

CONFIDENTIAL

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

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☉ GREATEST FLOWERING IN 10 YEARS MAY LEAD TO CROP SMALLER THAN 2016'S

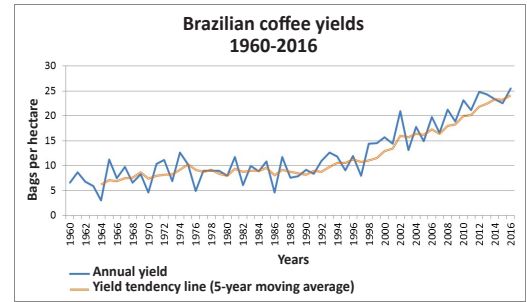
Most Arabica coffee in Brazil experienced unusually strong flowering after the mid-October rains in a phenomenon that equaled that registered in the 2007/08 crop. Although the Arabica flowering looked excellent, the reality of production may be different with a potential fall of 20% in coffee volume expected in 2017. Experts and growers believe that many flowers will not develop into cherries due to lack of enough leaves and nutritional deficiencies.

Source: Notícias Agrícolas

☉ NEW PRODUCTIVITY RECORD IN BRAZIL

A new country-wide coffee productivity record was reached in 2016 with an average of 25.5 bags per hectare according to the latest statistics from the Ministry of Agriculture. National coffee productivity has progressively increased from an average of 14 bags/ha in 1997 to over 25 bags/ha now as a result of research and rural extension and, most importantly, due to the adoption of new technologies and good agricultural practices by growers. Average coffee productivity in 2016 could have been even higher were it not for the severe drought that curtailed Conilon production in Espírito Santo and Bahia states. Coffee is the 5th largest Brazilian agri-export product in value terms, after soy, meat, sugar and alcohol, and forestry, with revenues of US\$ 3.7 billion up to September this year.

Source: Embrapa Café



☉ ARBITRAGE INVERTED: CONILONS SELLING HIGHER THAN ARABICAS

Conilon prices exceeded R\$ 500 (US\$ 155) in the Brazilian domestic market last October and reached a new record since prices started to be monitored in 2001 while Arabica coffee remained between R\$ 450 and 500 (US\$ 140 and 155). The major concern for growers now is how the market will react in the face of the drop in the Conilon crop, the low stock levels, the valuation of the Real and the higher demand from Brazilian consumers. Another concern is how roasters will respond since their blends are composed of 40 to 50% Conilon.

Sources: CaféPoint, Folha de São Paulo and O Pinhalense

☉ SHORTAGE OF CONILON WORRIES INDUSTRY

The small Conilon/Robusta crop in Brazil is challenging the industry's ability to retain usual coffee blends. Roasters and the soluble industry generally demand about 12 million bags of Conilon per year but its total production was only 8.4 million bags in 2016. The lack of Conilons is not only affecting industry, with a consequent need to raise prices, but also forcing roasters to change blends since Conilon is on the average responsible for 40% of the coffee volume they sell in the country. A bag of Conilon is being sold at R\$ 500 (US\$ 155) in the internal market, higher than Arabica's R\$ 450 (US\$ 140). Brazilian consumers should expect higher prices for coffee in the coming months and possible changes in taste and flavor as more Arabica goes into the blends.

Sources: Folha de São Paulo and P&A

☉ CONILON EXPORTS GO DOWN

The severe droughts that hit Espírito Santo in 2015 and 2016 led the state to declare water use restrictions in agriculture and caused the Conilon crop to drastically fall. Conilon has recently reached price records of over R\$ 500 (US\$ 155) in the domestic market and total coffee

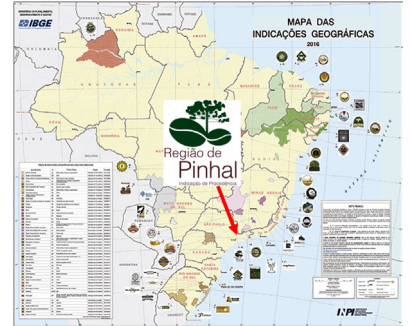
exports from the state in 2016, Conilon and Arabica, are falling, having reached only 2.4 million bags until October, the lowest volume in 30 years. Brazilian Conilon exports that were on the rise will now fall under historical averages before the rise.

