DRAFT REPORT

Land Lease Contracts Analysis Report

Group TONON

April 2016

Sumário

INITIAL CONSIDERATIONS

The analysis performed by DATAGRO on the land lease contracts of TONON were based exclusively on information provided in the spreadsheet named "Cane_Arrendamento Laplace_v3", containing information on the land lease contracts for the three mills that belong to Group TONON – **Vista Alegre**, in Mato Grosso do Sul, and **Paraiso** and **Santa Candida,** in the state of São Paulo.

DATAGRO has not been able to verify the content of any specific contract as of yet, and the Company is clarifying some small inconsistencies found in the above mentioned spreadsheet. DATAGRO considers this report to be Preliminary, and further review and analysis shall be conducted in order to allow a more complete assessment on the condition of the Company´s current land lease agreements.

EXECUTIVE SUMMARY

Two of the mills in Group TONON, Santa Candida and Paraíso, are located in the state of São Paulo, in the region of Bauru. The state of São Paulo is the largest sugarcane producing state in Brazil, accounting for 152 sugar & ethanol sugarcane processing facilities (mills), which crushed 368.26 million tons of cane during crop 2015/16 (April/March), corresponding to 59.6% of all cane crushed in Brazil´s Centre-South region, and 55.3% of all cane processed for industrial uses in the entire country. Bauru is one of the most important micro-regions within the state of Sao Paulo, hosting 11 mills, which crushed 46.3 million tons during the 2015/16 crop season. TONON group has also another mill, Vista Alegre, in the state of Mato Grosso do Sul, the fourth-largest producing state in Brazil, counting with 22 sugar & ethanol mills, which crushed 48.1 million tons of cane in the 2015/16 season.

Figure 1. Location of Group TONON mills in the states of Mato Grosso do Sul and São Paulo.

Because there is considerable competition for cane amongst mills in the Bauru micro-region, mills in that region have been engaged in a local dispute for procurement of land lease contracts. This issue demands attention and should be a priority for the entire group as a strategy to reduce land rental expenditures. In in this report, DATAGRO analyzes each mill individually in order to assess its position compared to the region, and also to assess whether Related Party contracts have presented signs of significant or relevant differences from the values used in on-related contracts.

VISTA ALEGRE MILL

Located in the state of Mato Grosso do Sul, the Company has 35 lease or partnership contracts, which account for a total of 34,382 hectares, with an average land lease cost of 34.39 tons of cane per alqueire (TC/ALQ)[1] during crop 2015/16. This land lease cost is 6.7% higher than the average land lease cost surveyed by DATAGRO for the state of Mato Grosso do Sul state during the same crop, which showed an average of 32.23 TC/ALQ.

One of the most important factors that pushes leasing costs is the sugarcane competition in the surrounding area close to the mill. Through the figure presented below, it can be noted that Vista Alegre Mill has just a few competitors in its surroundings. The economic radius for the transport of sugar cane is considered to be, in general terms, a maximum of 35 kilometers. That is, areas located beyond the radius of 35 km are considered to be sufficiently distant to turn them uneconomical, under normal market conditions, for the supply of cane to the mill, requiring higher prices for end products, sugar and ethanol, to enable their use.

The fact that, in this case, there are no mills within the 35-km economic radius of transport does not mean that the mill is not subject to competition from other agricultural or cattle raising activities for the use of the same land. Maps and figures presented in this report are satellite geo-referenced, and were produced by DATAMAPS, a Division of DATAGRO.

[1] In this report, ton refers to one metric ton. Alqueire is a traditional measure of area that dates back from the time Brazil was a colony of Portugal, and is equivalent to 24,200 square meters. One alqueire is equivalent to 2.42 hectares (each hectare has 10,000 square meters).

