<u>Effects of Key Variables on the Fresh Cut Floral Business in Colombia (2002-2007)</u>

1. US Prices: Prices in the US market have decreased by 3% per year (on avg.) since 2002, directly affecting the revenue received by the farms. **The cumulative effect of this is a <u>13.7% decrease in revenue (in US$)</u> from 2002 to 2007.**

2. Freight Costs: Freight costs depend on global oil prices. **From 2002 to 2007, freight costs <u>have increased by 61.5%</u>,** reducing the producer's operating margins.

3. Revaluation of the Colombian Peso ($COL): In 2002, the exchange rate was $2,865 COL pesos per $1 US dollar. Currently, it's $1,972 COL per $1 US dollar. **This equates to a <u>31.2% decrease in revenue</u>.**

	2002	2003	2004	2005	2006	2007	Diff 02-07
Sales Price (FOB Miami)	$0.530	$0.515	$0.500	$0.485	$0.471	$0.457	-13.7%
(-) Import Cost	-$0.106	-$0.103	-$0.100	-$0.097	-$0.094	-$0.091	-13.7%
(-) Freight *	-$0.039	-$0.044	-$0.050	-$0.058	-$0.068	-$0.063	61.5%
Farm Revenue (US$)	$0.385	$0.367	$0.349	$0.330	$0.309	$0.303	-21.4%
Farm Revenue ($COL) **	$1,103.03	$1,020.22	$834.73	$754.68	$691.67	$597.02	-45.9%

* Freight Cost per Kilo	$0.65	$0.74	$0.84	$0.96	$1.13	$1.05	61.5%
** Exchange Rate	$2,865	$2,778	$2,390	$2,284	$2,239	$1,972	-31.2%

4. Colombian Inflation: The inflation rate in Colombia has been 5% per year (on avg.) since 2002, affecting the costs of production of the farms. **The cumulative effect of this factor is a <u>31.4% increase in production costs</u>,** which generates and additional reduction in operating margins from the cost side.

Except for the reduction of US prices (#1), all the other factors are external and cannot be controlled by the farms. Thus, a producer's only tools to compensate the combined negative effect of these variables is to continuously make its operations more efficient through <u>increases in productivity</u> and <u>decreases in production costs</u>. **<u>After all efficiency gains, the net result of these 4 factors has been a 39% decrease in operating margins over this 5 year timeframe (2002-2007)</u>**, making the situation not sustainable.

At the time of publication, the exchange rate was $1,832, which is an additional 7.1% decrease in revenue along with fuel costs at an all time high.

This reality is having a big impact on the farms' cash flow, forcing them to take on more debt and to use up necessary items such as depreciation and amortizations to maintain daily operations. This situation has forced **<u>some major players to file for bankruptcy and close their operations over the last year</u>**. In some other cases, this has resulted in **<u>cost cutting policies that will ultimately hinder growth on the supply side or affect the quality of the product</u>**.

While our farms understand that price competitiveness is critical, our customer's understanding of the effects of these variables is critical for farm sustainability.

<u>It is vital that producers and buyers come closer together to understand the needs of their businesses and maximize value to all the parties involved through open discussions on price, proper planning, and a win-win approaches that can enable the partnership to identify mutual opportunities in sales and production.</u>