Sources: Notícias Agrícolas and P&A

PINHAL GEOGRAPHICAL INDICATION OFFICIALLY DELIVERED TO LOCAL AUTHORITIES

Brazil already has 49 indications of origin granted to several products. The most recent one was granted by the Brazilian Patent Office (INPI) in July for green *and* roasted and ground coffee of the Pinhal region, in the Mogiana area of Sao Paulo state, the first coffee GI to also cover the industrialized product. The official enabling papers of the Geographical Indication of the Pinhal Region, covering the municipalities of Espírito Santo do Pinhal, Santo Antonio do Jardim, Aguai, São João da Boa Vista, Águas da Prata, Estiva Gerbi, Mogi Guaçu and Itapira, were officially delivered to the local institution that will manage it in a São Paulo State Coffee Chamber meeting held in Espírito Santo do Pinhal on October 20.

Sources: CNC, CCCMG and O Pinhalense



PHOMA ASCOCHYTA ATTACKS COME STRONG AFTER RAINS



The *fungi complex Phoma/Ascochyta* has returned to Brazilian coffee plantations after the September and October rains. The attacks affect leaves – Phoma attacks younger leaves while Ascochyta, the older ones –, stems and the floral system. Losses occur due to the falling of leaves, drying of stems and death of flowers, flower buds and small fruits that together lead to smaller yields. The ideal conditions for the fungi to develop are moisture from light rain and winds, availability of points of entrance bore by caterpillars, and dense crops with tall trees that cause excessive shading. Researchers recommend fungicides of the carboxamide group to control the attacks.

Source: Fundação Procafé

COFFEE GERMOPLASM BANK TO IMPROVE CUP QUALITY

Researchers at the Agricultural and Livestock Research Institute of Minas Gerais (Epamig) are working with its germoplasm bank to identify coffees with high quality potential characterized by distinct aromas and flavors. Epamig has installed several cultivar experiments in the municipality of Araxá, in the Cerrado region, as part of a Coffee Research Consortium project that is using a selection of 25 cultivars from IAC (Campinas Agronomical Institute), Procafé Foundation, IAPAR (Paraná Agronomical Institute) and Epamig itself, in order to determine the ones most adapted to the region.

Source: Café Point



1ST COCATREL-MINASUL TRADE FAIR SURPASSES EXPECTATIONS

The first trade fair held jointly by the South Minas cooperatives Cocatrel and Minasul, that took place in the municipality of Três Pontas, Minas Gerais, attracted 4,000 visitors to the booths of 76 exhibitors. Manufacturers and suppliers of fertilizers, agrochemicals, machinery and other inputs and equipment closed deals worth R\$ 66 million (US\$ 21 mi). One of the highlights for growers were the barter operations - the exchange of products for coffee - available for all products on sale at the fair.

Source: Sistema Ocemg

Brazilian Prices

Main Producing Regions / Farm Gate

October 31, 2016

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	545,00 ↑	Colatina-ES fair average price	528,00 ↑
Mogiana	540,00 ↑		
South Minas	540,00 ↑		
Arabica Pulped Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	605,00 ↑	Dec 2016	197,40 ↑
South Minas	600,00 ↑	Mar 2017	201,80 ↑
		Sep 2017	207,80 ↑
		Real R\$ / Dolar US\$	
		Oct 31, 2016	3,18 ↓

+ 12%

Source: www.qualicafex.com.br

RONDÔNIA, A NEW COFFEE PRODUCING “COUNTRY”?

At a time when some sources claim that the growth in Robusta coffee consumption until 2020 will outstrip Arabica’s at a proportion of 3 to 1 and other sources place it at 4 to 1, climate change and droughts in Vietnam, Indonesia and Espírito Santo and Bahia in Brazil raise special concerns. Prices reflect such worries with Conillons sold at a higher price than fair quality Arabicas in Brazil in a very unusual inversion in the direction of “arbitrage”, the price difference between the two types of coffee.

