

CONFIDENTIAL

YOUR BEST SOURCE OF INFORMATION ABOUT THE BRAZILIAN COFFEE BUSINESS... AND MUCH MORE.

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CONILON PRICES REACH ANOTHER PEAK IN LOCAL MARKET

Prices of Conilon coffee registered seven consecutive increases in Brazil from May to December 2015. Little rainfall in the main producing states, Espírito Santo and Rondônia, was not enough to "fill" the cherries leading to lower output; there was also a considerable increase in exports, with less Conilon available for the domestic market. Conilon/Robusta exports were pushed by lower sales from Vietnam and the devaluation of the Real against the US dollar and reached 42% of the total production in 2015 compared to only 15% in the previous crop. The average price for a 60-kg bag of Conilon (type 6, screen 13) was R\$ 379 (US\$ 94.75) in December, the highest since the CEPEA price series started in 2001.

Source: CEPEA-Esalc USP (University of São Paulo)

COCHONILHA PEST PROLIFERATES IN ESPIRITO SANTO

Conilon/Robusta producing areas in Brazil have been suffering with "cochonilha", a pest that attacks especially young trees, up to 3 years old, and can cause losses up to 100%. It is tougher to control the pest after it is installed in the tree because each female has the capacity to lay 250 eggs or more and they concentrate in places where cherries will develop and that are difficult for pesticides to reach. Effective control using pesticides in the soil should take place before coffee flowering.

Source: CaféPoint

NEW LOW-CAFFEINE VARIETY HONORS DR. ALCIDES CARVALHO

A new coffee variety developed by the Campinas Agronomy Institute (IAC) with only 0.1% of caffeine – compared to the usual 1.2% in Arabica and 2.4% in Robusta – was named "AC" to honor Dr. Alcides Carvalho, considered Brazil's greatest coffee geneticist. The challenge now is to make the low-caffeine variety more productive and commercially viable since its current yield is only 10 bags per hectare while the national average for Arabica is around 25 bags/ha.

Sources: Valor Econômico and Revista Caficultura



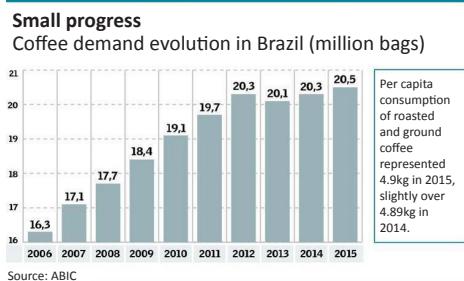
RECYCLING DOES NOT KEEP UP WITH CAPSULE "FEVER"

The Brazilian market for coffee capsules has gone from sales of R\$19 million ten years ago to R\$1.4 billion in 2015. However, this 75-fold growth has not been accompanied by similar results in recycling. Over 7,000 tons of coffee in single dose format was sold last year in Brazil according to Euromonitor but the percentages of capsules recycled remains a big question. Although large companies like Nespresso have collecting sites of used capsules for recycling, most companies do not have specific programs. Consumers should ideally separate the aluminum or plastic casing from the organic matter and take it to local recycling cooperatives.

COFFEE CONSUMPTION GROWS DESPITE CRISIS AND HIGHER PRICES

The Brazilian demand for coffee went up 0.86% between November 2014 and October 2015, reaching 20.5 million bags despite the economic crisis. Per capita consumption also had a slight increase to 4.9 kilograms of roasted and ground coffee. Total coffee sales by 1,200 roasting companies are estimated in R\$ 7.4 billion (US\$ 1.85 billion) in 2015. Sales of capsules increased its share and reached R\$ 1.4 billion (US\$ 350 million) in 2015, with expectations that they will increase to R\$ 2.9 billion (US\$ 725 million) by 2019.

Source: Valor Econômico



57 MILLION BAGS REQUIRED TO MEET DOMESTIC CONSUMPTION AND EXPORTS

Brazil used at least 57 million coffee bags to meet both domestic coffee consumption and exports in 2015, say market analysts. National coffee consumption has recently reached 20.5 million bags while exports totaled 36.8 million bags in 2015. Bearing in mind the serious climate issues faced by producing areas in 2014 and 2015, coffee stocks will probably be tight in the beginning of 2016 and until the new harvesting season starts by May/June.

