



SUSTAINABILITY

A CHALLENGE ALL THE WAY FROM THE COFFEE BEAN TO THE COFFEE CUP



Federación Nacional de
Cafeteros de Colombia

2012 FNC Sustainability Report

Message from the CEO

We are pleased to present the 2012 Sustainability Report of Café de Colombia and the Colombian Coffee Growers Federation. Based on the suggestions and recommendations from our customers, various stakeholders and coffee producers from around the country, we changed the structure of the report in order to make it easier to read. We are issuing two formats: a long version and two shorter ones that address the most relevant issues to consumers and to Colombian coffee producers.

As far as Federation activities are concerned, we are pleased to report that in 2012 our organization, once again, increased the contributions of coffee producers **over 3.4 times**. Our reputation for professionalism and transparency has allowed us to partner with local and global entities in order to implement projects that generate additional funds.

Thanks to the Federation's ability to swiftly pass from a stage of assessment to one of implementation and of collective and effective action, the total value of the initiatives associated to our Sustainability that Matters programs—including producers' in kind and farm contributions—reached USD\$ 409 Million (COP **\$736 billion**) in 2012.

2012 will undoubtedly be remembered as the year when the effects of La Niña phenomenon, which ravaged our country for almost three consecutive years, came to an end. The resulting rains significantly affected crop productivity, and consequently, the amount

of harvested coffee. Our institutional goal and main strategic objective during 2012 was maintaining our consistent and coherent efforts to adapt Colombian coffee growing to climate change and variability. We were able to maintain a coffee plantation renovation pace that reached over 117 thousand hectares, the majority of which were planted with rust resistant varieties. The so-called immunization of Colombian coffee trees against the fungus—which began to affect other mild Arabica coffee producing countries by the end of 2012— will undoubtedly constitute one of the main sustainability factors for Colombian coffee production in upcoming years.

This effort is crucial in terms of productivity. During the past few years we planted the coffee park of the upcoming decade with more resistant and productive varieties. They will be more productive during their young cycles and will strengthen the income of producers.

Despite the good news in terms of productive restructuring and adaptation to climate change, 2012 will also be remembered as the end of a cycle of high prices that was very favorable for producers. While coffee production recovery was on its way, the international prices began to drop. Combined with the appreciation of domestic currency against the US dollar, this led to a fall in domestic coffee purchase prices.

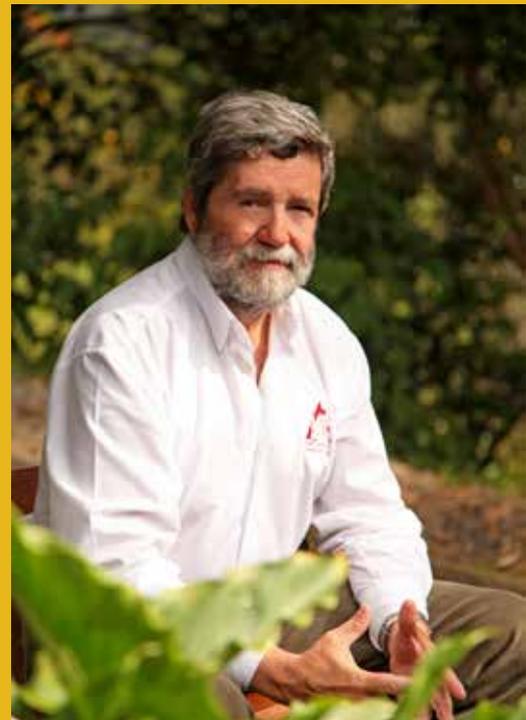
This had very negative effects on the profitability of coffee production. Coffee leaders soon expressed



their concern to various Colombian government bodies. The first subsidies to coffee grower incomes were distributed by the end of October and we hope this measure will be strengthened over the following months.

Thus, although there is uncertainty as to what 2013 will bring in terms of coffee prices, the fact that productivity is likely to return to its historical levels raises encouraging expectations. We hope that the expected increase in productivity will mitigate the impact of falling prices.

The upcoming cycle of low prices will surely generate tension and uncertainty. However, the work we have developed prepares us to face the situation with confidence, higher production and competitiveness. When it comes to an end, Café de Colombia and its producers will be stronger thanks to the strategic investments of the past few years.



