

Cocoa Market Update



Cacao trees generally grow in regions located within 20° latitude of the Equator
 Ideal climate conditions are hot, rainy tropical areas with lush vegetation to provide adequate shading for the trees

A typical pod contains 20 to 50 beans and approximately 400 dried beans are required to make one pound of chocolate

INTRODUCTION TO COCOA MARKET

Cocoa serves as an important crop around the world: a cash crop for cultivating countries and a key import for processing and consuming countries. Cocoa travels along a global supply chain crossing countries and continents. The complex production process involves numerous parties including, among others, farmers, shipping organizations, processors, chocolatiers, and distributors. Cultivation of cocoa at the farm level is a delicate process as crops are susceptible to various conditions including weather patterns, diseases, and insects. Unlike larger industrialized agribusinesses, the vast majority of cocoa still comes from family-run small farms who are often confronted with outdated farming practices and limited organizational leverage. With a steady demand from worldwide consumers, there are numerous efforts and funds committed globally to support and improve cocoa farm sustainability.

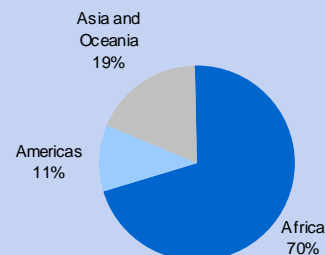
In terms of global scale of crop production, cocoa ranks among other key bean and nut commodities and has grown by 12% since 2004. Cocoa is traded on two world exchanges in two currencies: London (LIFFE - Pound) and New York (ICE - USD).

Crop	2003	2004	2005	2006	2007	% Growth
Cashew nuts	2.4	2.8	3.0	3.2	3.2	31.1%
Cocoa beans	3.6	4.0	4.0	3.9	4.0	12.0%
Coffee	7.2	7.6	7.1	7.8	7.7	7.7%
Groundnuts	36.2	36.2	38.1	34.5	34.9	-3.8%
Soybeans	190.8	205.5	214.2	222.4	216.1	13.3%

Source: FAOSTAT 2009

KEY COCOA FACTS

World Producers of Cocoa



Major Producing Countries

Africa: Cote d'Ivoire (40% global), Ghana, Nigeria, Cameroon

Asia and Oceania: Indonesia, Papua New Guinea, Malaysia

Americas: Brazil, Ecuador, Colombia

Small cocoa farms provide more than 90% of world cocoa production

In Africa and Asia, a typical farm covers 2 to 5 hectares (4.9 - 12.3 acres)

5-6 million cocoa farmers exist worldwide

40-50 million people depend on cocoa for their livelihood

SUPPLY: PRODUCTION

Numerous cocoa market experts and analysts provide reports based on historical, current, and projected levels. Cocoa bean production is closely monitored as trade balances, pricing, and futures contracts depend largely on supply side factors.

As depicted below, total production has slightly increased in absolute terms from 3.42 million tonnes in 2004-2005 to projected 3.43 million tonnes in 2008-2009. Change in production has not been linear, however, and has fluctuated in various patterns among the different regions. Africa has been and is projected to remain the principal cocoa producer with 70% market share.

	2004-2005	2005-2006	2006-2007	2007-2008	2009	2009	2008-2009	04/05 to 08/09
	Total	Total	Total	Total	Jan-April	Apr-June	Total	% Change
Total Production (000 tonnes)	3,421	3,762	3,421	3,664	934	485	3,430	0.26%
% Change	-2.1%	10.0%	-9.1%	7.1%	-6.9%	4.9%	-6.4%	
Total Africa	2,414	2,647	2,378	2,602	695	194	2,372	-1.74%
% Change	-3.5%	9.7%	-10.2%	9.5%	-9.0%	-10.6%	-8.9%	
Cameroon	190	172	170	188	64	11	195	2.63%
Cote d'Ivoire	1,426	1,557	1,422	1,431	370	126	1,200	-15.85%
Ghana	552	660	555	730	165	36	700	26.81%
Nigeria	206	214	185	200	75	12	210	1.94%
Other Africa	39	44	46	55	20	10	67	71.79%
Total Asia & Oceania	569	681	635	614	147	184	607	6.68%
% Change	3.9%	19.6%	-6.8%	-3.3%	-1.1%	-1.1%	-1.1%	
Indonesia	470	575	525	500	119	149	490	4.26%
Malaysia	26	27	28	32	7	9	32	23.08%
Other Asia	73	79	82	82	21	26	85	16.44%
Total America	437	434	409	447	93	106	451	3.20%
% Change	-1.9%	-0.8%	-5.9%	9.4%	0.8%	0.0%	0.9%	
Brazil	171	162	126	160	30	31	165	-3.51%
Ecuador	114	113	115	115	32	29	112	-1.75%
Other Latin America	152	160	167	172	31	46	176	15.79%