Source: CaféPoint

2016 COFFEE CROP MAY BE THE SECOND LARGEST IN HISTORY

The latest crop estimate by CONAB, the Ministry of Agriculture agency in charge of crop estimates, predicts that national coffee production will reach 49 to 51.9 million in 2016, an increase of 13.6% to 20.1% compared to the previous crop of 43.2 million bags. Arabica production should represent 76.5% of the total output with 37.7 to 39.9 million bags; Robusta/Conilon should account for 11.4 to 12 million bags. Considering an average estimate of 50.5 million bags, this may be the second largest Brazilian crop in history only behind 2012's when production reached 50.8 million bags. The full CONAB report (in Portuguese) can be viewed at: <http://www.cncafe.com.br/site/interna.php?id=14>.

Source: CNC

BRAZIL MAY BEAT 2015 RECORD OF COFFEE EXPORTS

If Brazil presents the expected "good" coffee harvest in 2016, the country may beat the previous record of 36.8 million bags exported in 2015 (29.1 million bags Arabica and 4.2 million bags Conilon). Although the volume of coffee exports increased 1.3% in 2015 over 2014, the drop in international prices led to a 7% decrease in revenues to US\$ 6.13 billion, says a recent report by the Brazilian Coffee Exporters' Association (Cecafé). Exporters are optimistic with this year's Arabica output due to the good climatic conditions in the main producing areas. However Conilon exports will certainly fall with the drop compensated by Arabicas.

Sources: Valor Econômico, CeCafé Exports Report Dec. 2015 and P&A



CONSOLIDATION OF COFFEE COOPS CONTINUES

Originally active in orange and recently also strong in sugar cane, Coopercitrus, the largest rural coop in the state of São Paulo, has started to incorporate other cooperatives to diversify its operations into coffee, grain and cattle. Cooparaíso, one of the largest coffee cooperatives in Brazil with over 5,000 associates located in São Sebastião do Paraíso, Minas Gerais, is now part of Coopercitrus along with CARA from Andradas, also in Minas, with another 1,000 associates. Coopercitrus expects to grow its revenues from R\$ 2 billion (US\$ 500 million) to R\$ 4 billion (US\$ 1 bi) over the next five years mostly due to current and new coffee operations.

Source: Revista Attalea Agronegócios

FACING THE REALITIES OF COFFEE GROWING

Very active in the coffee processing machinery export business since the foundation of P&A in 1995, its partners first diversified into advertising, marketing and consulting with emphasis on coffee, then into exports of specialty coffees and finally into coffee roasting for offices and restaurants. With such a wide and intense interest in the coffee business abroad first and in Brazil afterwards, P&A partners kept out of coffee farming and had no intention to enter it. This started to change in the second semester of 2015 and finally happened this February by means of a partnership into Fazenda Santana that is located in the same area of the Mogiana region of the state of São Paulo where Pinhalense is.

Fazenda Santana is a mid-size coffee grower by Brazilian standards – a small mid-size coffee grower – with average production of 2,000 bags and potential to increase it by at least 50%. Many Arabica varieties are cultivated – Yellow Bourbon, Yellow Catuai, Yellow Icatu, and Mundo Novo included – with cups in the low-to-mid eighties range and good potential to go higher.

Pinhalense has often carried out machinery trials on Fazenda Santana that has a long history of producing quality coffees. Fertilizer and crop protection companies have also had or have trial fields on Santana Farm that has a consistent track-record of winning coffee quality contests in Brazil and supplying to specialty roasters abroad.

P&A's partners have always had the principle of entering into partnerships with persons who know more about the business than they themselves do and the Fazenda Santana deal is not different. Grower and manager Arnaldo Franco Moraes, whose family roots go back to the founders of Espírito Santo do Pinhal, will remain at the helm of the farm. Arnaldo and his team have an excellent track-record of increasing productivity and improving quality in the 21 years they have been running the farm supported by the same family – 4 brothers and their now retired father and their own families – who have been living on the farm for the last 40 years. Arnaldo says that "the partnership with Carlos Brando and Emilio Lopez represents a new phase for Fazenda Santana bringing together common values and a shared vision to achieve even higher quality and to access new markets in the international scenario".

Incoming partner Emilio Lopez Diaz is a Salvadorian farmer and exporter with expertise in coffee quality with emphasis on how to get the best out of the beans through proper harvesting and processing techniques, blending and roasting. Emilio is on his way to becoming the chairman of SCAA's Roasters Guild. Emilio has visited Fazenda Santana several times in recent years, followed up its evolution in products and qualities and believes there is still a great potential to improve and customize Santana coffees for selective, high-quality-seeking clients abroad. In his last visit two weeks ago, Emilio stated that "ever since I visited Brazil and Santana for the first time in 2006, I've been impressed and inspired by the potential that there is here. The opportunity is to place Santana and Espírito Santo do Pinhal coffee region at the forefront of the Brazilian specialty coffee supply, research, development and quality reference to the world."