A handwritten signature in black ink, appearing to read 'Luis Genaro Muñoz Ortega'. The signature is stylized and cursive.

Luis Genaro Muñoz Ortega
CEO
Colombian Coffee Growers Federation

SUSTAINABLE MANAGEMENT AND PERFORMANCE

410.000

Coffee growers associated to the Federation.

588 Coffee brands around the World, marketed products belonging to the 100% Café de Colombia programme.

USD 8,5 Million

Transferred in surcharges for specialty coffee producers.

39 Countries received Colombian coffee exports handled by the Federation.

25% Of the total Café de Colombia exports are handled by the Federation.

1.8 Million

Million bags in total export.

67% Of the total export of the Federation, corresponded to sales of coffee with added value.

97% Of water was reused thanks to Federation actions through Buencafé.

30% Of the materials used in the trays of flexible packaging for freeze-dried coffee contain recycled fibers.

99% Of the waste produced by the Federation through Almacafé is reused to produce fuel, fertilizer or animal feed.

13,6% Reduction in energy use in the freeze-dried coffee factory.

5,15% Reduction in the use of electricity used by the Federation through Almacafé.



6 Awards

received for the Federation's management of reputation, sustainability, environment and positioning.

2764 Total collaborators.

1669 Direct coffee grower advisory professionals.

33% Of the all collaborators are women.

52% Of collaborators have been with the Federation for over 6 years.

1238 Collaborators received in-person training.

66% Of the collaborators were graded as outstanding in their performance assessment.

38% Of the collaborators are part of the Occupational Health and other similar Committees.

501.000 Hectares

Of all coffee plantations are planted with technically intervened resistant coffee plants.

1375 km Of the roads of the Road to Prosperity programme are taken care of by the road builders of the programme.

USD 826 Million

In short-term credit lines to provide social benefit of the purchase guarantee for producers all over the country.

2012 IN NUMBERS

About the Colombian Coffee Growers Federation

The FNC is a non-profit institution that combines a business approach, national and international fundraising and trade representation to benefit the wellbeing of coffee producers and their families through the provision of public goods. It is constituted by the coffee producers all over the country and their trade leaders.

The Federation's main goal is to guide, organise, promote and regulate Colombian coffee production seeking the wellbeing of the coffee growers through collaboration and participation mechanisms and the promotion of an economic, scientific, technological, industrial and commercial character, trying to maintain the strategic social capital of the country's coffee production.

MAIN ACTIVITIES OF THE FEDERATION:

Production transformation: Actions focused on consolidating a productive and competitive coffee growing.

Technical assistance: Provided through the FNC Advisory Service, made up by technicians and agronomists who support the producers to guarantee quality and the use of the best production practices and processes, as well as the implementation of business management programmes, technology transfer, specialty coffees, competitiveness and credit.

Scientific research: Through Cenicafé, generation of appropriate, competitive and sustainable technology and knowledge, to increase productivity, competitiveness and profitability of the activity and, thus, contribute to the wellbeing of the Colombian coffee growers.

Purchase guarantee: Guaranteeing coffee sales through the Federation's Commercial Management and the coffee growers' cooperatives at a transparent market price, with sales points close to the farms, without limitations on quantity, and permanent cash payments, thus, reducing transaction costs for the producers and

promoting coffee competition in the local markets of the 588 coffee producing municipalities in Colombia.

Quality control: Contributes to the institutional policy of product differentiation and support to guarantee the reputation of Colombian coffee and the generation of bonuses for the coffee producers. This is complemented and strengthened by the legal systems to protect the designation of origin of Café de Colombia, and the product certification schedules brought forward by Almacafé, - CAFECERT.

Promotion and positioning: Includes the implementation of brand and marketing strategies to create a higher demand and added value for the producers, as well as actions to defend the origin and positioning of Colombian coffee as the best in the world.

Investment in the social fabric: Permanent programmes and investments for the development of the producers and the rural communities in the coffee zones.

Connectivity: Generate digital access and content aimed at the producers.

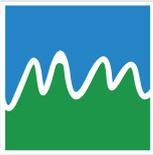


Support and business units



Federación Nacional de Cafeteros de Colombia

SUPPORT UNITS



FUNDACIÓN Manuel Mejía



Cenicafé



alma café

The Colombian Coffee Growers Federation has subsidiaries and support units that together provide services for the coffee growers to increase the participation of Colombian coffee in the market and promote the development and growth of the coffee community in general.