Source: ICCO, USDA, Reuters, LMC Estimates June 2009

Looking ahead, ICCO (*International Cocoa Organization, representing a majority of world cocoa production and consumption groups*) projects cocoa production growth in each region over the next five years – with the highest concentration of growth estimated in Ghana, Dominican Republic, and Malaysia, respectively.

	Projections (1000 tonnes)					% Growth
	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	
Total Africa	2,445	2,690	2,739	2,787	2,805	15%
Cameroon	210	216	230	230	234	11%
Cote d'Ivoire	1,210	1,342	1,368	1,376	1,385	14%
Ghana	660	750	755	780	778	18%
Nigeria	220	221	228	235	241	10%
Total Americas	428	453	472	490	508	19%
Brazil	145	153	161	166	168	16%
Ecuador	112	115	117	123	133	19%
Dominican Republic	45	52	55	56	57	27%
Total Asia/Oceania	609	618	641	657	672	10%
Indonesia	485	486	499	513	526	8%
Malaysia	28	30	32	32	31	11%
Aggregate Total	3,482	3,761	3,852	3,934	3,985	14%

Assessment is based on certain macroeconomic and production technology conditions.
Source: ICCO as of May 2009. % Growth represents absolute growth from 08/09 to 12/13.

Aggregate growth in production is forecasted at 14% from 2008-2009 to 2012-2013

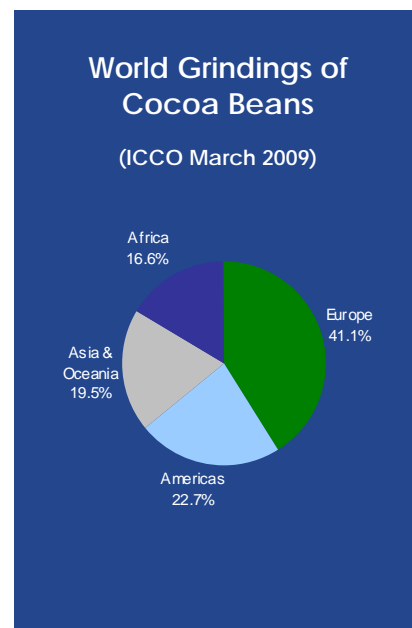
DEMAND: GRINDINGS

Once cocoa beans have been harvested, fermented, dried, and transported, cocoa processing is the next key step in preparation for commercial consumption. From supply of beans to demand by processors, it is important to analyze the import market for indications of cocoa trade balance. In general, grindings from cocoa beans serve as the key focus for market analysts for an overall view of anticipated demand relative to supply.

While processors of cocoa beans are located throughout the world, the highest percentage is based in Europe, followed by the Americas, Asia & Oceania, and then Africa.

It is worthwhile to note the ranking of cocoa importing countries depends on the composition of the goods imported: trade is not only tracked by cocoa beans but also by semi-finished products of cocoa.

As an example of different metrics of interest, Global Trade Atlas tracks the following cocoa import data among others such as cocoa shells and cocoa paste. The Netherlands, as one of the main ports into Europe, leads in imports of beans; the US, with significant production of cocoa complementary food products, leads in imports of powder; and France, one of the biggest chocolate consumption per capita markets, leads in retail chocolate.



