

The logo features a stylized blue cotton plant icon with three red dots above it, followed by the text "HAIL & COTTON" in a large, blue, serif font, and "INTERNATIONAL GROUP" in a smaller, red, sans-serif font below it.

**HAIL &
COTTON**
INTERNATIONAL GROUP

**CROP REPORT
DECEMBER 2017**



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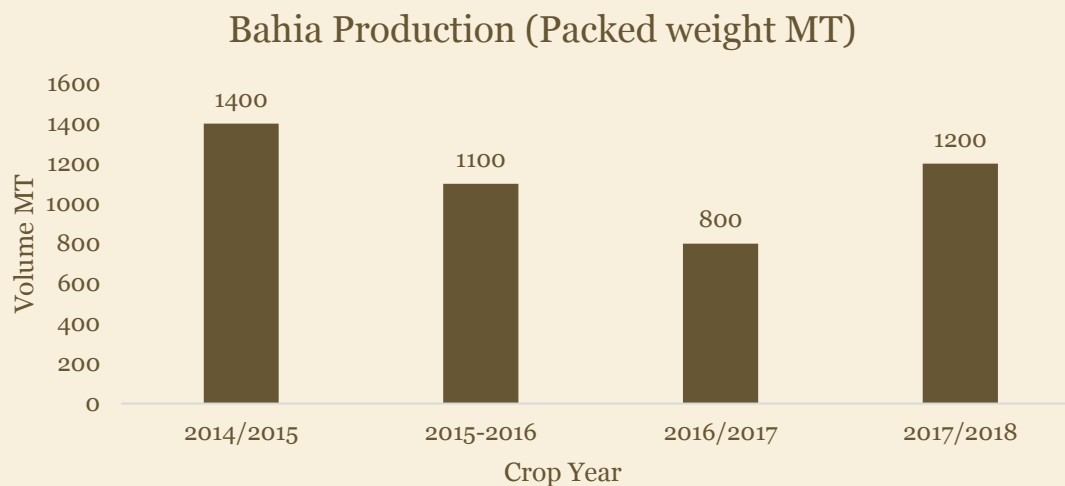
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CONTENT

BRAZIL BAHIA - FILLER	PAGE 3
BRAZIL BAHIA - MATA FINA WRAPPER	PAGE 4
BRAZIL ARAPIRACA - WRAPPER	PAGE 5
BRAZIL CUBRA - WRAPPER	PAGE 6
BRAZIL - FLUE CURED	PAGE 7
BRAZIL - BURLEY	PAGE 9
CANADA - DARK FIRED AND DARK AIR CURED	PAGE 10
COLOMBIA - CARMEN CUBITA	PAGE 12
DOMINICAN REPUBLIC - PILOTO CUBANO/OLOR/CRIOLO	PAGE 13
INDONESIA - BESUKI/NO-NORTH UTARA	PAGE 14
INDONESIA - JATIM/VO	PAGE 16
PARAGUAY - CRIOLO	PAGE 17
PHILIPPINES - ISABELA	PAGE 18
US - FLUE CURED	PAGE 19
US – BURLEY	PAGE 20
US – DARK FIRED AND DARK AIR CURED	PAGE 21

BRAZIL BAHIA – FILLER

HISTORICAL PRODUCTION



2016/2017 CROP STATUS

Current operational activity:

We are about to finish the final selection and packing process. We have started shipping tobaccos to customers. There is almost no stock available.

HCIG/CdF Volume (packed weight) 2016/2017 crop (target): **350 MT**

2017/2018 CROP STATUS

After difficult initial crop conditions the situation improved during the remaining part of the crop season. Farmers had good yields this year and overall crop volume is sufficient for the market. Most of the tobaccos are ready to be marketed and we will start buying shortly. The expected crop volume is around 1.200/1.300 tons (green, total crop)

