

**THESE LISTING PARTICULARS HAVE BEEN PREPARED SOLELY FOR THE PURPOSES OF ADMITTING THE NEW NOTES TO THE OFFICIAL LIST AND TRADING ON THE GLOBAL EXCHANGE MARKET OF THE IRISH STOCK EXCHANGE**

**NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION TO ANY PERSON LOCATED OR RESIDENT IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DISTRIBUTE THESE LISTING PARTICULARS**

These Listing Particulars do not constitute an offer to buy or sell or a solicitation of an offer to sell or buy Existing Notes or New Notes (each as defined below), as applicable in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such offer or solicitation under applicable securities laws or otherwise. The distribution of this document in certain jurisdictions (including, but not limited to, the United States, Brazil, Luxembourg, the Republic of Ireland, Belgium and the United Kingdom) may be restricted by law. See pages ii-iv and “Transfer Restrictions” on pages 199-201 in the exchange offer memorandum and consent solicitation statement dated June 13, 2015 attached hereto as Annex I (as it may be supplemented and amended from time to time, the “Offering Memorandum”). Persons into whose possession this document comes are required by the Issuer, the Exchange Agent, the Information Agent, the Trustee, the Paying Agent, the Registrar, the Transfer Agent and the Irish Listing Agent (each as defined in the Offering Memorandum) to inform themselves about, and to observe, any such restrictions. No action that would permit a public offer has been or will be taken in any jurisdiction by the Issuer, the Exchange Agent, the Information Agent, the Trustee, the Paying Agent, the Registrar, the Transfer Agent and the Irish Listing Agent.

The New Notes have not been, and will not be, registered under the U.S. Securities Act (as defined herein), or the securities laws of any other jurisdiction. For a description of certain restrictions on the transfer of the New Notes see “Transfer Restrictions” in the Offering Memorandum.

**LISTING PARTICULARS**

**Dated July 21, 2015**



**Tonon Luxembourg S.A.**

*(a public limited liability company (société anonyme) incorporated in the Grand Duchy of Luxembourg)*

**U.S.\$300,000,000 Step-Up Senior Notes due 2020**

Tonon Luxembourg S.A. (the “Issuer”), a public limited liability company (*société anonyme*) organized under the laws of Luxembourg, with its registered office at 5, Rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg, is offering to exchange (the “Exchange

Offer”) any and all of its outstanding U.S.\$300,000,000 9.250% Senior Notes due 2020 (the “Existing Notes”) for newly issued Step-Up Senior Notes due 2020 (the “New Notes”) and is conducting a simultaneous solicitation of consents with respect to certain amendments (the “Proposed Amendments”) to the Existing Notes and the indenture governing the Existing Notes. The New Notes are to be issued under and governed by an indenture (the “Indenture”), among the Issuer, the Issuer’s parent company, Tonon Bioenergia S.A. (“Tonon,” the “Guarantor,” “we,” “our,” or “us”), as Guarantor, and The Bank of New York Mellon, as Trustee, Paying Agent, Registrar and Transfer Agent, pursuant to which Tonon will unconditionally and irrevocably guarantee all of the Issuer’s obligations under the New Notes (the “New Notes Guarantee”).

The New Notes will have substantially the same terms as the Existing Notes, except for (1) the terms of payment of interest and (2) certain restricted payments covenants. The New Notes will mature on January 24, 2020 (the “Maturity Date”). The New Notes will bear interest at the rate of (1) 7.250% per annum from January 24, 2015 through January 23, 2017, and (2) 9.250% per annum from January 24, 2017 through the Maturity Date. Interest on the New Notes will accrue from January 24, 2015 and be payable semi-annually in arrears on January 24 and July 24 of each year, beginning on July 24, 2015 unless the issuer exercises its right to defer the payment of interest on such interest payment date as permitted under the terms and conditions of the New Notes.

The Issuer will, subject to the terms and conditions of the New Notes, have the option to defer cash payments of interest due on any interest payment date under the New Notes. For any payments of interest due on any interest payment date that occurs on or prior to January 24, 2017, the Issuer may defer such payments of interest at its sole discretion. For any payments of interest due on any interest payment date that occurs after January 24, 2017, the Issuer may defer such payments of interest provided that, after giving effect to an interest payment on an interest payment date that occurs after January 24, 2017, the amount of cash on the balance sheet of the Issuer as of the last day of the fiscal quarter immediately preceding such interest payment date would be less than R\$100.0 million.

This document supplements, and should be read in conjunction with, the Offering Memorandum, and together with this document constitutes the “Listing Particulars” relating to the New Notes. Where there is any conflict between the terms of this document and the Offering Memorandum, this document will supersede the Offering Memorandum. Capitalized terms used in this document and not defined herein shall have the meanings ascribed to them in the Offering Memorandum.