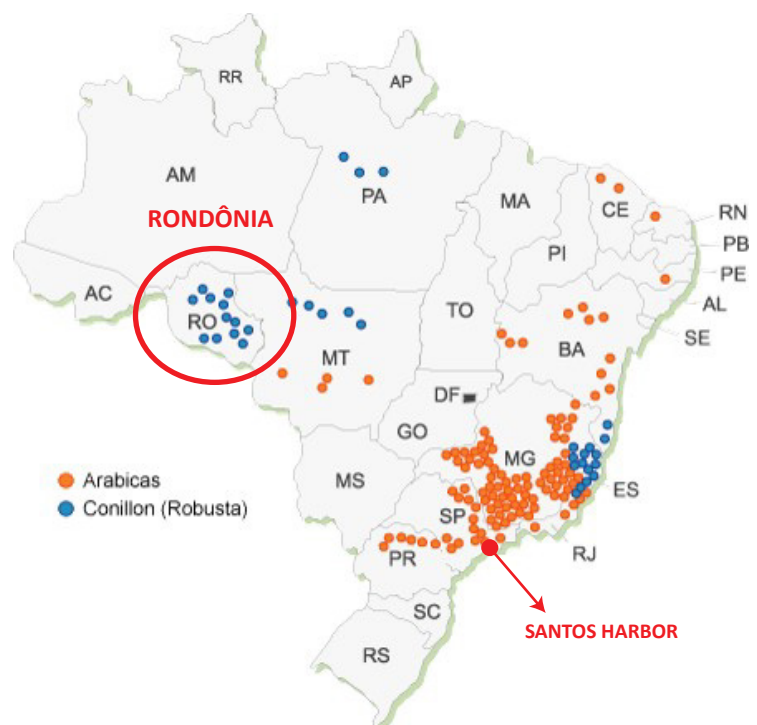
News that Conilon clonal varieties coupled with irrigation cause the root system to remain close to the surface of the soil and the plants to be more exposed to droughts indicates that substantial areas of Conilon will have to be uprooted and replanted. This will cause some of the 2016 drought losses to extend into 2017 and 2018 irrespectively of the occurrence of normal rainfall in the near future. To make matters worse, Conilon that is not uprooted is also likely to still suffer from the 2016 drought in 2017 and to produce less, especially if rains do not start soon in Espírito Santo and South Bahia. This creates a bleak picture for Robusta supply in spite of how climate change may affect Indonesia, Vietnam and other Robusta producers in coming years.

Sad as all this is, it may create interesting opportunities for the Brazilian state of Rondônia, in the Amazon region, that has produced Robustas for decades but has been plagued by low productivity and an inefficient supply chain let alone its distance to export harbors and the coffee roasting and soluble industry concentrated in southern Brazilian states. Coffee production in Rondônia started to modernize and develop in recent years pushed by new varieties, technology, political will and, lately, the adoption of sustainability as one of the basic pillars of its new coffee businesses thanks to the help of the Sustainable Coffee Program now Global Coffee Platform.

Rondonian coffee is planted on fully mechanizable non-forest land in the southern fringe of the Amazon rainforest where there are still areas to plant more without any need to cut down trees. In addition, a lot of the production growth will come from greater productivity in the same area. However the emphasis on sustainability makes sense because of proximity to the rainforest and also because Rondônia wants to pre-empt any undue consideration about its coffees.

Rondônia’s turn-around resulted from the introduction of technology developed in Espírito Santo – varieties, cultivation and pruning – with both new planting and the rehabilitation of existing areas, some with Robusta varieties other than Conilon. Productivity, whose average was under 12 bags per hectare in the five years before 2012, is now approaching almost 20 bags/ha and all indicates that there is much more to come based on the Espírito Santo experience and numbers. The state’s production is on its way to return to 2 million bags and experts claim that this is only the beginning. Borrowing growth figures from Espírito Santo coupled with high current profitability, that is bringing about more planting, and abundance of water – rainfall and rivers –, it may not be unreasonable to expect 5 million bags of production in the first half of next decade. This led me to pose the title question of whether Rondônia will have the dimension of a new Robusta producing country, bigger than today’s Uganda and Ivory Coast and in the top five! History will tell...

If projections of production may be impressive, even more relevant is that the rebirth of the coffee business in Rondônia is taking place in a responsible, sustainable way and challenging the quality prejudice against Robustas. In 2016 the state organized a state-wide Robusta coffee quality contest that included sustainability among the criteria to define the winners and had an important participation in the cupping sessions held during the International Coffee Week in Belo Horizonte, Minas Gerais, last September. There is plenty of marketing appeal to reposition this new old origin and it will soon be time to do it.