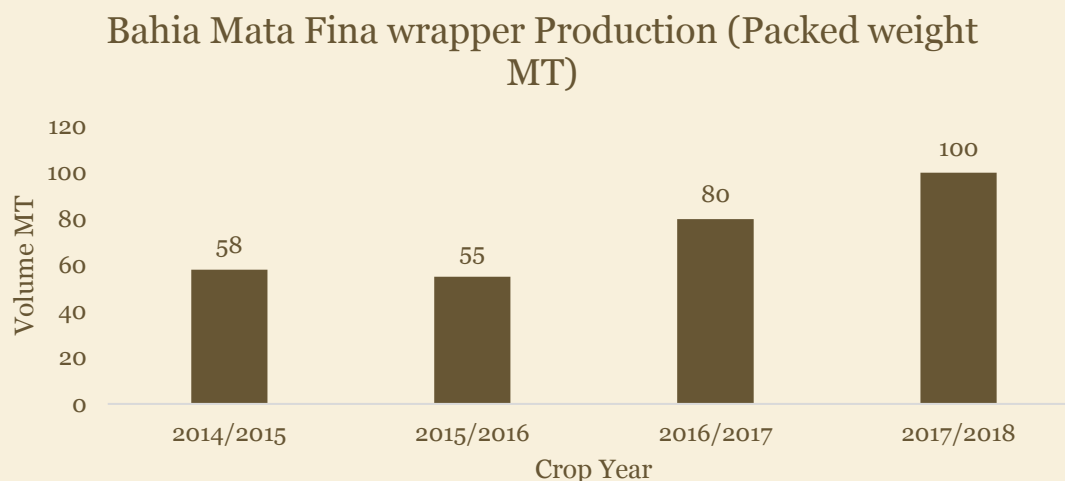
ECONOMIC DATA

Exchange Rate December 1: USD 1,00 = 3,27267 BRL

Inflation: 2,80 % November 2017

BRAZIL – BAHIA MATA FINA WRAPPER

HISTORICAL PRODUCTION



2016/2017 CROP STATUS

Current operational activity:

We have finished the sorting process and are about to finish packing. Part of the wrappers/binders have been shipped to customers. Initial quality evaluation has been confirmed during the sorting; overall quality and wrapper yield has improved as compared to last crop.

HCIG/CdF Volume (Packed weight) 2016/2017 crop (expected):

80 MT

2017/2018 CROP STATUS

We finished harvesting the crop in early October and curing was completed by mid-November. Overall production yield of the crop was good, however with a slightly lower wrapper yield than last crop.

Current operational activity:

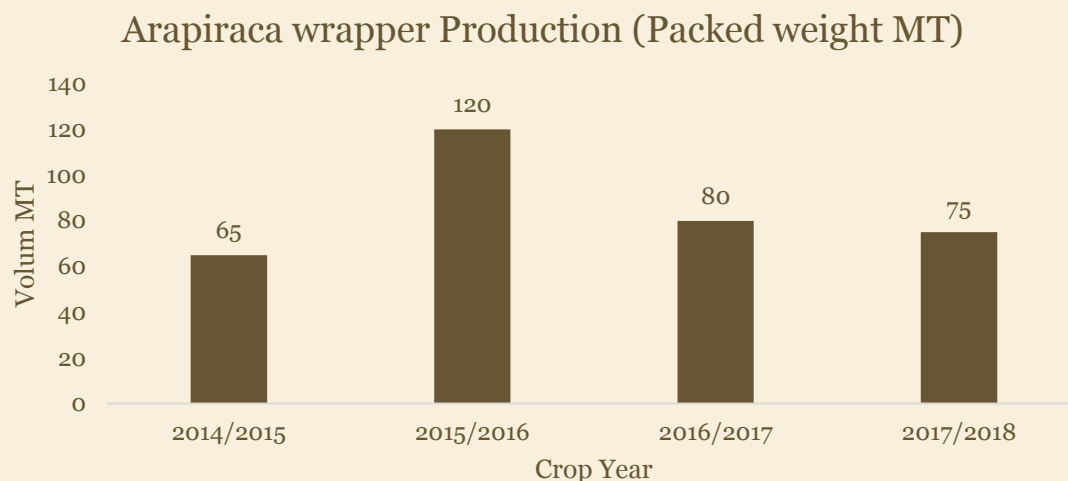
All tobaccos are undergoing fermentation at the moment and development is as expected.

HCIG/CdF Volume (Packed weight) 2017/2018 crop (expected):

100 MT

BRAZIL – ARAPIRACA WRAPPER

HISTORICAL PRODUCTION



2016/2017 CROP STATUS

Current operational activity:

We have shipped the wrapper material to our operation in the DR for final sorting. The sorting process in the DR started in October.

HCIG/CdF Volume (packed weight) 2016/2017 crop (expected): **40 MT**

2017/2018 CROP STATUS

As expected our overall wrapper volume fell somewhat behind the initially projected number. However quality is better than we had predicted, considering that the crop conditions were difficult, as explained in our previous report. All in all we expect decent quality and good wrapper yield.