ENTIDADES ADSCRITAS A LA INSTITUCIONALIDAD CAFETERA

PROGAFÉ



Parque Nacional del Café

COOPERATIVAS DE CAFICULTORES

FONDO NACIONAL DEL CAFÉ (FoNC)

BUSINESS UNITS

Buencafé
Liofilizado de Colombia



Juan Valez

Brands and Seals that Position Colombian Coffee

Colombia produces and exports a significant quantity of coffee to dozens of countries. The purpose of the FoNC marketing portfolio managed by the Federation, is to position Colombian coffee in the mind of clients and consumers as a superior quality coffee, associated to good environmental and social practices in its cultivation. Thus, industrial clients are encouraged to buy Colombian coffee and market brands elaborated based exclusively on 100% Colombian coffee, which guarantees, through differentiation and positioning, the best prices to the national producers and greater investments in public goods.

This portfolio is made up of 1983 trademark registrations distributed in over 140 countries around the world.

The main efforts in terms of positioning undertaken by the Federation are aimed at the following brands, licensed on different continents to industrial and specialized clients:

CAFÉ DE COLOMBIA

Global ingredient Brand with emphasis in North America and Western Europe

This Brand is implemented under an “Ingredient Brand” strategy and acts as a symbol that supports the quality and origin of 100% Colombian coffee brands around the world. **In December 2012, around 1.430 third-party coffee references in the world had the Café de Colombia Logo as their ingredient brand.**

In addition, Café de Colombia, as a protected origin product, has been awarded the following recognitions:

Certification marks: In the United States and Canada.

Protected Denomination of Origin – PDO: Identifies and protects the green and processed coffee produced in the Colombian coffee zone. The PDO is recognized in Colombia and the CAN nations.

Protected Geographical Indication– PGI: Identifies and protects all the excellent quality green and processed coffee produced in the Colombian coffee zone. The PGI was recognized by the European Union.

Regional Protected Denominations of Origin: as a segmentation strategy complementary to the origin protection initiatives, the Federation promoted the recognition of Regional DOs. The DO Café de Nariño and DO Café de Cauca were recognized at the end of 2012.



JUAN VALDEZ

Global product Brand with emphasis in Colombia, North America and Latin America

This Brand is implemented under the “product Brand” strategy based on the endorsing signature of the Juan Valdez character, representative of the Colombian coffee producers. The Brand identifies the Juan Valdez Café products and establishments aimed at consumers, which make royalty payments to the FoNC for the use of the Brand name. These funds are used to help finance the public goods provided by the Federation for all coffee producers.

“The Juan Valdez brand is becoming one of the most recognized at national and international levels, thanks to the expansion and the management of the franchises. The brand has contributed to increasing coffee culture and strengthening awareness about Colombian coffee in the world.” *Café en Colombia - Euromonitor 2013.*



EMERALD MOUNTAIN

Brand with emphasis in Asia, Japan and Korea mainly

This Brand is implemented under the “Ingredient Brand” strategy, and has an innovative quality and product concept in the ready-to-drink modality.



PAISAJE CULTURAL CAFETERO - PCC

Global ingredient Brand with emphasis in Colombia and Asia

This Brand is implemented under the “Ingredient Brand” strategy and identifies coffee from the 51 municipalities that make up the Coffee Cultural Landscape declared by Unesco as a World Heritage Site. Its use is regulated by the rules agreed upon with the Colombian Ministry of Culture and other actors in the region.

BUENDÍA

Global product Brand with emphasis in Colombia and Ecuador

Buendía is a Brand leader in the category of freeze-dried coffee in Colombia and it is used to identify the freeze-dried coffee produced and marketed by Buencafé freeze-dried coffee in certain markets.