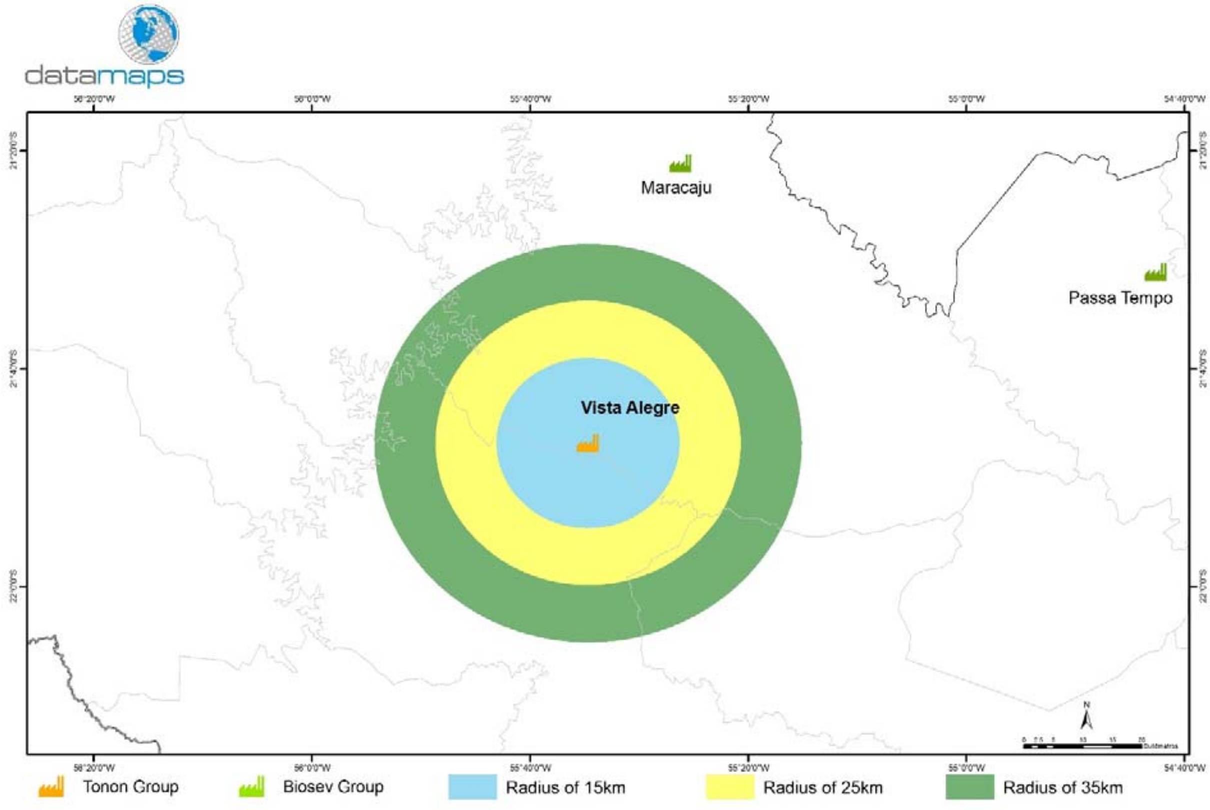

Figure 2. Location of Vista Alegre Mill, in the state of Mato Grosso do Sul, and the competing mills in the region.

In addition, DATAGRO had the opportunity to segregate the contracts between related parties and non-related parties, in order to allow a complete assessment on the position of each class of agreement. The table below summarizes the values found for the contracts.

GLOBAL	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	1	1,790	29.97
Non-related parties	34	32,592	34.64
Total	35	34,382	34.39

Table 1. Vista Alegre Mill – Land lease cost found in 35 contracts made with related and non-related parties.

Note that there is only one contract in place with Related parties in a representative large area that has a reduced cost to the Company, of 29.97 TC/ALQ, when compared to Non-related parties (34.64 TC/ALQ), and also with Mato Grosso do Sul´s average (32.23 TC/ALQ). Although the summary seems to be enlightening, DATAGRO conducted a distance cost analysis.

Sugarcane is a low-density raw material and its distance to the processing facility can determine the maximum price that a mill can pay to rent or lease a parcel of land, since transportation cost is directly influenced by distance. Based on this fact we segregated the contract in four major groups of distances, within ranges: (i) 0 to 10 km; (ii) 10.1 to 20 km; (iii) 20.1 to 30 km; and (iv) higher than 30 km. The results found for each distance range are presented in Table 2 below.