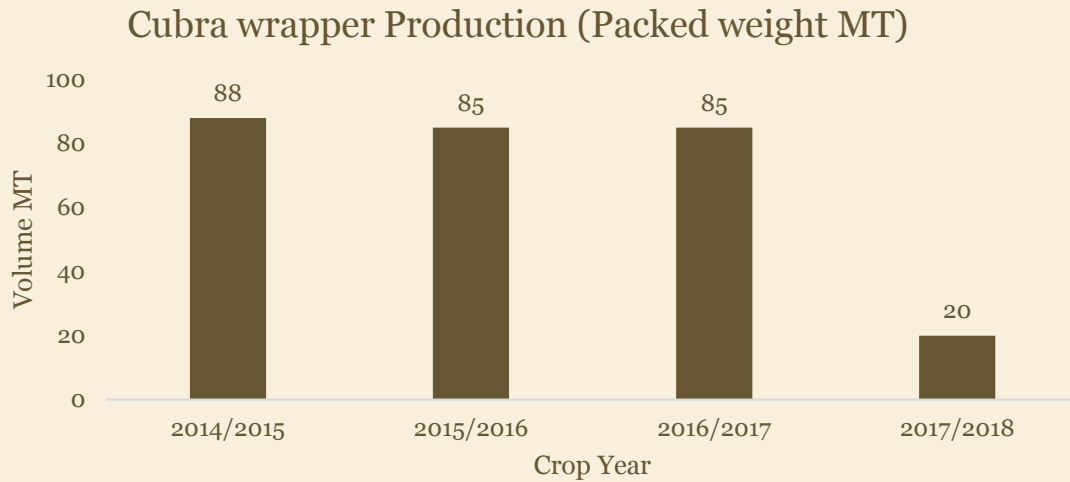
Current operational activity:

All tobaccos are still in the middle of the fermentation process, somewhat delayed this year as a result of later transplanting of the crop due to the difficult weather conditions.

HCIG/CdF Volume (packed weight) 2017/2018 crop (expected): **45 MT**

BRAZIL – CUBRA WRAPPER

HISTORICAL PRODUCTION



2016/2017 CROP STATUS

Current operational activity:

We have finished sorting and are close to finish packing. Part of the tobaccos have been shipped to customers.

HCIG/CdF Volume (packed weight) 2016/2017 crop (expected): **85 MT**

2017/2018 CROP STATUS

We finished harvesting the crop in September and curing was completed in October. Overall production yield of the crop was very good and we expect good wrapper yield.

Current operational activity:

All tobaccos are undergoing fermentation at the moment and development is as expected.

HCIG/CdF Volume (packed weight) 2017/2018 crop (expected): **20 MT**

BRAZIL – FLUE CURED

As of December 12th, 2017

Summary:

- Flue-cured in Rio Grande do Sul is showing average quality from early fields and good potential for quality and yield from late planting.
- In Santa Catarina there is potential for an average crop, being that only the Coastal Area was affected by adverse weather conditions.
- Paraná is showing good potential production.
- Up to now 100% of Flue Cured has been transplanted.

Rio Grande do Sul

Central Area - Old Belt

- Lower stalk position light orange to orange color and good quality

Highlands

- Lower stalk position orange color and tendency of good quality

South

- Lower stalk position light orange to orange color with good quality

Santa Catarina

Coastal Area

- Lower stalk position orange to deep orange color with quality below average and higher percentage of brown tobaccos (R styles)
- Upper stalk position orange to deep orange color with fair to good quality

Itajai Valley

- Lower stalk position orange color with good quality

Highlands North

- Lower stalk position light orange to orange color with good quality

Paraná

Irati Area

- Lower stalk position light orange color with good quality

Volumes: Total Brazil Flue-Cured

	Planted area: Hectares	Yield: Kgs/Hectare	Volume: Kgs
2018 (Estimated)	270,000	2,220	600,000,000
2017 (Final)	271,000	2,270	615,000,000
2016 (Final)	252,000	1,826	460,000,000
2015 (Final)	263,620	2,257	595,000,000

Crop Status: Estimate

Region	Transplanting	Topping	Harvesting	Curing	Purchasing
Rio Grande do Sul	100%	32%	24%	24%	0%
Santa Catarina	100%	34%	25%	25%	0%
Parana	100%	3%	2%	2%	0%

BRAZIL – BURLEY

As of December 12th, 2017

Summary:

- Burley fields in the far west are below average, due to adverse weather conditions and Central Area of Rio Grande do Sul is showing an average crop.
- For the Galpão Comum the expectation is for a crop with quality and yield below average because of the high volumes of rainfall registered during the last two months.

Rio Grande do Sul

Highlands

- Already started harvesting with losses on lower stalk position, but showing good ripeness and tan color on the remaining leaves

Santa Catarina and Parana

West SC/PR

- Tobaccos showing good quality and tan color but some losses on lower stalk position

AIR CURED GALPÃO

West SC/PR

- Already started harvesting, showing good ripeness with tan to reddish tan color but lower yield

Volumes: Total BRL Burley

	Planted area: Hectares	Yield: Kgs/Hectare	Volume: Kgs
2018 (Estimated)	35,120	2,220	78,000,000
2017 (Final)	35,120	2,305	81,000,000
2016 (Final)	28,572	1,924	55,000,000
2015 (Final)	40,090	2,070	83,000,000

Crop Status: Estimate

Region	Transplanting	Topping	Harvesting	Curing	Purchased
Rio Grande do Sul	100%	55%	12%	12%	0%
Santa Catarina/Parana	100%	73%	22%	22%	0%

CANADA - DARK FIRED AND DARK AIR CURED

As of December 11th, 2017

Summary:

- The Canadian crop is showing good cure and quality. We rate both yield and quality to be above average.
- Supply of the crop is adequate to fill the demand.
- Both Dark Fire Cured and Dark Air Cured purchasing complete.