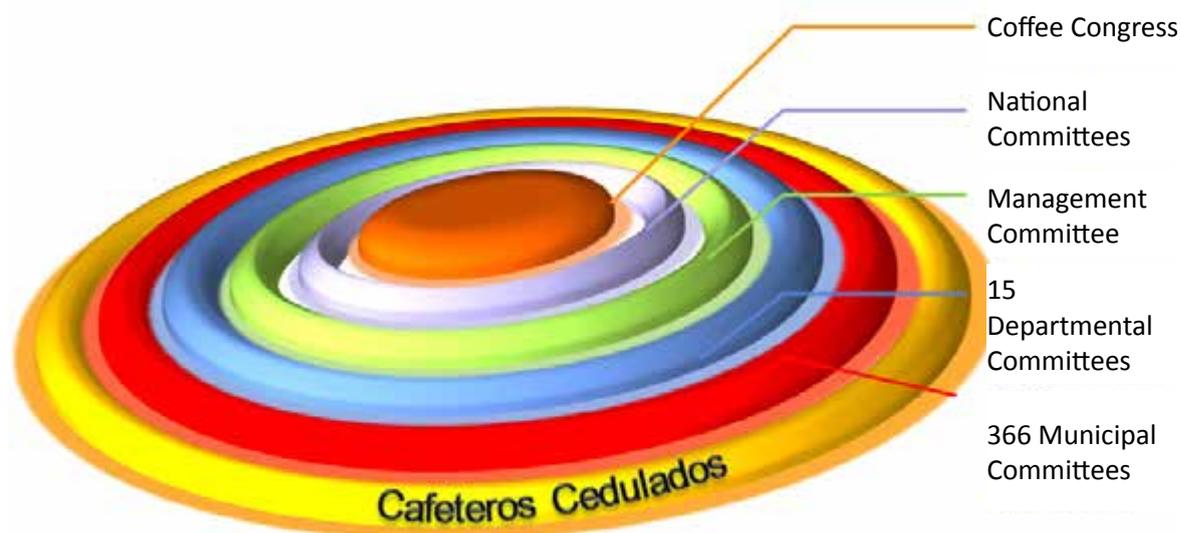


Sectoral, unique and participating Government

To ensure the efficiency, legitimacy and democratic character of the Federation, the coffee growers' association has a participative structure, centred on the productive and social development of coffee growers' families.

Coffee growers with credential: This accreditation is received by those who own at least half a hectare planted with coffee and have at least 1500 trees planted. The Coffee growers' credential, that identifies producers as associated coffee growers of the Federation. These growers acquire the right to vote for their representatives or be elected as members of the Departmental and Municipal Coffee Growers' Committees, which are the decision-making organisms within the sectoral administration structure.

Reaching consensus and decision making in the Federation follows the below structure:

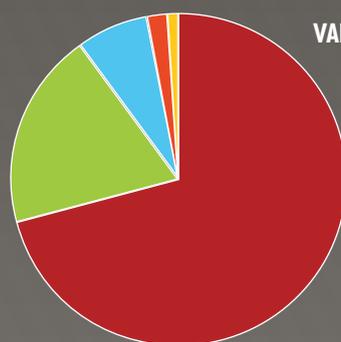


Financial Management and Investment in coffee growing

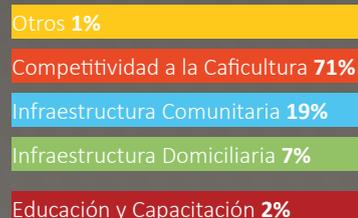
Thanks to Federation initiatives in 2012, investments were generated for an amount of USD\$409 Million; Financed with funds from the national, departmental and municipal governments, national and international co-operation bodies, clients and other interested parties, as well as FoNC (the National Coffee Fund) and from benefitting communities.

71% of these funds were allotted to coffee growing competitiveness programmes, promoting thus the sustainability of coffee growing families' incomes. Similarly, 19% of funds were invested in projects providing road maintenance and rural infrastructure improvement. The remaining funds were invested in projects for the construction of housing (7%), education and training (2%), environmental conservation, social protection and consolidation of the sectoral organisation (1%).

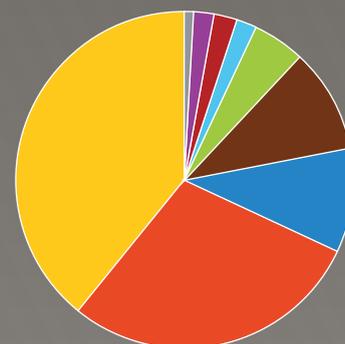
Thus, in 2012, producers received, from their collective savings, direct benefits for an amount of more than 3.4 times their total coffee contributions to the National Coffee Fund.