0 - 10 km	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	1	1,790	29.97
Non-related parties	9	6,518	31.69
Total	10	8,308	31.32

10.1 - 20 km	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	0	0	0.00
Non-related parties	6	16,887	40.69
Total	6	16,887	40.69

20.1 - 30 km	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	0	0	0.00
Non-related parties	3	833	20.68
Total	3	833	20.68

> 30 km	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	0	0	0.00
Non-related parties	16	8,354	26.09
Total	16	8,354	26.09

Table 2. Vista Alegre Mill – Land lease cost found in 35 contracts made with related and non-related parties, according to range distances from the mill.

The segregation of contracts according to distance ranges allows us to have a more conclusive assessment of any potential discrimination amongst each class of supplier. This analysis indicates that there is no evidence that in Vista Alegre Mill there is a special condition, or a benefit to Related Parties. This conclusion is valid for the comparison of the average of prices paid for land lease contracts, and also when analyzed in the same range, as they received a reduced value compared to non-related parties.

Some agreements of Vista Alegre mill present a pricing methodology which is different than the one usually considered in São Paulo state contracts. Instead of taking into account a fixed yield of 121.27 kg of TRS (total reducing sugars, or ATR) per ton of cane, Vista Alegre is using 109.19 kg/ATR per ton of cane. To be sure that even with this variable no discrimination is being made with Related Parties, we summarize below the volume of TRS (ATR) paid per ALQUEIRE for each radius.

GLOBAL	Contracts (n#)	Area (ha)	Cost (tc/alq)	Cost (ATR/alq)
Related Parties	1	1,790	29.97	3,272
Non-related parties	34	32,592	34.64	3,809
Total	35	34,382	34.39	3,781

0 - 10 km	Contracts (n#)	Area (ha)	Cost (tc/alq)	Cost (ATR/alq)
Related Parties	1	1,790	29.97	3,272
Non-related parties	9	6,518	31.69	3,460
Total	10	8,308	31.32	3,419

Table 3. Vista Alegre Mill – Land lease cost found in contracts made with related and non-related parties, according to range distances from the mill and cost measured in kg ATR/ALQ.

Again, we conclude that no evidence has been found of a discrimination in favor of related parties with respect to non-related parties. However, in the analysis we noted a very clear abnormality on the cost of some contracts, as we noted that for the range of distance higher than 30 km a significantly higher value for leasing the land is being paid when compared to the radius of 20.1 to 30 km, which is closer to the mill and should have a higher cost than the more distant ones. This factor can be attributed to the competition found with other alternative activities, or procurement of land for cane from other competing mills in the bordering area.

PARAISO MILL

Paraiso mill is located in the state of São Paulo, in the micro region of Bauru, a traditional sugarcane micro-region. The company has 180 lease/partnership contracts, which sum a total of 19,409 hectares, with an average land lease cost of 54.55 TC/ALQ, a value which is significantly higher (+38.4%) than the average for the state of São Paulo, which accounts for an average of 39.41 TC/ALQ, and also higher (23.5%) than the micro region average of 44.17 TC/ALQ.

One of the most important factors that pushes leasing costs is the sugarcane competition in the surrounding region. Through Figure 3 we can note that Paraiso is located in a quite competitive area, with some local competitors, although the strategy of a cluster with Santa Candida can help diminish the pressure on the lease cost. The explanation to such a premium over the micro-region, and the average condition in Sao Paulo, is that Paraiso is located in a peculiar region with respect to very diverse altitudes, as the region counts with few flat areas in its surroundings, as we can see in the images below.

