistisches Bundesamt

United Kingdom
Percentage distribution of green coffee non-decaffeinated imports by main origin
- in % -

Countries of origin	2003	2004
Vietnam	25,5	34,2
Brazil	20,3	20,7
Colombia	14,2	11,8
Indonesia	13,1	8,4
Peru	3,8	4,4
Nicaragua	3,7	3,9
Honduras	4,0	3,8
Kenya	3,0	3,0
El Salvador	1,5	1,6
Ethiopia	1,0	1,5
Costa Rica	1,6	1,3
India	0,6	0,9
Uganda	1,4	0,9
Guatemala	1,8	0,9
Mexico	1,6	0,4
Tanzania	0,2	0,3
Papua New Guinea	0,3	0,2
Others	1,8	1,8
Total	100,0	100,0

Source: Coffee Trade Federation Ltd

Federal Republic of Germany: Retail prices of roasted coffee 1970-2004

Year	Eur/500 gr
1970	4,24
1975	4,10
1980	4,94
1985	5,46
1990	3,70
1991	3,57
1992	3,55
1993	3,43
1994	3,82
1995	4,08
1996	3,58
1997	3,97
1998	4,02
1999	3,56
2000	3,43
2001	3,27
2002	3,06
2003	3,00
2004	2,91

average consumer price of not-decaffeinated roasted coffee

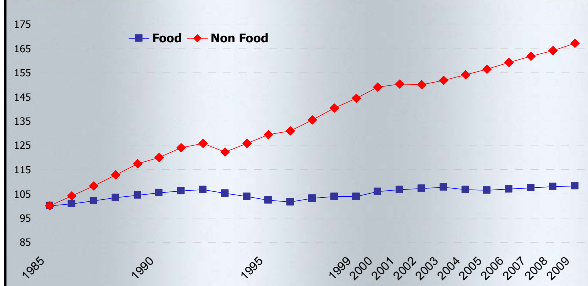
Source: German Coffee Association

Sweden: Retail prices roasted ground coffee
1993 - 2004

Year	SEK/kg
1993	44,08
1994	64,00
1995	76,20
1996	58,60
1997	73,40
1998	77,20
1999	63,80
2000	61,00
2001	57,60
2002	54,60
2003	52,30
2004	49,90

Source: Statistics Sweden

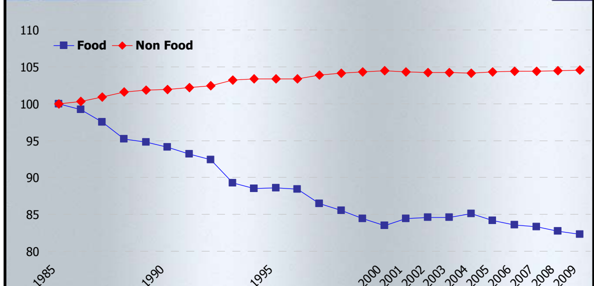
Consumption Macrotrends in Italy
Index 1985=100



var%	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Food	1.1	0.7	0.4	-1.3	-1.2	-1.6	-0.8	1.6	0.8	0.0	2.0	0.5	0.7	0.4	-1.1	-0.1	0.5	0.5	0.4	0.4
Non Food	2.2	3.3	1.5	-2.9	3.0	2.9	1.2	3.5	3.5	2.9	3.3	0.7	-0.1	1.1	1.6	1.3	1.8	1.6	1.5	1.8

Source:Istat, elaborazioni ACNielsen

Relative Price Macrotrends in Italy
Index 1985=100



var% prezzi	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Food	5.8	5.9	4.8	1.6	3.9	6.0	4.4	-0.1	0.9	0.8	1.6	3.9	3.4	2.7	2.9	1.1	1.2	1.8	1.3	1.9
Non Food	6.7	7.3	5.9	5.8	5.1	5.9	4.6	2.6	2.3	2.3	2.9	2.6	3.1	2.6	2.2	2.3	2.0	2.3	2.2	2.3