WHY TO BUY PINHALENSE EQUIPMENT?

The most obvious way to reply to this question is to run a survey with Pinhalense's clients in 93 countries on the 5 continents and who together enable Pinhalense to believe and claim that about half of the coffee drunk in the world passes through at least one Pinhalense machine. Since the difficulties to carry out such survey are also obvious, even in our digital age, let's summarize here the impressions we get from both our commercial agents, that cover over 40 coffee producing countries, and a sample of recent clients to which we add our own opinions.

Pinhalense's history of 66 years and its involvement with literally all coffee processing steps from harvesting to exports or roasting in all relevant markets give it unique insights that are reflected in the know-how built into its products – machines – and customized flows and projects it designs for clients. No competitor comes even close Pinhalense's figure of over 20,000 projects for wet milling, drying and dry milling developed for clients. Wrong as it is, machines can be copied and Pinhalense machines have been copied, but it is nearly impossible to copy the specific customized coffee processing solutions that Pinhalense provides to clients before it sells the machinery.

But, flows and projects apart, why to buy individual machines from Pinhalense instead of full or partial copies? Because in coffee processing "the devil is in the detail". If copies have been made for decades and Pinhalense has been growing, developing and expanding its markets it is because there is obviously something missing in the copies be it details themselves, quality, efficiency, durability or all of them together. The same thing holds for competitors who have their own technology. Most Pinhalense clients who have tried competing equipment have returned to Pinhalense. Maybe the switch of suppliers was based on price alone and the cost-benefit equation eventually led to a different conclusion and the return to Pinhalense.

Local service and prompt supply of spare parts may be another reason to favor Pinhalense equipment. Most commercial agents mentioned above have their own Pinhalense-trained technical personnel, who service Pinhalense machines, trouble-shoot and respond to other clients' needs. Pinhalense is not perfect and it does commit mistakes – as renowned car manufacturers and cell phone companies do – but it has a unique track-record of making its machines work to clients' satisfaction no matter where they operate. This is absolutely critical in the coffee business where timely delivery is crucial and small percentages matter a lot.

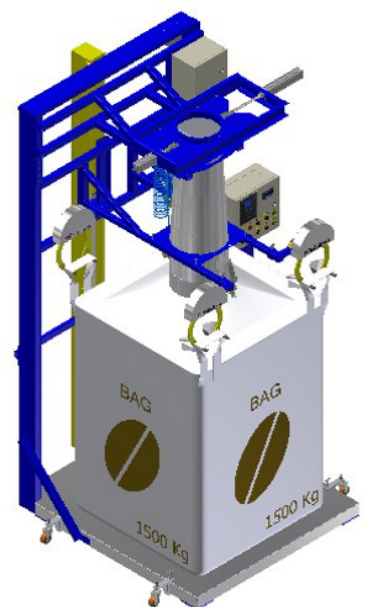
In markets where it is almost impossible to avoid copies, the best strategy is permanent research and development with the frequent launching of new products and improvement of existing ones. The recent launching of the ECO SUPER D zero-water-consumption pulper with green separator crowns a process that includes divided and single drums driers with reduced drying time, a new combined huller for micro lots, a system to recover coffee rejected by color sorters, electronic flow and big-bag scales and more efficient dust suction systems.

Last but not least, instead of investing on new warehouses or a new factory, that is part of its mid-term plans, Pinhalense has strategically decided to concentrate its investments on manufacturing equipment and processes that have direct impact on the quality and efficiency of its products. In recent years Pinhalense has invested several million euros in automated-high-precision equipment to punch screens – a critical component of many machines –, to cut metal using laser and, lately, to produce machine part using robotics. Even though the outside of the three Pinhalense factories have remained basically the same for 5 or 10 years, they have undergone a technological revolution inside. Clients – existing or prospective – are welcome to visit Pinhalense to see all this first hand.

There is a lot behind the Pinhalense brand and there is more to come...



PULPER ECO SUPER D



ELECTRONIC SMARTBAG SCALE