Volumes: Total Canadian DFC and DAC

Type	Planted Area	Yield: Lbs./acre	Volume: Lbs.
2017 DFC	438	3,200	1,400,000 (635 MT)
2017 DAC	179	2,800	500,000 (226 MT)

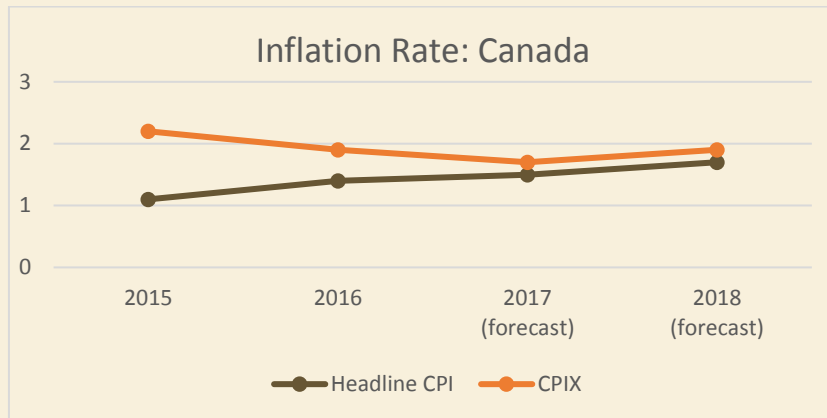
Crop Status: H&C Estimate

	Transplanting	Topping	Harvesting	Curing	Purchased
DFC	100%	100%	100%	100%	80%
DAC	100%	100%	100%	100%	0%

Canadian Economic Update November 2017:

- With the possibility of the US abandoning NAFTA, Mexico's economy minister, as Canada's international trade minister stood at his side, said the treaty would keep regulating relations between Canada and Mexico.
- Oil prices are forecasted around \$56/ barrel for 2018

Inflation rate forecast:



Exchange Rate: USD/CAD

2015 (Average)	1.38
2016 (Average)	1.37
2017 (Nov)	1.27

Exchange Rate EUR/CAD

2015 (Average)	1.41
2016 (Average)	1.45
2017 (Nov)	1.48

Real GDP:

2015	0.9%
2016	1.4%
2017 (Forecast)	3.0%
2018 (Forecast)	2.1%

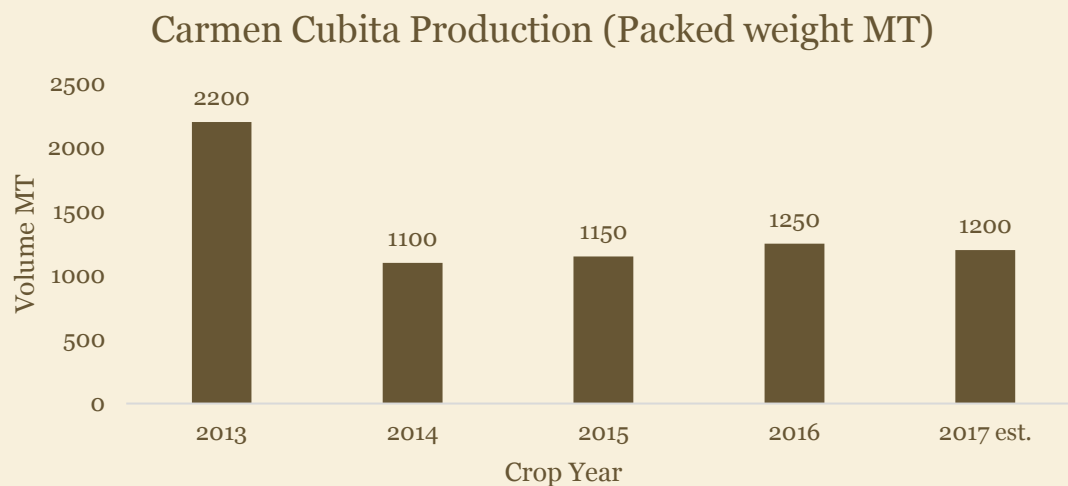
Unemployment:

2015	6.9%
2016	7.0%
2017 (Oct)	6.3%
2018 (Forecast)	6.7%

Source: Royal Bank of Canada, Department of Statistics Canada

COLOMBIA – CARMEN CUBITA

HISTORICAL PRODUCTION



2017/2018 CROP STATUS

Growing conditions:

Rains in October decreased the production of tobacco in several areas up to 25 to 30%.

However, the unaffected areas showed good leaf development and good quality.

We are still buying tobacco and will probably close purchasing the middle of January 2018.

Current operational activity:

New crop is still being bought and we continue visiting farmers daily with our agronomist and technicians discussing and educating on good agricultural practices, especially in the use of the CPA's and NTRM programs, GTS and biodiversity.

