

CONFIDENTIAL

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

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2018 CROP POTENTIAL LOWERED BY ADVERSE CLIMATE

Rains in the last days of September have led to a large coffee flowering in South Minas. However, high temperatures and the lack of rainfall after flowering not only affected the floral bud structure (formation of abnormal flowers) but also reduced the chances that flowers will develop into beans and can therefore negatively affect the next crop. The size of the impact will depend on the intensity of these factors in each coffee region.



Source: Estadão Conteúdo

BRAZILIAN COFFEE INDUSTRY EXPECTS TIGHT SUPPLY

Expecting a tight supply until April or May 2018 when the next harvest begins, the Brazilian coffee industry is following the crop situation closely. Coffee areas have undergone a prolonged drought and are currently being affected by high temperatures. National coffee stocks are the lowest in ten years and the next crop is unlikely to be as large as estimated before.

Source: Canal Rural

GROWERS SURVEY RELEASED DURING INTERNATIONAL COFFEE WEEK

The results of CaféPoint's 2017 Coffee Harvest Survey were presented during the International Coffee Week held in Belo Horizonte, Minas Gerais, on October 25 to 27. The growers' main complaints regarding the 2016/2017 coffee season were berry borer infestation, lack of rain and smaller size beans. The data presented shows that the Cerrado Mineiro region had 83% of its crops infested by berry borer while São Paulo had 53%. In spite of the reduction in bean size and the lower yields due to climate, a large percentage of responses showed that coffee quality was not affected. The survey included a series of direct questions and testimonials from growers made via CaféPoint's website; photos submitted by the readers were also taken into consideration during the analysis.

Source: CaféPoint

TRADITIONAL TECHNIQUE PROTECTS AGAINST FROSTS



Involving the stem of young coffee trees with soil to prevent damage from frosts has been a common practice in Southern Brazil but is still rarely used in other regions. Besides protecting against frosts, this technique brings other benefits to the tree such as a better vegetative condition. Good results were witnessed during the past winter in South Minas in trees that had been planted using this technique. The trees were greener and still growing despite the dry season.

Source: CaféPoint

BEES HELP TO PRODUCE BIGGER BEANS AND MORE COFFEE

A beekeeper from the municipality of Domingos Martins, Espírito Santo state, is producing a top quality organic coffee that recently scored 91 points. Coffee growers in the region state that the bees help to add value to the crop. Scientific research on Arabica shows that the size of the beans increase 20% to 30% when bees are present in the coffee plantations during flowering and the volume of the crop also increases.

Source: CaféPoint

BRAZILIAN SPECIALTY COFFEE EXPORTS RISING SHARPLY

Specialty coffee already represents 20% of the total coffee exported by Brazil and a substantial share of Minas Gerais coffee business currently worth over R\$ 20 billion (US\$ 6 billion). According to the Brazilian Coffee Roasters' Association (ABIC), the premium coffee segment grew 13% in the last three years while consumption of the traditional product increased only 3.5% in the same period in the domestic market.

Source: ABIC

CONTESTS RESULTS RELEASED DURING INTERNATIONAL COFFEE WEEK EVENT

Focused on specialty coffees, the International Coffee Week (Semana Internacional do Café - SIC) comprised a trade fair, workshops, presentations and contests. The Cup of Excellence Brazil 2017 was one of them and had 57 winners, with coffees that scored 86 points or above on a scale of 0 to 100. Selected by an international jury, the winning coffee in the Naturals category came from Espírito Santo state, with a score of 93.6 points. In the Pulped Naturals category, the winner came from the Cerrado, in Minas Gerais, and scored 92.3 points. The event, the world's main specialty coffee competition, has three phases: blind cupping by a national jury, final selection and awards, and an auction of the best coffee lots. The teams that processed three of the winning coffees, including the winner in the Pulped Naturals category, had professionals who attended and passed the first Q Processing Course held by the Coffee Quality Institute (CQI) in Brazil. The NossoCafé Competition promoted by multinational Yara also took place during the event and growers from the municipality of Piumhi, Minas Gerais, and Mandaguari, Paraná, won the first prize in the pulped natural and natural coffee categories respectively. The winners of each category will have their coffees bought by the company for twice the official NY coffee exchange price and also get to travel to both Colombia to visit specialty coffee farms and Seattle, USA, to attend the 2018 SCA Expo, where they will join the winners of the same contest promoted by Yara in Colombia and Mexico. A third contest that aimed to promote the creative work behind specialty coffee was also held in the event. Among the 10 winner coffee packages, two were developed by P&A's associate agency GSB2: Café Fazenda Pessegueiro and Unique Cafés.