P&A's partners and incoming shareholders of Santana Farm are following up on their tradition of actually doing what they advise their clients on. Consulting services on coffee farming, an area P&A was not active at, will now be part of the company's portfolio of products. P&A's work in Brazil coordinating IDH's Sustainable Coffee Program has added new insights into the hidden potential of Brazilian coffees and the Fazenda Santana partnership is one step in the direction of helping to add value to Brazilian coffees, especially sustainable ones.

It is often said and written that in the spectrum of Brazilian coffee farming the mid-size grower is the one that faces the hardest challenges. P&A plans to gain insights into these challenges and to devise ways out with this new partnership. And, of course, to help its partners to make a profit.

Last but not least, this article is more than an announcement of a change of ownership at Fazenda Santana. It is also a statement that the new owners bring together different expertises and have the aim to review and fine tune the way the farm produces, processes and markets its coffee with the objective of adding value in a sustainable and socially responsible way. Only the future will tell whether paradigms will be broken and new paths will be opened but there is a clear plan in place backed by a strong will to do so.



HUSK AND DUST REMOVAL AND DISPOSAL

For a long time dust and husk removal were not an integral part of the design of a coffee mill but something to be dealt with after the plant was designed or even built. The layout of the equipment seldomly took into consideration requirements associated with the need to deal with either husk or dust or both. In the next stage a series of rather empirical systems were developed and used with mixed results. Some worked well and a few solved the problem in a partial way. A more scientific approach was yet to be applied.

As environmental worries and sustainability concerns developed and mills became bigger and bigger, a clear need developed to ensure a healthier, dust-controlled working environment and to make sure that clients/visitors perceived the coffee mill as a workers' friendly place that processed sustainable coffees. At the same time, more sensitive neighbors and communities grew concerned with these by-products and side effects of coffee milling.

Pinhalense's response to these new concerns and requirements has been three-fold:

- to design or adapt equipment to generate less dust and to make it easier to collect;
- to design mills with layouts that facilitate the extraction, conveyance and disposal of husk and dust; and
- to develop high-tech husk and dust systems that ensure a clean working environment, allows the partial use of equipment without back pressure or return of dust, and enables the storage and/or packing of husk and dust for off-site removal or reuse as fuel for driers.

A lot of science and engineering now goes into the design and supply of Pinhalense husk and dust systems. Power consumption and cost of the systems are directly associated with the degree of dust removal required by clients. If on the one hand both figures may be judged on the high side when analyzed alone, they are not so high when compared with the more traditional empirical systems and the actual results or performance of each solution.

Some critical features that Pinhalense has improved in its latest systems are:

- the location of the dust extraction points;
- the types and location of the fans used; and
- the filtering systems, including their self-cleaning devices.

The tendency is for husk and dust silos and disposal to be separate even though the light fraction of husk may be fed into the dust system.

The removal of parchment husk has deserved special Pinhalense attention due to its potential to generate dust at the processing steps after hulling and polishing. Pinhalense's attention centered first on the source of the husk and designed a family of hullers-polishers, like the DEPOS line, that is known in the market for separating parchment husk from green beans to an extent that is rather unique. In addition, the removal of parchment husk and its particles is not restricted to the hullers-polishers but also covers other machines, especially in cases where hulling-polishing is not carried out by Pinhalense machines.

Pinhalense husk and dust removal systems are available not only for new coffee mills but also for existing ones that are seeking a cleaner environment for social responsibility, sustainability and client relations reasons.

Brazilian Prices

Main Producing Regions / Farm Gate

January 29, 2016

Arabica Naturals (R\$/ 60 kg bag)		Conilon / Robusta (R\$/ 60 kg bag)	
Cerrado MG	505,00 ↑	Colatina-ES fair average price	395,00 ↑
Mogiana	500,00 ↑		
South Minas	500,00 ↑		
Arabica Pulpel Naturals (R\$/ 60 kg bag)		BM&F (US\$/60kg Arabica bag)	
Cerrado MG	565,00 ↓	Mar 2016	139,50 ↓
South Minas	560,00 ↓	Sep 2016	143,25 ↓
		Dez 2016	141,40 ↓
+ 13%		Source: www.qualicafex.com.br	
Real R\$ / Dolar US\$			
		Jan 29, 2016	4,04 ↑