ECONOMIC DATA

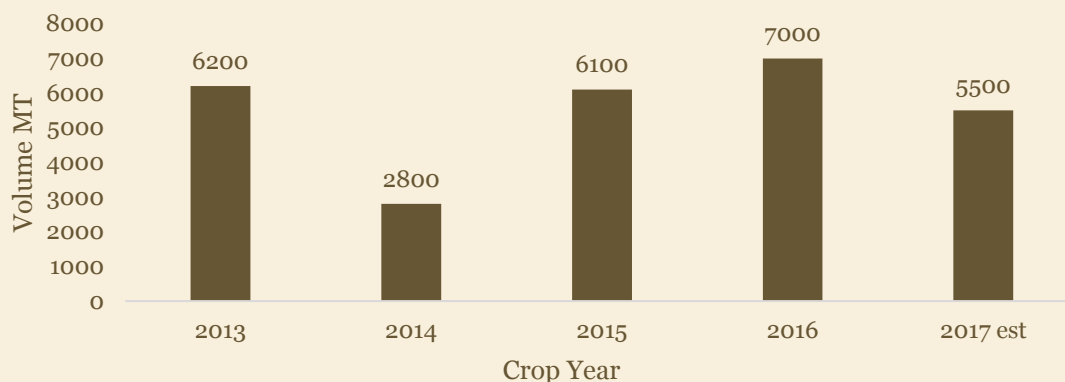
Exchange Rate December 1: USD 1,00 = 3015 COP

Inflation: 4,12% November 2017

DOMINICAN REPUBLIC

HISTORICAL PRODUCTION

Piloto Cubano/Olor/Criollo Production (Packed weight MT)



2018 CROP STATUS

Growing conditions:

New crop is underway. Abundant seed beds have been made, as it seems that there is some enthusiasm to grow. Weather has been good for the start of the crop. Occasional rain showers have allowed farmers to germinate their seed well, and land preparations are well underway. PC crop is estimated to grow somewhat, Burley remains small and Criollo crop should yield at least 35% more than last crop.

General comments:

Some customers have increased their indications and therefore we believe that the crop size might increase by 25%. Continue to see improved market conditions, although Europe still seems to be rather slow. The US market for both hand-made cigars and smaller mass market cigars keeps strong.

Initiatives to transform the Tobacco Institute are being undertaken, and this could be interesting. A more lenient structure would allow for more grower support.

ECONOMIC DATA

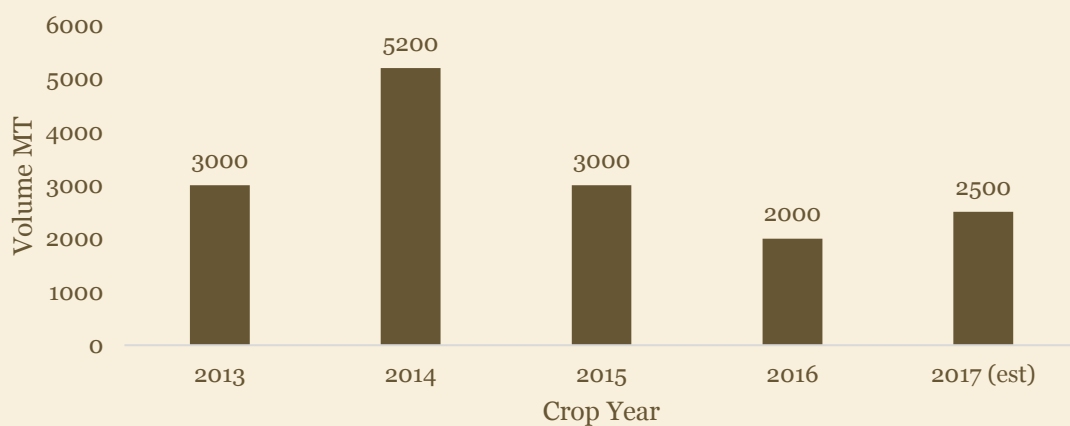
Exchange Rate December 1: USD 1,00 = 48,075 DOP