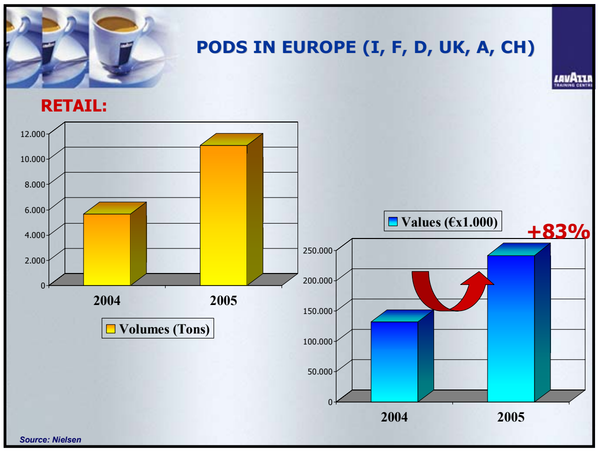
Source :Istat, elaborazioni ACNielsen

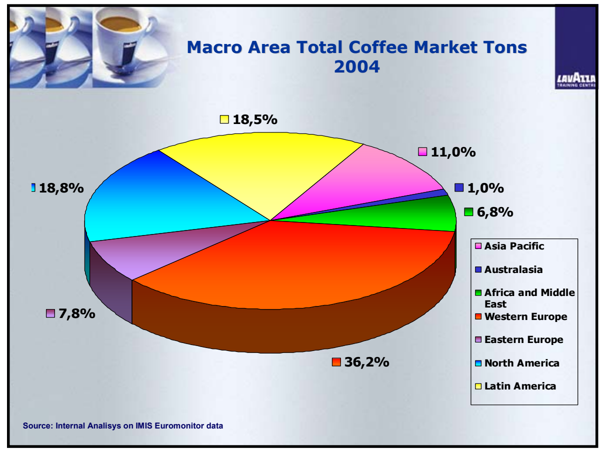
European Roast & Ground coffee: competitors value shares Euro 11*

	Y.e. AM05	Y.e. AM04	Y.e. AM03
Total Roast & ground	100.0%	100.0%	100.0%
	5.302 mio	5.267 mio	5.407 mio
⇨KJS	21.2%	22.1%	22.5%
⇨Private Label (Inc.Aldi+Migros)	19.5%	19.3%	19.2%
⇨Sara Lee	13.8%	13.6%	13.2%
⇨Lavazza	9.6%	9.8%	9.9%
⇨Tchibo	6.9%	7.0%	7.0%
⇨Nestlè	4.7%	4. 6%	4.6%
⇨Melitta	4.1%	4.3%	4.5%
⇨Segafredo	1.7%	1.9%	2.0%