Application has been made to the Irish Stock Exchange (the “ISE”) for the approval of this document, including Annex I, as Listing Particulars for the New Notes. Application has been made to the ISE for the New Notes to be admitted to the Official List and to trading on the Global Exchange Market which is the exchange regulated market of the Irish Stock Exchange. The Global Exchange Market is not a regulated market for the purposes of Directive 2004/39/EC. No assurance can be given that such an application to admit the New Notes will be successful.

The Issuer and the Guarantor accept responsibility for the information contained in these Listing Particulars. To the best of the knowledge and belief of the Issuer and the Guarantor (and

the Issuer and the Guarantor have taken all reasonable care to ensure that such is the case), the information contained in these Listing Particulars is in accordance with the facts and does not omit anything likely to affect the import of such information

You should rely only on the information provided in these Listing Particulars. We have not authorized anyone else to provide you with different information. No information (including, without limitation, the information on our website) is incorporated by reference into these Listing Particulars.

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## DESCRIPTION OF THE NEW NOTES

The New Notes, which are described fully in “Description of the New Notes” in the Offering Memorandum attached hereto as Annex I, were issued on July 7, 2015.

### **Committee on Uniform Securities Identification Procedures (“CUSIP”) and International Securities Identification Number (“ISIN”)**

The New Notes have been accepted for clearance and settlement through DTC, Euroclear and Clearstream. The CUSIP and ISIN numbers for the New Notes are as follows:

	<b>Restricted Global Note</b>	<b>Regulation S Global Note</b>
CUSIP .....	89031R AF3	L9116P AF0
ISIN .....	US89031RAF38	USL9116PAF01

### **Trustee, Paying Agent, Registrar, Transfer Agent and Irish Listing Agent**

The Bank of New York Mellon is acting as the Trustee, Paying Agent, Registrar and Transfer Agent in relation to the New Notes. The address for The Bank of New York Mellon is 101 Barclay Street, 7E New York, NY 10286, United States of America.

The Bank of New York Mellon SA/NV, Dublin Branch is acting as the Irish Listing Agent. The address of The Bank of New York Mellon SA/NV, Dublin Branch is Hanover Building, Windmill Lane, Dublin 2, Ireland.

## DESCRIPTION OF THE ISSUER

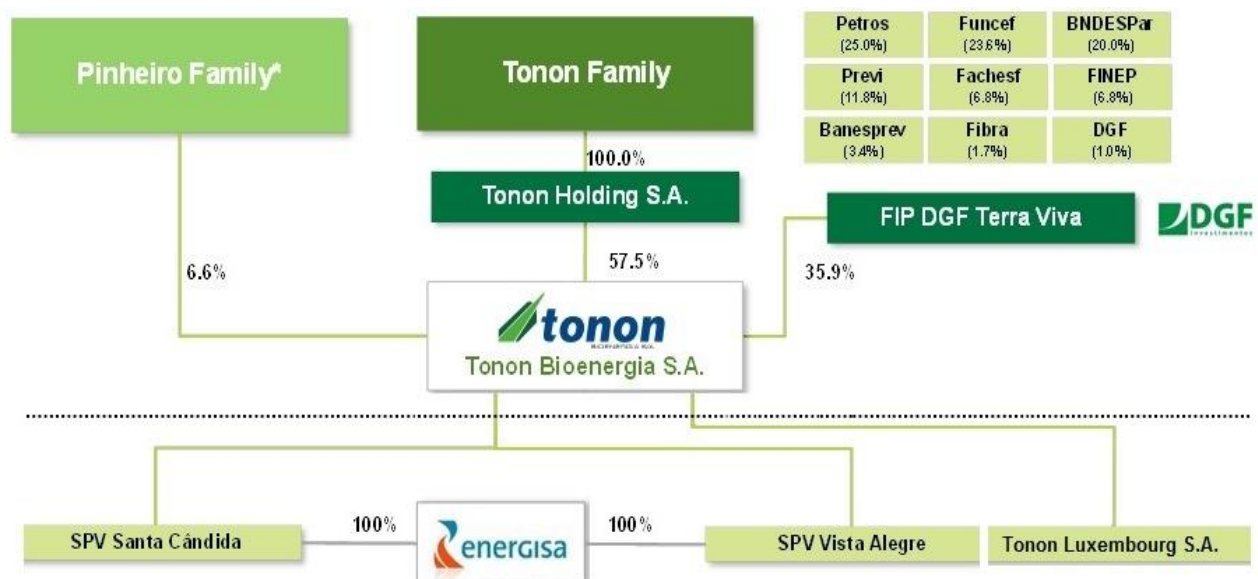
The Issuer is a public limited liability company (*société anonyme*) and was incorporated under the laws of Luxembourg on May 7, 2014. The registered office of the Issuer is 5, Rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg. The Issuer is registered with the Luxembourg Register of Commerce and Companies under number B 186953. The telephone number of the Issuer is +352 48 18 28 1.