VALOR CREADO POR RUBRO DE INVERSIÓN SOCIAL



VALOR CREADO POR APORTANTE



Sustainability that Matters®: Sustainability at the Heart of our Strategy

The Federation groups together different Sustainability that Matters® programmes on four main axes: coffee farm, community, environment and connectivity.

From the vulnerabilities and risks perspective, some factors may present a risk for the sustainability of Colombian coffee growing with a direct impact on its producers and, as a consequence, on their clients. The following table sums up the risks and the actions undertaken by the Federation:

POTENTIAL RISK FOR THE SUSTAINABILITY OF COFFEE GROWING	SOME RISK-MANAGEMENT ACTIONS UNDERTAKEN BY THE FEDERATION
Low productivity	Transformation process of the productive structure of all Colombian coffee plantations based on “technification”.
Climate change	Implementation of initiatives such as: Winter Spell Programme, Climate Intelligent Coffee Growing, and Early Warning System.
Water source pollution	Implementation of the National Coffee Federation’s Forest Programme and the development and implementation of beneficial technology such as Ecomill®, which reduces the use of water in post-harvest processes.
Social destabilisation due to the internal conflict.	In this respect, the Federation has implemented initiatives such as the Huellas de Paz Programme and the Sustainable Colombian Coffee Programme. In addition to the above, there is the active presence of the FNC advisory service in marginal coffee zones.
Misuse of the image or brand and origin falsification.	Federation actions concentrate on the Designation of Origin Strategy and the Brand Portfolio Protection initiative.
Decreased Crop Profitability due to lower prices.	Dialogue with the Colombian Government to optimize the coffee growers’ income during the climate of low prices.



COMMUNITY

Programs implemented in 588 coffee municipalities in Colombia, aimed at the consolidation of social processes and community infrastructure, to the benefit of all the inhabitants of this region.

The Federation is one of the key actors involved in community impact. With its own resources and, more recently, through an alliance with the Government and other donors, it has developed: 12 thousand aqueducts, 19 thousand new classrooms, 15 thousand kilometers of road improvement and 500 hospitals.

Promoción del Café de Colombia alrededor del mundo



Through technology and connectivity, the Federation seeks to provide the producers with all the advantages of the modern world to receive more and better services, in turn, improving their quality of life.

4000 tablets were delivered in 2012, contributing to the producers' access to connectivity and rapid search for valuable information related to the crops and other coffee activities. In addition, there is the implementation of the Smart Coffee ID, which also provides financial services.

CONNECTIVITY

COFFEE FARM

These programs seek to improve the profitability of the producers and guarantee that their crop is sustainable. They are focused on the implementation of the Sustainability Code, The Good Agricultural Practices Quality System, access to credit for the renewal and maintenance of coffee plantations, and allowing small-scale producers access to attractive markets such as the specialty coffees with value added for the producer.

Innovación y asistencia técnica



Garantía de Compra



Significant efforts and investments are made in terms of research and knowledge, conservation and intelligent management of the environment. They include scientific research programs that favor environmental and biodiversity conservation in the coffee areas, and the adaptation to and mitigation of climate change, among other aspects.

Cenicafé, the Federation's scientific research center has developed different scientific research programs to favor environmental and biodiversity conservation in the coffee growing areas, as well as in programs focused on the adaptation to and mitigation of the effects of climate change. The center also develops knowledge and technologies to monitor soils and erosion, for saving water, and the efficient use of fertilizers that are then transferred to the producers through the FNC extension service.

ENVIRONMENT

Purchase guarantee and actions to achieve the best price in 2012

Purchase guarantee is a strategy developed by the Federation that seeks to guarantee any coffee producer that his or her beans will be bought at a transparent market price. This policy is implemented through market mechanisms to create competition between private actors for the coffee supply in hundreds of local markets all over the country, thus strengthening the negotiating capacity of the producers.

BETWEEN 9% AND 11%

average surcharges the Federation paid to coffee growers over the published basic price.

2,1 MILLION 60KG BAGS

were acquired, equivalent to 27% of total production, forcing other actors to compete with the Federation.

5,6 USD¢/POUND

surcharge received by coffee growers who sold their coffee in specialty coffee programmes, an amount equivalent to USD\$ 8.5 million.