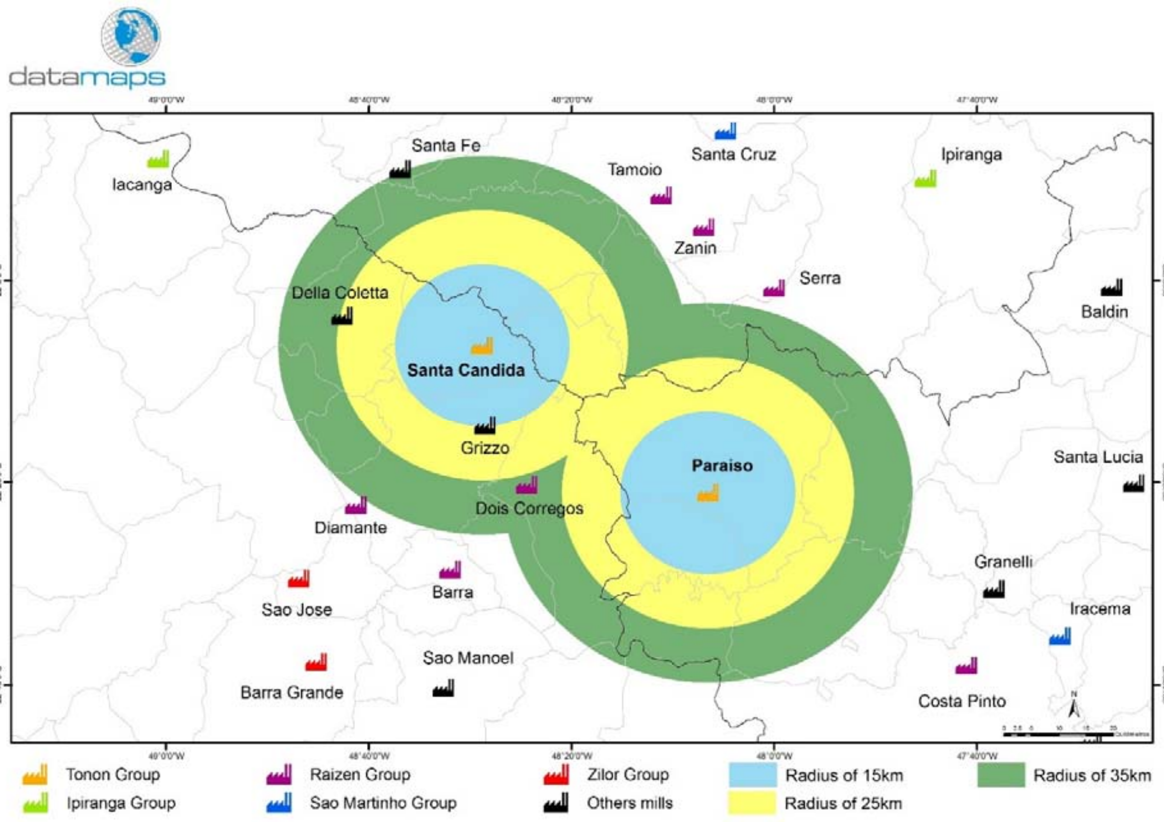

Figure 3. Location of Paraiso and Santa Candida Mills, in the state of Sao Paulo, and the competing mills in the region.