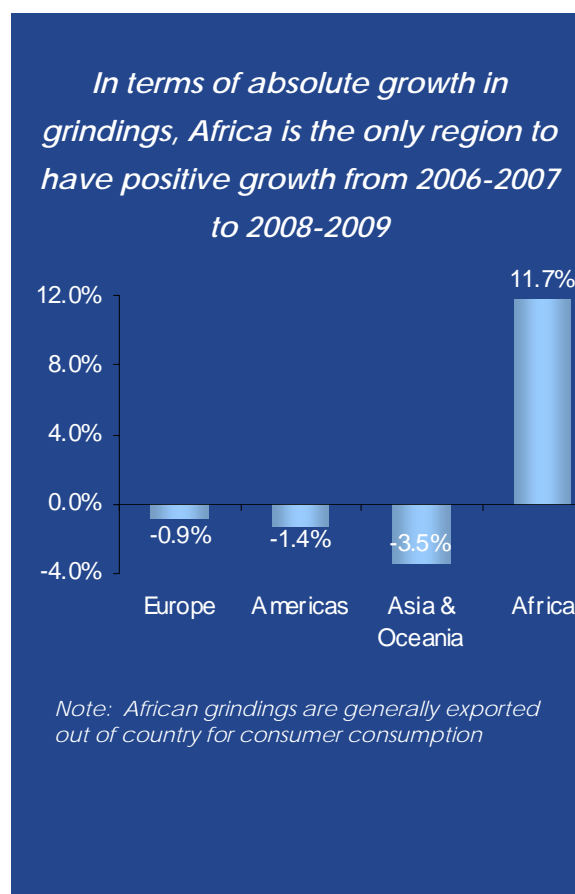
2007 Imports (\$USD Value): Cocoa Beans		2007 Imports (\$USD): Cocoa Powder		2007 Imports (\$USD): Retail Chocolate	
1 Netherlands	352,505,018	United States	40,785,667	France	288,328,480
2 United States	260,735,408	Germany	21,866,640	United Kingdom	254,954,611
3 Germany	175,639,400	France	16,726,110	Germany	244,029,866
4 Malaysia	149,140,501	Italy	11,365,924	Netherlands	159,899,052
5 United Kingdom	108,427,161	Russia	9,364,242	United States	145,561,373
6 Belgium	93,981,362	Belgium	8,851,430	Austria	83,621,741
7 France	82,426,876	Netherlands	8,404,293	Belgium	82,152,345
8 Brazil	43,223,574	Japan	8,162,777	Russia	79,794,147
9 Spain	42,322,585	United Kingdom	7,996,605	Spain	79,150,055
10 Singapore	34,681,627	Ukraine	7,179,890	Canada	76,843,987

Source: Global Trade Atlas as of March 2009

In terms of cocoa beans, market analysts provide ongoing tracking of grindings to compare and analyze against production estimates. Providing a breakdown of grindings per region for a three year time frame, ICCO shows a relatively constant market share for Europe (~41%) and the Americas (~23%) while Asia & Oceania (~19.5%) have slightly declined and Africa (~17%) has increased. Origin grindings have slightly increased to 39% out of total grindings over the time frame.

	Grindings of cocoa beans (000 tonnes)		
	2006-2007	2007-2008	2008-2009
Europe	1,527	1,553	1,514
Germany	357	385	360
Netherlands	480	490	475
Others	691	678	679
Share of Total	41.7%	41.3%	41.2%
Americas	848	837	836
Brazil	226	232	232
United States	418	394	400
Others	204	212	204
Share of Total	23.1%	22.3%	22.7%
Asia & Oceania	745	804	719
Indonesia	140	150	120
Malaysia	301	331	290
Others	304	323	309
Share of Total	20.3%	21.4%	19.5%
Africa	545	562	609
Cote d'Ivoire	360	374	400
Ghana	121	123	145
Others	64	65	64
Share of Total	14.9%	15.0%	16.6%
World Total	3,665	3,756	3,678
Origin Grindings	1,385	1,463	1,436

Note: Totals may differ from sum of constituents due to rounding.
Source: ICCO Quarterly Bulletin March 3, 2009



Comparing projections of production referenced on page 2 to indicated future grindings, ICCO shows world cocoa grindings increasing over the next four years at a slightly higher rate than world production. Stock levels are projected to moderately increase also with the stocks/grindings ratio of 43% in 2013. ICCO projections are based macro and microeconomic assumptions, however, and are subject to change over time with periodic updates.