Sources: CaféPoint, Revista Cafeicultura and P&A



Brazilian Prices

Main Producing Regions / Farm Gate

October 31, 2017

Arabica Naturals (R\$/60 kg bag)

Cerrado MG	455,00 =
Mogiana	450,00 =
South Minas	450,00 =

Arabica Pulped Naturals (R\$/60 kg bag)

Cerrado MG	485,00 =
South Minas	480,00 =

+ 7.8%

Conilon / Robusta (R\$/60 kg bag)

Colatina-ES fair average price	362,00 ↓
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[B]³ ex-BM&F (US\$/60kg Arabica)

Dec 2017	154,75 ↓
Sept 2018	159,45 ↓
Dec 2018	161,40 ↓

Real R\$ / Dolar US\$

Oct 31, 2017	3,27 ↑
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Source:
www.qualicafex.com.br

BRAZIL, GLOBAL CHAMPION IN NATIVE VEGETATION AND BIODIVERSITY

Do you know any other country in the world that dedicates so much area of its territory to the protection, preservation and conservation of native vegetation and biodiversity as Brazil? Does any country get close to what Brazil does for the environment, in absolute and relative terms? Nonetheless, the country is a permanent target of mean criticism, here and abroad, usually misinformed and unfounded, about the preservation of its ecosystems.

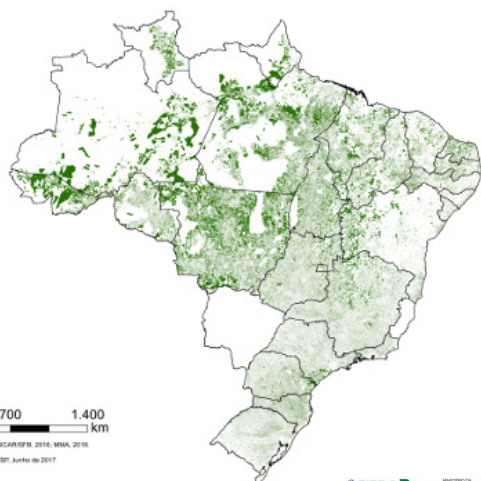
Protected areas

The fifth largest country in the world in territorial area, Brazil is the first in protected areas, according to data by UNEP and WCMC (<http://bit.ly/2zvF8bn>). Brazil dedicates 30% of its territory – more than 2.5 million square kilometers (km²) – to protected land, be it conservation units or indigenous land. The areas protected by Brazil represent 14% of all existing areas in the planet (18 million km²) and more than half of the total protected area in Latin America and the Caribbean. The average protected land in all countries with more than 2.5 million km² of area is 10%, to be compared with 30% in Brazil. UNEP's 2016 Protected Planet Report states that Brazil has and maintains “the largest national network of protected areas in the world”.

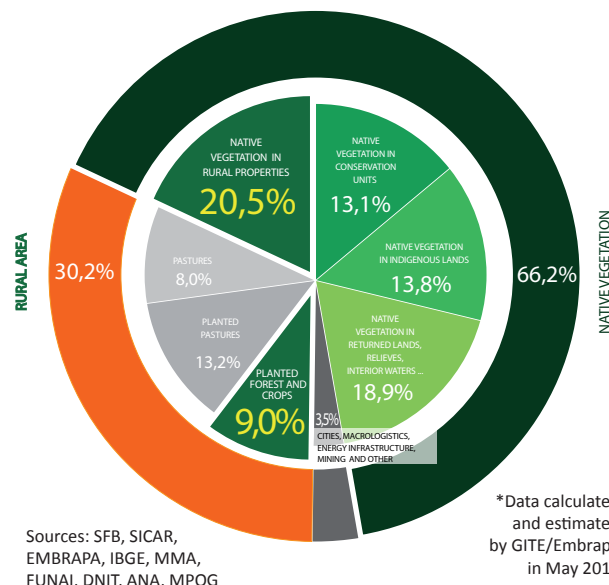
Preserved areas

In the Brazilian countryside, strict environmental legislation determines that one has to keep areas dedicated to the preservation of native vegetation inside rural properties. This area varies from 20% of the property up to 80% in the case of those located in the Amazon basin. The map of such areas has been detailed over the last 3 years by the Rural Environmental Database (CAR, in Portuguese) including more than 4.1 million properties. Today Brazilian rural growers dedicate an area larger than 1.7 million km² to the preservation of native forests and biodiversity inside their properties, without any government funding. This corresponds to 20.5% of Brazil's area. (<http://www.cnpm.embrapa.br/projetos/car/>)