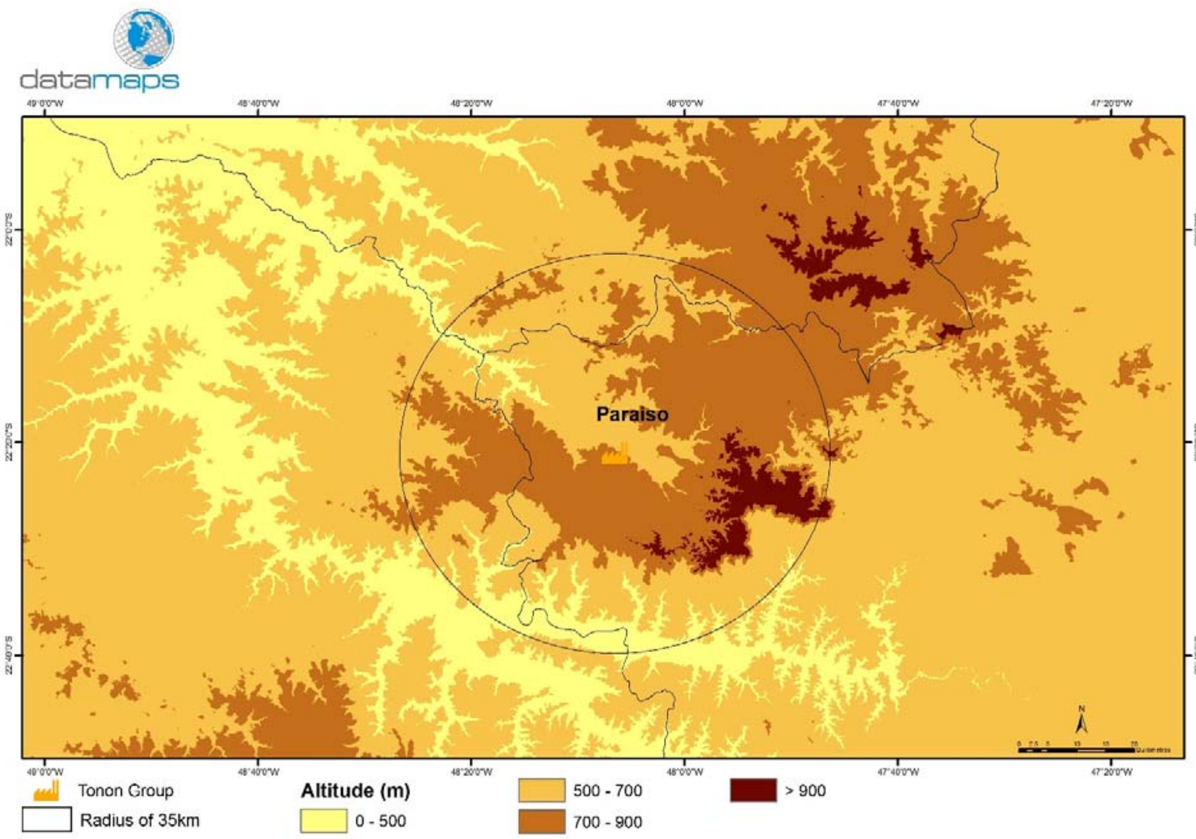

Figure 4. Altitude in the surroundings of Paraiso mill, in the state of Sao Paulo.

In addition, we had the opportunity of segregating contracts between related parties and non-related parties to have a better understanding of the position of each class of agreement, as summarized below.

GLOBAL	Contracts (n#)	Area (ha)	Cost (tc/alq)
Related Parties	8	2,414	58.04
Non-related parties	172	16,995	54.06
Total	180	19,409	54.55

Table 4. Paraiso Mill – Land lease cost found in contracts made with related and non-related parties.

Note that there are eight contracts in place with related parties with an average higher value (+7.4%) compared to the non-related parties average.

As previously explained, sugarcane is a low-density raw material and its distance to the factory can determine the maximum price a mill can pay to rent/lease a parcel of land since the transportation cost varies according to the range of distances. Based on this fact DATAGRO segregated the contracts in four major groups of distance ranges: (i) 0 to 10 km; (ii) 10.1 to 20 km; (iii) 20.1 to 30 km; and (iv) higher than 30 km. The following results were found for each distance range.

0 - 10 km	Contracts (n#)	Area (ha)	Cost (tc/alq)
Related Parties	6	2,329	58.17
Non-related parties	24	5,715	49.31
Total	30	8,044	51.88

10.1 - 20 km	Contracts (n#)	Area (ha)	Cost (tc/alq)
Related Parties	1	30	48.00
Non-related parties	52	3,731	48.81
Total	53	3,761	48.80

20.1 - 30 km	Contracts (n#)	Area (ha)	Cost (tc/alq)
Related Parties	0	0	0.00
Non-related parties	62	3,019	48.89
Total	62	3,019	48.89

> 30 km	Contracts (n#)	Area (ha)	Cost (tc/alq)
Related Parties	1	54	31.00
Non-related parties	34	4,530	48.80
Total	35	4,584	48.59

Table 5. Paraiso Mill – Land lease cost found in contracts made with related and non-related parties, according to distance ranges.

The segregation of the contracts for different distance ranges allows us to have a more conclusive assessment of any potential discrimination within each class of supplier. In this case, there is evidence of a significant difference in favor of Related Parties, not only in the average, but also in the same range analysis, as Related Parties receive a value 18% higher than non-related parties. This becomes evident for the radius up to 10 km, which concentrates 97% of acreage for related party contracts However, the expiration date must also be considered. From the provided information, 99% of these areas have an expiration date on 2031. DATAGRO´s survey indicates that historically the land lease cost in Bauru micro region increases 2% per year. Therefore, if one admitted that Related Party contracts would have to be negotiated again earlier than 2031, the 18% premium above non-related parties would be compensated in 9 years.

SANTA CANDIDA MILL

Santa Candida mill is located in the state of São Paulo, in the micro region of Bauru, a traditional sugarcane region. The company has 181 lease/partnership contracts, which sum a total of 24,741 hectares, with an average cost of leasing coincidently identical to Paraiso, of 54.55 TC/ALQ, a value higher (+38.4%) than the one found in the state of São Paulo, which counts with an average of 39.41 TC/ALQ, and also higher (+23.5%) than the micro region average of 44.17 TC/ALQ.