ICCO provides up to date publications on production and grindings statistics
<http://www.icco.org>

(000 tonnes)	Forecasted		Projected			
	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013
SUPPLY & DEMAND						
World Production Gross	3735	3466	3761	3852	3934	3985
World Grindings	3758	3515	3596	3734	3837	3913
WORLD COCOA STOCKS						
End-of-Season Stock Levels	1555	1471	1598	1678	1735	1767
Surplus / Deficit	-60	-84	127	79	57	33
Stocks to Grindings Ratio	41%	42%	44%	45%	45%	43%

Source: ICCO Projections for 2009 - 2013 as of May 2009.
Surplus/Deficit = (99% of Production) - (Grindings)

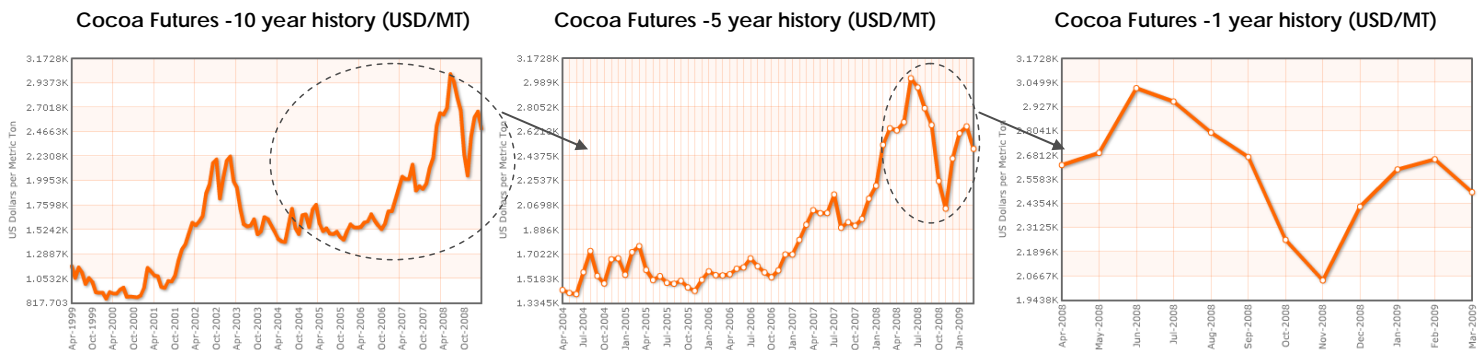
PRICE OF COCOA

As aforementioned, cocoa futures contracts are traded in London and New York with prices quoted in Great Britain Pounds / Metric Tonne and US Dollars / Metric Tonne. Cocoa is unique among soft commodities in its link to two currencies; the GBP / USD exchange rate assures the relationship between these two exchanges and offers an active arbitrage market to traders. According to the New York market, the ICE, The GBP leads the price of cocoa by three calendar quarters, on average.

Information on cocoa prices:

- <http://www.liffe-commodities.com/>
- <https://www.theice.com/homepage.jhtml>
- https://www.theice.com/publicdocs/ICE_Cocoa_Brochure.pdf
- http://www.icco.org/statistics/daily_prices.aspx

Cocoa prices are affected by various factors including stock/grind ratios, expectations for future production/demand, global food prices, and consolidation/fragmentation in cocoa trade and processing industries. These components generally set the tone for long-term trends in cocoa prices while trading by investment funds tend to drive movement in the short-term. Over the past five years, the price of cocoa overall has increased, spiking in 2008 before moderately decreasing in late 2008/early 2009.



Source: IndexMundi

Price increases may be attributed to, among other factors, delayed transport of cocoa to ports, limited producer selling, lower stockpiles, extreme weather conditions such as intense rainy or dry periods, and/or political instability in producing countries.

Price decreases may be attributed to, among other factors, favorable weather conditions, subsidized distribution of fertilizers and insecticides to farmers, expectations of a large crop or higher stockpiles, and/or decreased demand expectations among processors.