Punto de Servicio
COMPRAS CAFÉ

PRECIO DEL CAFE	
FACTOR 87: \$	240 240 240 240
FACTOR 89: \$	240 240 240 240
FACTOR 90: \$	240 240 240 240
FACTOR 92.8: \$	240 240 240 240
FACTOR 93.35: \$	240 240 240 240
FACTOR 96: \$	240 240 240 240
FACTOR 98: \$	240 240 240 240

SUSTAINABILITY THAT MATTERS AT THE SERVICE OF THE COFFEE PRODUCERS

The Federation has addressed many long-term challenges that could negatively affect the growth and development of coffee growers. In 2012, the following results were achieved.

→ Productivity Improvement of the Plantations

117.236 hectares

were registered as new plantings and renewals.

94% Of the crops renewed during the year were renewed with rust-resistant varieties, which led to increased production volumes.

→ Purchase Price Optimization

5,6 USD¢/pound

surcharges received by coffee growers for the sale of their coffee as part of specialty coffee programmes. This represented USD\$ 8.5 million in surcharges for this type of coffee.

93% Of the international coffee price was transferred to the producers.



→ Research, Development and Training

36.967 group activities

Undertaken by the Federation's advisory service, as one of the multiple training alternatives at the service of the producers.

94% Of the plantations have become more technical.

→ Iniciativas ambientales que mitigan los riesgos para el cultivo

105 sites for the installation of automatic agro-climatic stations in the coffee regions.

89 specialty coffee programmes

Sustainable programmes, promoted by the Federation, which are audited on a yearly basis by external certification and verification bodies.

→ Connectivity and Technological Development

More than 560 thousand farmers

Equivalent to approximately 1.8 million batches of coffee, have geo-referenced information, thanks to the SICA WEB initiative.

Contributions to the Social Fabric of Colombia in 2012

Colombian coffee growing is not only an agricultural and economic activity that involves associated benefits to the crop and producers. The Federation has also invested in various programs that impact the social development and pacification of the coffee region.

ROAD INFRASTRUCTURE PROGRAMME

This programme seeks to connect the areas of agricultural production with the rest of the country through investment in infrastructure.

•.....
2.050 KM

Of roadway received road infrastructure maintenance or improvement was carried out.

•.....
307 ROAD BUILDERS

Participated in the programme that employed their workforce for routine manual maintenance as part of the Road Infrastructure Improvement Programme.

•.....
USD \$ 10 MILLION

COP \$18 billion invested in tertiary roads in 151 municipalities in Caldas, Cauca, Cundinamarca, Santander, Magdalena and Valle del Cauca.

HUELLAS DE PAZ PROGRAMME

This programme aims to strengthen the social fabric of the coffee-growing region and to offer communities financial and productive tools that help to dismantle the illegal networks that are a consequence of the country's historical armed conflict.

•.....
USD \$9.5 MILLION

Invested in the reconstruction of the social fabric of rural families affected by the internal armed conflict.

•.....
6.667 PEOPLE

Trained in skills that allow them to strengthen social and participative skills in the last stage of the Culture of Peace Programme.



COLOMBIAN SUSTAINABLE COFFEE PROJECT

With the help of the Douwe Egberts Foundation, this programme seeks to create the right conditions for the return of farmers to their land, peaceful coexistence, sustainable human development, the eradication of poverty, and the full exercise of the rights of the coffee growers.

2.371 HECTARES OF COFFEE

These activities, together with consultancy to get access to credit for renewal, have contributed to the reactivation of more than 2,371 hectares of coffee.

600 BENEFIT FAMILIES

The intervention strategy was made up of ten activities aimed at building skills, the construction and installation of production infrastructure and technical updating processes.

COUNTRYSIDE UNIVERSITY PROGRAMME

Seeks to improve the educational conditions of the communities located in the country's Coffee region.

928 STUDENTS

Have been supported to begin, during the last years of their study, university training programmes at technical level (two years) and technological level (one year more) .

FOR MORE IN-DEPTH INFORMATION OR TO LEARN MORE ABOUT THE COLOMBIAN COFFEE GROWERS FEDERATION LOOK FOR THE FULL VERSION OF THE 2012 SUSTAINABILITY REPORT



www.SostenibilidadEnAccion.org