Inflation: 3,48 % October 2017

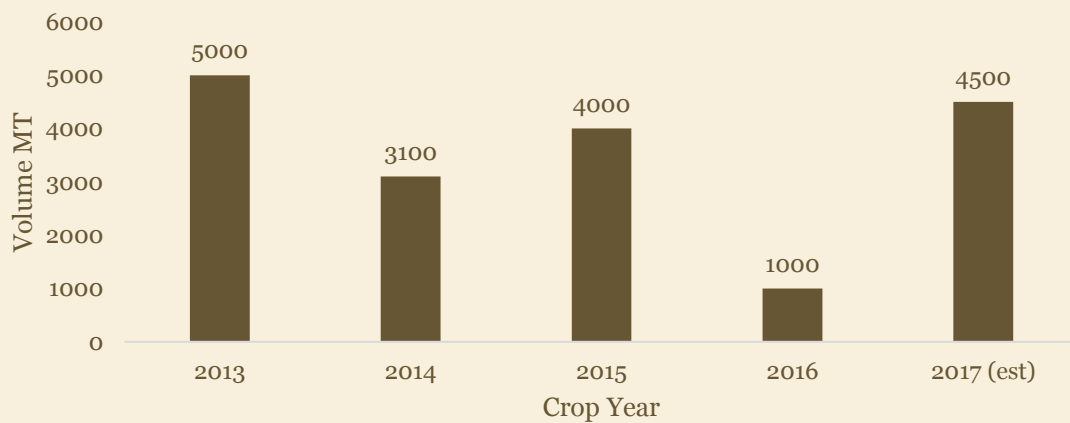
INDONESIA – BESUKI/NOTA – NORTH UTARA

HISTORICAL PRODUCTION

Besuki NOTA (Packed Weight MT)



Besuki North Utara (Packed Weight MT)



2017 CROP STATUS

Crop activities NOTA:

NOTA tobaccos have all been received. All tobaccos are under fermentation and we have finished Block sortation on the direct contracted farmers' crop and free market. Final color sortation and Rajak has been started.

Growing conditions have been excellent throughout the season and the crop resulted in good yields and very good quality. Expect to start packing first, lower, leaf positions by the end of December, weather conditions allowing.

Crop activities Utara:

Growing conditions in general have been favorable this year. Only a small volume of the latter part of the crop was effected in some areas by excess rainfall. Up until the third week of September, weather was bright and sunny, in the fourth week of September we saw some rainfall but not distributed evenly over Jember district. Utara tobacco planted in July has been majority harvested in October. Late transplanted Utara tobacco is somewhat affected by Cercospora due to the rain. Buying of Utara tobacco is ongoing but almost near the end and expected to end by December 20th.

All tobaccos are under fermentation. Overall farmers are happy to join PTM's contract growing program.