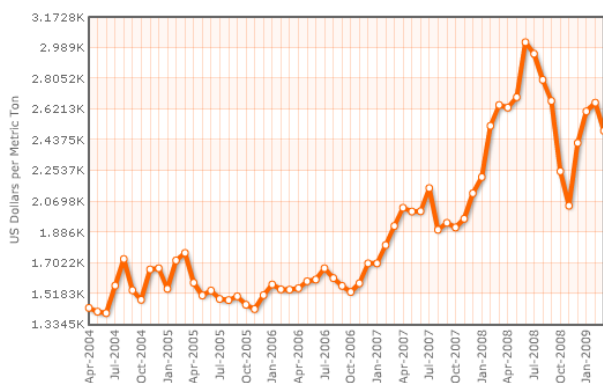
Price movement is also highly influenced by hedge fund managers and speculators with long and short positions in cocoa. This activity serves as a driving force behind short-term volatility. Speculative buying (long position) results in a price increase and selling (short position) results in a price decrease. Arbitrage between the two currency markets is an additional consideration. A weaker pound relative to the dollar puts downward pressure on cocoa as the attractiveness of supplies traded in New York decreases. A stronger pound

relative to the dollar leads to price increases due to the appeal of cheaper commodities in New York.

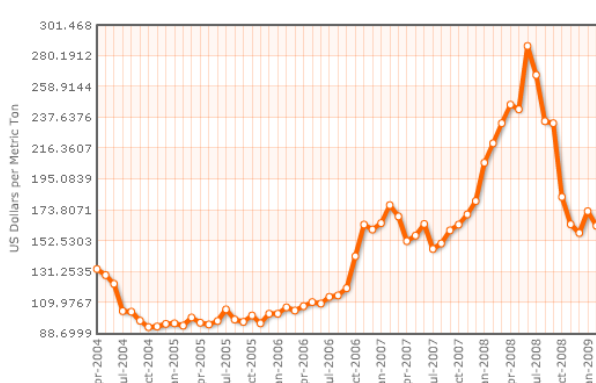
As demonstrated below, soft commodities have seen similar trends in price movement in light of the global recessionary climate intensifying in 2008. From a macroeconomic perspective, input cost inflation along with higher crude oil prices applied significant pressure to supply chain costs for commodities worldwide. Furthermore, the sharp decline in global equity markets in 2008 resulted in more funds turning to commodities for their portfolios, driving prices to 5-year highs.

2004-2009 Monthly Price Levels

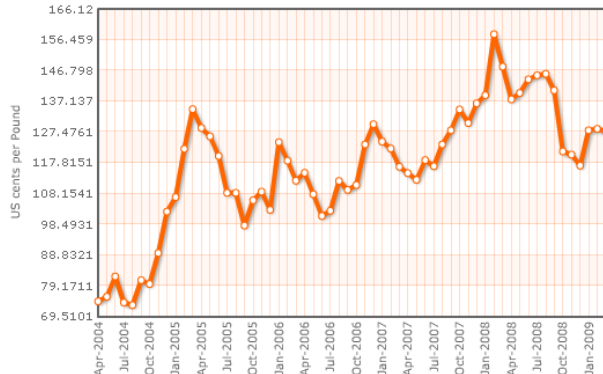
Cocoa beans monthly price



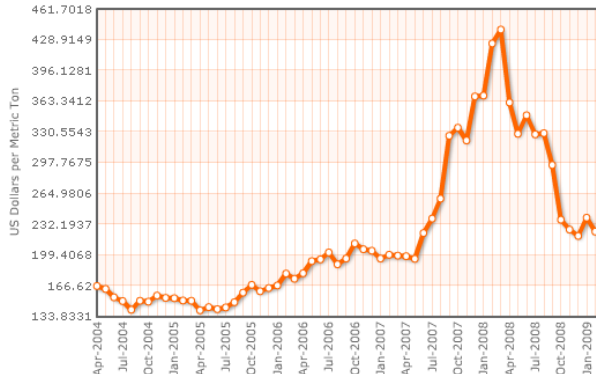
Maize (corn) monthly price



Coffee (other Mild Arabicas) monthly price



Wheat monthly price



Source: www.indexmundi.com

The recent fall in commodity prices from June of 2008 reflects, among other factors, lower input costs, falling oil prices, and deepening recessionary concerns of decreased consumer consumption among industrialized and developing countries. In addition, there has been significant pressure on prices as investment funds settle cash positions to bolster liquidity in light of global tightening of credit.

As evidenced above, numerous economic and non-economic factors, on a macro and micro level, influence cocoa price movement. For further information on the cocoa market, please refer to sources referenced herein.