Areas dedicated to the preservation of vegetation in rural properties (Sicar – Dec 2016)



LAND OCCUPATION AND USE IN BRAZIL*



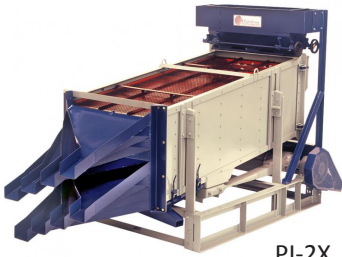
Conservation areas

There still are, in Brazil, vast areas of native vegetation in public spaces and many ecosystems are explored in a sustainable way by extensive livestock activities. This preserves native forests and biodiversity as in the cases of *Pantanal*, *Caatinga*, *Cerrado*, *Pampa* and *Campos de Altitude* (all Brazilian biomes).

Altogether, Brazil dedicates over 66% of its territory to the protection, preservation and conservation of native vegetation and biodiversity. Pastures occupy 21% of the national territory while all crops and planted forests occupy only 9%. Nonetheless, there are many people saying that 66% is too little and 9% is too much!

* General manager of Embrapa Satellite Monitoring Division.

HIGH-TECH COFFEE GRADING BY SIZE



PI-2X

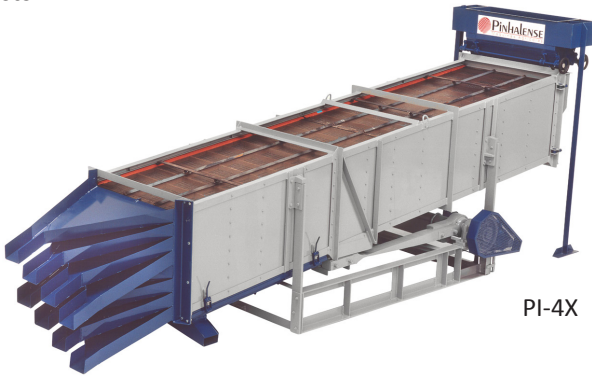
Green coffee is separated by size to facilitate the removal of defective beans, to improve quality, to meet clients' demands and to enable uniform roasting.



PFA-1-4X

Pinhalense today offers lines of graders with either downward or upward flow, single or double box for single, double or quadruple load, 3 to 9 grading screens (round, slotted or special) arranged in a multitude of ways, and capacities ranging from 0.3 to 14 tons/hour. From capacity to grading precision to solutions for specific problems, Pinhalense offers graders that fit all clients' needs.

Latest demands are at the two ends of the market: small capacity machines for micro-lots and large capacity graders for "world blends" and ever larger commercial lots. Irrespectively of size or capacity, the Pinhalense graders use the same advanced technology that granted Pinhalense more patents for these machines than for any other in its wide line of products.

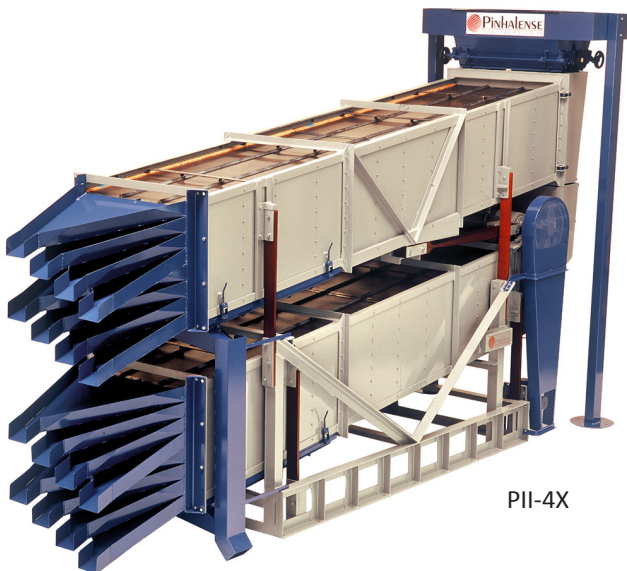


PI-4X



PFA-3-4X

Please contact the Pinhalense expert nearest to you if you are confused by the multitude of options above. The Pinhalense representative will analyze your own coffee grading needs and, together with Pinhalense's Technical Department, provide the best solution and recommend the right Pinhalense grader for your specific conditions and challenges. Pinhalense experts will also show to you how the use of the right Pinhalense grader can help you improve the efficiency of densimetric separation and color sorting in order to remove defects, refine quality and to further grade your coffee according to quality and clients' requirements.



PII-4X



PFA-II-4X

It is for all reasons above that most coffee drunk in the world today goes through a Pinhalense size grader.