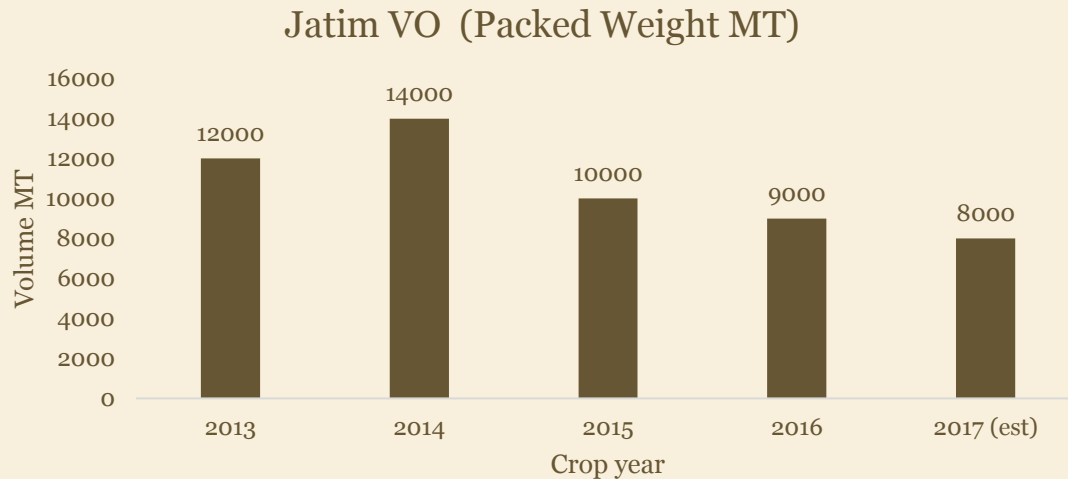
ECONOMIC DATA

Exchange Rate December 1: USD 1, 00 = 13510 IDR

Inflation: 3,30 % November 2017

INDONESIA – JATIM/VO

HISTORICAL PRODUCTION

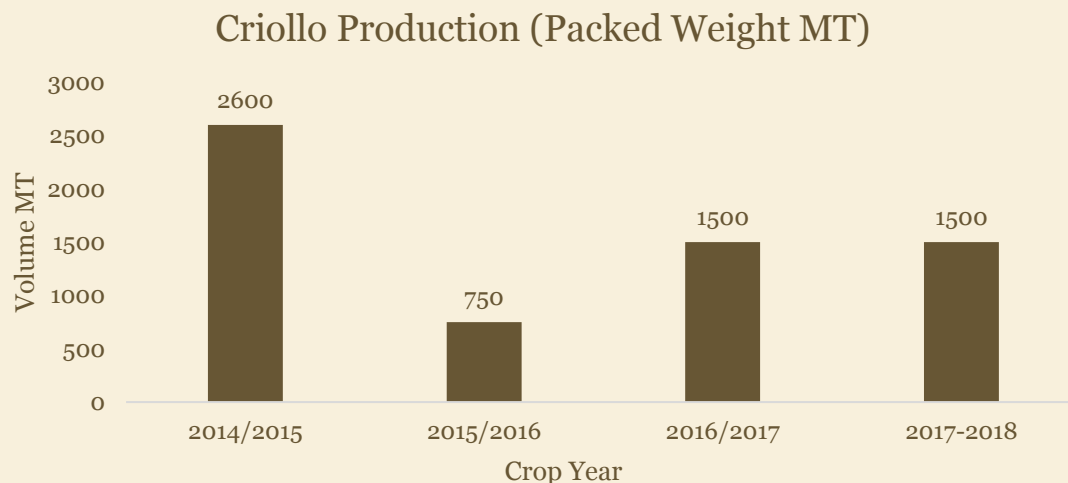


2017 CROP STATUS

The forecast for the traditional Jatim and Madura shows that it will probably become a difficult crop. Estimated volumes are down to approximately 8,000 MT available of these styles. Weather in the Bojonegoro area has had an adverse effect on planting and many farmers need to replant which comes at a cost. Other farmers that are discouraged resolve in planting other crops. Also due to the increased local demand, more leaf is used for Rajangan which puts additional pressure on the market. Prices are expected to be at least 20 - 25 % higher than last year. Quality of earlier planting towards the AC/BC styles later planting CD/CD2. We have almost finish purchasing and will process until April 2018.

PARAGUAY – CRIOLLO

HISTORICAL PRODUCTION



2018 CROP STATUS

Farmers are harvesting and the buying season will start mid-December. Despite having planted more area compared to crop 2017, adverse weather conditions (drought) will reduce the normal yield per ha. This fact will generate a similar total production for crop 2018 compared to crop 2017. No unsold stocks in the hands of farmers or exporters. Quality wise, it remains to be seen how weather will behave at curing/drying stage but so far, it is of normal/average quality.

General comments:

Farmers are pleased to see that right farm management produces benefits in their tobacco crops. Our agronomy team develops an excellent job broadcasting knowledge, closely monitoring our tobacco growers and assisting them in their needs or queries.

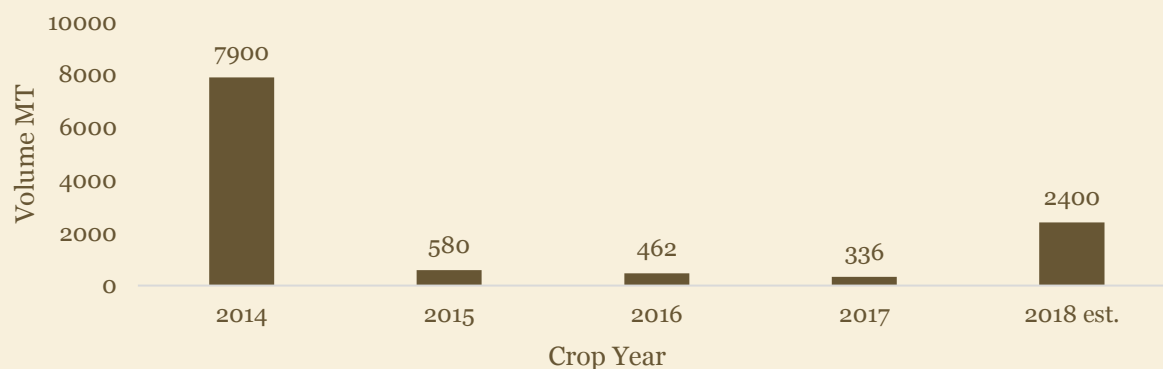
ECONOMIC DATA

Exchange Rate December 1 USD 1,00 = 5674 PYG
Inflation: 4,60 % November 2017

PHILIPPINES – ISABELA

HISTORICAL PRODUCTION

Isabela & Cagayan Province Production DAC (Packed Weight MT)



2017 CROP STATUS

Crop 2017 is now fully sorted and packed and overall quality and yields are good and in line with expectations.

Packing was completed in October and all orders are expected to be shipped by February 2018.

2018 CROP STATUS

The official target according to NTA is set for 3.000 MT (Green) but is likely to fall short as many farmers are becoming less interested in cultivating DAC tobacco due to high cost and low return compare to other crops.

ECONOMIC DATA

Exchange Rate December 1: USD 1,00 = 50,33 PHP

Inflation: 3,30 % November 2017

US - FLUE CURED

As of December 15th, 2017

Conventional summary:

- Harvest and curing of the crop is complete.
- All receiving stations are closed. Color, quality and maturity of tobacco has been average in most areas.
- Contracting for the 2018 crop will begin in February.

PRC/Organic Summary:

- Purchase of all PRC/Organic tobacco is complete
- Color, quality of maturity and tobacco was average to above average.