As mentioned before, competition with surrounding mills and topography can influence the value paid for land. Different from Paraiso, Santa Candida is positioned in a very competitive region of cane, surrounded by important groups, such as Raizen mills and definitely, the premium paid reflects this competitive condition.

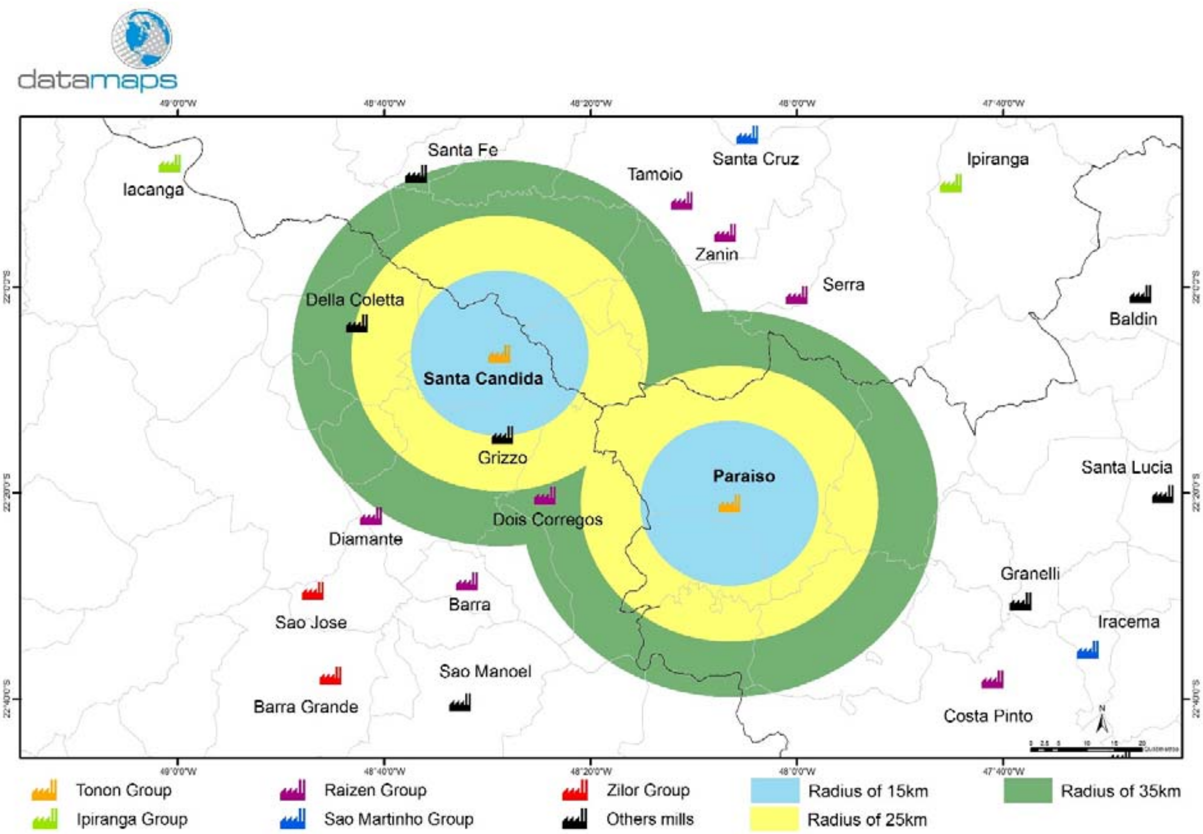

Figure 5. Location of Santa Candida and Paraiso Mill, in the state of Sao Paulo, and the competing mills in the region.

In addition, we had the opportunity to segregate contracts between related parties and non-related parties, to have a more detailed assessment on the position of each class of agreement, which is summarized in Table 6 below.

GLOBAL	Contracts (n#)	Area (ha)	Cost (tc/alq)
Related Parties	10	6,456	56.78
Non-related parties	171	18,286	53.76
Total	181	24,741	54.55

Table 6. Santa Candida Mill – Land lease cost found in contracts made with related and non-related parties.