### Business

The Issuer is a wholly-owned subsidiary of Tonon Bioenergia S.A., a company (*sociedade anônima*) organized under the laws of Brazil, with its corporate headquarters at Rodovia Jaú-Araraquara, Km. 129, CP-7, Fazenda Sta. Cândida, Gleba Industrial, 17.240-000, Bocaina, SP, Brazil. The Issuer has no activities independent from Tonon's.

Tonon is a sugar, ethanol and energy producer with operations in the Southeast and Midwest regions of Brazil. Tonon cultivates, harvests, purchases and processes sugarcane, from which it produces very high polarization sugar, or VHP sugar, granulated refined sugar, anhydrous ethanol and hydrous ethanol to sell domestically and internationally. Tonon also provides sugarcane bagasse by-products in exchange for electricity to power its own industrial operations through co-generation. Tonon currently conducts its sugar and ethanol operations through three mills: (1) Santa Cândida, in Bocaina, in the state of São Paulo; (2) Vista Alegre, in Maracaju, in the state of Mato Grosso do Sul; and (3) Paraíso, in Brotas, in the state of São Paulo. As of March 31, 2015, Tonon generated net revenue of R\$731.9 million and had 2,108 employees.

### Corporate Structure



\* Pinheiro Family: Wilson Hélio de Albuquerque Pinheiro Junior, Flávio de Albuquerque Pinheiro, Renata de Albuquerque Pinheiro and Silvia de Barros Brisolla.

## Management

### *Board of Directors of the Issuer*

The board of directors of the Issuer is currently composed of four members. All directors of the Issuer are appointed by Tonon. The directors of the Issuer are Rodrigo Caldas de Toledo Aguiar, Aluizio Barbosa Machado, José Correia, and Fabrice Meeuwis. The business address of the directors of the Issuer is 5, Rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg.

### *Board of Directors of Tonon*

The members of Tonon's board of directors, whose business address is Rodovia Jaú-Araraquara, Km. 129, CP-7, Fazenda Sta. Cândida, Gleba Industrial, 17.240-000, Bocaina, SP, Brazil, are:

Name	Appointed by	Member Since	End of Term(1)
Antonio Tonon .....	Tonon Holding S.A.	April 7, 2011	April 14, 2016
Abelmir Bortolo Tonon .....	Tonon Holding S.A.	July 1, 2014	April 14, 2016
Claudia Maria Tonon .....	Tonon Holding S.A.	April 7, 2011	April 14, 2016
Francisco Tonon Neto.....	Tonon Holding S.A.	April 7, 2011	April 14, 2016
Rafael Tonon (Chairman).....	Tonon Holding S.A.	April 7, 2011	April 14, 2016
Renato José Tonon Filho .....	Tonon Holding S.A.	April 7, 2011	April 14, 2016
Vitor Antonio Picini .....	FIP DGF Terra Viva(2)	April 14, 2015	April 14, 2016
Rufino Bernardes Leira .....	FIP DGF Terra Viva(2)	April 14, 2015	April 14, 2016

- (1) The term of our board of directors will end at the annual shareholders' meeting at which our financial statements for the fiscal year ended March 31, 2016 are approved, which meeting has not yet been scheduled. According to our bylaws, until new members are elected (or the current members are reelected) at our annual shareholders' meeting, the current members remain in their respective positions.
- (2) FIP Terra Viva - Fundo de Investimento em Participações, the investment fund managed by DGF Investimentos Ltda., a Brazilian private equity firm.

The following is a summary of the business experience of the members of Tonon's board of directors:

*Antonio Tonon.* Mr. Tonon. He holds a bachelor's degree in industrial engineering from Centro Universitário da Faculdade de Engenharia Industrial (FEI). He has also completed a director training course (*Curso de Formação de Conselheiros*) at the Fundação Dom Cabral.

*Abelmir Bortolo Tonon.* Mr. Tonon has over 20 years of experience in the sugarcane industry. He has completed high school.

*Claudia Maria Tonon.* Ms. Tonon has over 20 years of experience in the sugarcane industry. She served as an executive officer, with a focus on finance, management and business operations at Tonon. She holds a bachelor's degree in business administration from Universidade de Marília and a bachelor's degree in law from Faculdade Integrada. She also holds a post-graduate degree in foreign trade and business from the University of Ohio and a post-graduate degree in business management from FGV. She has also completed a director training course (*Curso de Formação de Conselheiros*) at the Fundação Dom Cabral.