Volumes: Total US Flue-Cured

	Planted area: Acres	Yield: lbs./acre	Volume: lbs.
2017 Estimated Source: H&C	207,000	1,950	403,650,000 (183,100 MT)
2016 Final Source: USDA	213,500	2,021	431,450,000 (195,700 MT)

Crop Status: H&C Estimate

Transplanting	Topping	Harvesting	Curing	Purchasing
100%	100%	100%	100%	100%

US BURLEY

As of December 15th, 2017

Summary:

- Harvest of the crop is complete.
- 75% of the crop is cured, stripped, baled and ready for market. The remaining 25% of the crop continues to cure in the barn.
- Early indications of the quality of cured tobacco appear to be average.
- Tobacco harvested before the rainfall from Hurricane Harvey and Hurricane Irma that blanketed much of belt in late August and early September appears to be higher in color, while tobacco harvested after the hurricanes appears to be darker in color.
- Hail and Cotton opened its receiving station on November 27th.

Volumes: Total US Burley

	Planted area: Acres	Yield: lbs./acre	Volume: lbs.
2017 Estimated Source: H&C	75,000	1,850	138,750,00 (62,900 MT)
2016 Final Source: USDA	80,000	1,747	139,750,000* (63,400 MT)

Crop Status: H&C Estimate

Transplanting	Topping	Harvesting	Curing	Purchasing
100%	100%	100%	75%	10%

* - The 2016 crop volume listed above reflects what has been reported by the United States Department of Agriculture. Hail & Cotton, Inc. estimates final volume for the 2016 crop to be approximately 110,000,000 pounds (49,900 MT)

US DARK FIRED AND DARK AIR CURED

As of December 15th, 2017

Summary:

- To our knowledge, the entire crop was harvested without damage or setbacks from a hard frost.
- Purchases of the Dark Fired crop have shown improvement from last year. We rate the quality and yields of the crop received to date average to good.
- Dark Air Cured purchasing is underway. Qualities and yields of the crop received to date are considered to be average.
- We feel that the supply of this crop is adequate to fill the demand on both types.

Volumes: Total US DFC and DAC

	Planted area: Acres	Yield: lbs./acre	Volume: lbs.
2017 DFC Estimated Source: H&C	16,693	3,085	51,500,000 (23,360 MT)
2016 DFC Final Source: USDA	16,760	2,385	39,520,000 (17,900 MT)
2017 DAC Estimated Source: H&C	5,714	2,660	15,200,000 (6,900 MT)
2016 DAC Final Source: USDA	6,000	1,670	10,020,000 (4,500 MT)

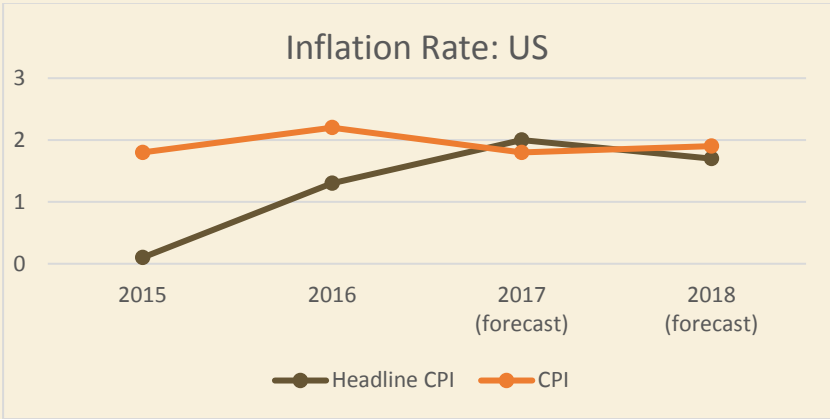
Crop Status: H&C Estimate

	Transplanting	Topping	Harvesting	Curing	Purchasing
DFC	100%	100%	100%	95%	70%
DAC	100%	100%	100%	100%	60%

United States Economic Update November 2017

- Increase in real GDP reflected increases in consumer spending, inventory investment, business investment and exports.
- Fifth round of NAFTA negotiations began in Mexico City on November 17th.
- US economy sustained 3% growth for 2 consecutive quarters for the first time since 2014.
- Interest rates may rise as a result of the strong economy. Policy will be determined when new Federal Reserve Chair Jerome H. Powell takes over in 2018.

Inflation Rate Forecast



Exchange Rates			
	USD/EUR	EUR/BRL	USD/BRL
2015 (Avg)	1.10	3.69	3.32
2016 (Avg)	1.10	3.85	3.48
2017 (Nov)	1.16	3.82	3.27

Real GDP	
2015	2.60%
2016	1.60%
2017 (Forecast)	2.20%
2018 (Forecast)	2.50%

Unemployment	
2014	6.16%
2015	5.25%
2016	4.85%
2017 (Oct)	4.10%

Sources: Royal Bank of Canada (RBC), Bureau of Labor Statistics, Federal Reserve