A representative share of the total leased area, around 26%, is from related parties and incurs a higher cost (+5.6%) for the company than non-related parties.

As previously explained sugarcane is a low-density raw material and its distance to the factory can determine the maximum price a mill can pay to rent/lease a piece of land since the transportation cost varies according to range of distances. Based on this fact we segregated the contract in four major groups of range of distances: (i) 0 to 10 km; (ii) 10.1 to 20 km; (iii) 20.1 to 30 km; and (iv) higher than 30 km. The following results were found for each distance range.

0 - 10 km	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	2	5,513	57.67
Non-related parties	28	3,460	54.14
Total	30	8,973	56.31

10.1 - 20 km	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	4	390	49.18
Non-related parties	53	4,647	53.86
Total	57	5,037	53.50

20.1 - 30 km	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	3	259	49.14
Non-related parties	38	4,348	53.92
Total	41	4,607	53.66

> 30 km	**Contracts (n#)**	**Area (ha)**	**Cost (tc/alq)**
Related Parties	1	294	49.00
Non-related parties	52	5,830	53.48
Total	53	6,124	53.27

Table 7. Santa Candida Mill – Land lease cost found in contracts made with related and non-related parties, according to distance ranges.

The segregation of the contracts in its ranges allows us to have a more detailed assessment of any potential discrimination within each class of supplier. The majority of the areas (two contracts), which correspond to around 85% of the acreage, are within a radius of up to 10 km, basically represented by one contract with "Tonon Agro Imóveis Rurais Ltda" on Santa Candida farm that has a 7% over price. It is interesting to note that the expiration date of this contract is 2027. Considering that historically the land lease cost in the Bauru micro region increases 2% per year, at this pace the overprice should be overcome in the next four years.

CONCLUSION

DATAGRO performed a preliminary analysis of information provided on the terms of Land Lease Contracts in existence for three mills belonging to Group TONON: Vista Alegre, Paraiso and Santa Candida mills.

The cost of these contracts was evaluated considering the cost in terms of tons of cane per alqueire (one alqueire equal to 2.42 hectares), and in the case of Vista Alegre mill, located in the state of Mato Grosso do Sul, also in terms of kg of TRS (ATR) per alqueire, since in that mill the methodology for determination of the sugar content in cane to be paid under the land lease contracts differs from the one used in the state of Sao Paulo.

Land lease contract costs were evaluated for contracts made with Related and Non-related Parties. These costs were compared amongst themselves according to a segmentation based on the distance range of the land leased to each mill, and also compared with the values found by DATAGRO for the state average for the 2015/16 crop.

The preliminary conclusion indicates that:

- For the case of Vista Alegre mil, no evidence has been found of a discrimination in favor of related parties with respect to non-related parties. However, in the analysis we noted a very clear abnormality on the cost of some contracts, as we noted that for the range of distance higher than 30 km a significantly higher value for leasing the land is being paid when compared to the radius of 20.1 to 30 km, which is closer to the mill and should have a higher cost than the more distant ones. This factor can be attributed to the competition found with other alternative activities;

- For the case of Paraiso mill, there are eight contracts in place with related parties with an average higher value (+7.4%) compared to the non-related parties average. there is evidence of a significant difference in favor of Related Parties, not only in the average, but also in the same range analysis, as Related Parties receive a value 18% higher than non-related parties. This becomes evident for the radius up to 10 km, which concentrates 97% of acreage for related party contracts However, the expiration date must also be considered. From the provided information, 99% of these areas have an expiration date on 2031. DATAGRO´s survey indicates that historically the land lease cost in Bauru micro region increases 2% per year. Therefore, if one admitted that Related Party contracts would have to be negotiated again earlier than 2031, the 18% premium above non-related parties would be compensated in 9 years; and,

- For the case of Santa Candida mill, a representative share of the total leased area, around 26%, is from related parties and incurs a higher cost (+5.6%) for the company than non-related parties. The majority of the areas (two contracts), which correspond to around 85% of the acreage, are within a radius of up to 10 km, basically represented by one contract with “Tonon Agro Imóveis Rurais Ltda” on Santa Candida farm that has a 7% over price. It is interesting to note that the expiration date of this contract is 2027. Considering that historically the land lease cost in the Bauru micro region increases 2% per year, at this pace the overprice should be overcome in the next four years.

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