*B,CH,D,DK,ES,F,GK,IRL,I,NL,UK

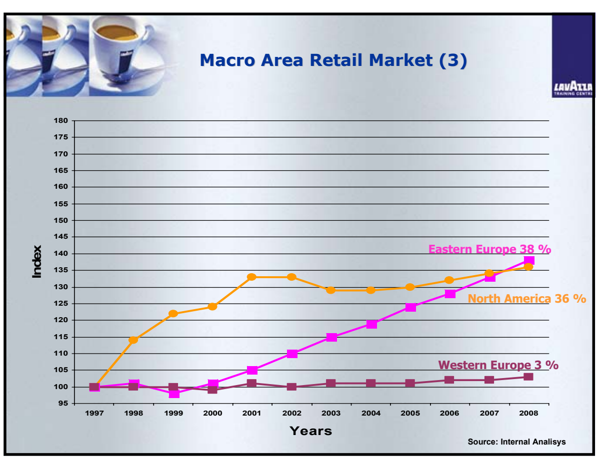
Source : ACNielsen

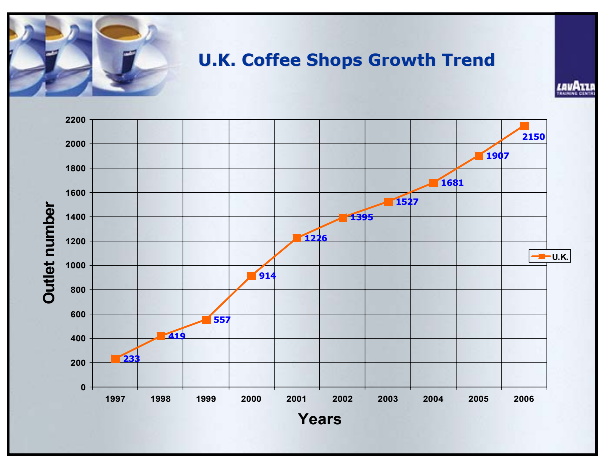

PODS IN EUROPE (I, F, D, UK, A, CH)
RETAIL:
12.000
10.000
8.000
6.000
4.000
2.000
0
2004
2005
Volumes (Tons)
Values (€x1.000)
+83%
250.000
200.000
150.000
100.000
50.000
0
2004
2005
Source: Nielsen


Macro Area Total Coffee Market Tons 2004
18,5%
11,0%
1,0%
6,8%
18,8%
7,8%
36,2%
Asia Pacific
Australasia
Africa and Middle East
Western Europe
Eastern Europe
North America
Latin America
Source: Internal Analisys on IMIS Euromonitor data

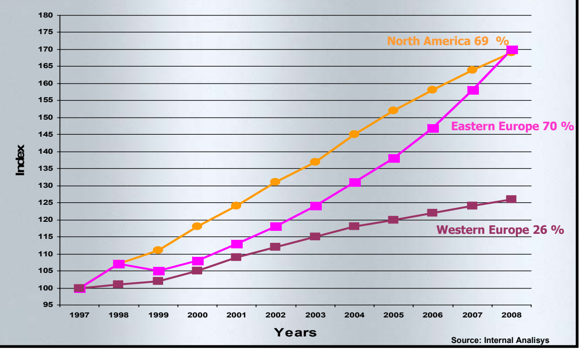

Macro Area Retail Market (1)
Index
Africa Mid. East 62 %
Latin America 30 %
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Years
Source: Internal Analisys


Macro Area Retail Market (2)
Index
Asia Pacific 61 %
Australasia 29 %
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Years
Source: Internal Analisys

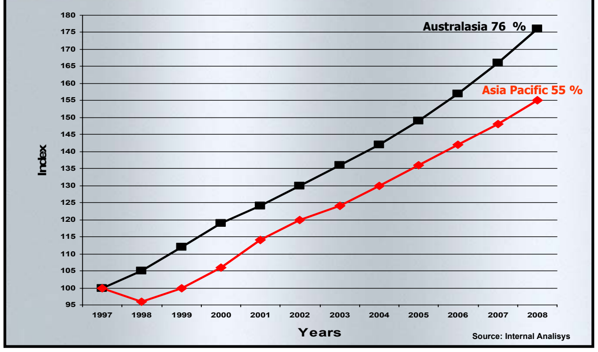

Macro Area Retail Market (3)
Index
Eastern Europe 38 %
North America 36 %
Western Europe 3 %
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
2008
Years
Source: Internal Analisys


U.K. Coffee Shops Growth Trend
Outlet number
233
419
557
914
1226
1395
1527
1681
1907
2150
U.K.
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
Years

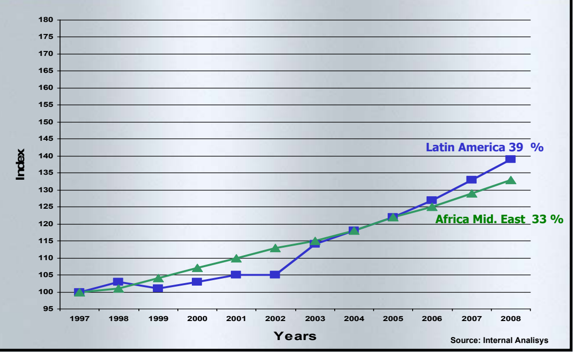
Macro Area A.F.H. Market (1)



Macro Area A.F.H. Market (2)



Macro Area A.F.H. Market (3)



- ✓ Product innovation
- ✓ Market with growth potential
- ✓ New segments (in mature markets)
- ✓ Attract young consumers

Thanks for your attention

Giuseppe Lavazza

LAVAZZA
ITALY'S FAVOURITE COFFEE