*Francisco Tonon Neto.* Mr. Tonon has over 20 years of experience in the sugarcane industry. He served as the executive officer of operations. He holds a bachelor's degree in agronomy from Faculdade Manoel Carlos Gonçalves with a specialization in business management from FGV. He has also completed a director training course (*Curso de Formação de Conselheiros*) at the Fundação Dom Cabral.

*Rafael Tonon.* Mr. Tonon worked in the finance and supply sectors of Tonon. He holds a bachelor's degree in business administration from Universidade Presbiteriana Mackenzie and specialized in agribusiness management at FGV. He has also completed the director training course (*Curso de Formação de Conselheiros*) through the Fundação Dom Cabral.

*Renato José Tonon Filho.* Mr. Tonon Filho served as laboratory manager and project engineer at Nesita Energy LLC. He is currently the chairman of the operational management committee at Tonon. He holds a bachelor's degree in physical engineering with a specialization in chemical engineering from Universidade Federal de São Carlos. He has also completed a director training course (*Curso de Formação de Conselheiros*) at the Fundação Dom Cabral.

*Vitor Antonio Picini.* Mr. Picini has over 10 years of experience in the sugarcane industry. He has worked at Louis Dreyfus, EBBA (Maguary/Dafruta) and Infinity Bio-Energy. He holds a bachelor's degree in economics from USP, a postgraduate degree in industrial management from Universidade de São Paulo (USP) and an MBA in accounting from Fipecafi-USP.

*Rufino Bernardes Leira.* Mr. Leira has over 30 years of experience in the sugarcane industry. He worked at plant Cresciumal / Louis Dreyfuss, Companhia Energetica Santa Elisa / Santelisa Vale / CNAA (National Company of Sugar and Alcohol and Sermatec. He holds a bachelor's degree in Agronomic Engineering with specialization and Food Technology USP - Escola Superior de Agricultura Luiz de Queiroz (1977).

### ***Executive Officers of Tonon***

The members of Tonon's board of executive officers (*diretoria*), whose business address is Rodovia Jaú-Araraquara, Km. 129, CP-7, Fazenda Sta. Cândida, Gleba Industrial, 17.240-000, Bocaina, SP, Brazil, are:

<b>Name</b>	<b>Position</b>	<b>Member Since</b>	<b>End of Term(1)</b>
Rodrigo Caldas de Toledo Aguiar .....	Chief Executive Officer ( <i>Diretor Superintendente</i> )	April 2, 2012	April 14, 2016
Vitor Antonio Picini .....	Chief Financial Officer	February 1, 2013	April 14, 2016
Nelson Reis de Assumpção.....	Chief Industrial Officer	December 10, 2014	April 14, 2016

- (1) The term of our board of officers will end at the annual shareholders' meeting at which the financial statements for the fiscal year ended March 31, 2016 are approved, which meeting has not yet been scheduled. According to our bylaws, until new members are elected (or the current members are reelected) at our annual shareholders' meeting, the current members remain in their respective positions.

The following is a summary of the business experience of the members of Tonon's board of executive officers:

*Rodrigo Caldas de Toledo Aguiar.* Mr. Aguiar has over 28 years of experience in corporate finance and investment banking. He was a member of the board of directors of Paraíso. He has



also served as CFO of Infinity Bio-Energy; head of energy, roads, mining and pulp and paper sectors at Banco do Espírito Santo; head of the energy sector at Unibanco (currently Itaú BBA). He has also worked for Safra, Sudameris and for PricewaterhouseCoopers. He holds a bachelor's degree in economics from Pontifícia Universidade Católica (PUC/SP), specialized in finance at the University of California (Berkeley) and holds an MBA in finance from IBMEC-SP (currently Insper).

*Vitor Antonio Picini.* Mr. Picini has over 10 years of experience in the sugarcane industry. He has worked at Louis Dreyfus, EBBA (Maguary/Dafruta) and Infinity Bio-Energy. He holds a bachelor's degree in economics from USP, a postgraduate degree in industrial management from Universidade de São Paulo (USP) and an MBA in accounting from Fipecafi-USP.

*Nelson Reis de Assumpção.* Mr. Assumpção has extensive experience in the sugarcane industry. He has worked at Agricultural Society Santa Mercedes and Santa Mercedes Plant. He has been the owner and director of the Baoba Sugarcane Agricultural Society since 2008. He holds a bachelor's degree in agronomic engineering from ESALQ/UDOP and a post-graduate degree in sugarcane sector management from ESALQ/USP and an MBA in Business Management from FGV- RJ, Business Institute, Campinas -SP.

## **Recent Developments**

On May 14, 2015, Tonon did not make a scheduled interest payment to the holders of its (1) U.S.\$73,000,000 10.50% senior secured notes due 2024, (2) U.S.\$96,000,000 10.50% senior secured notes due 2024, (3) U.S.\$32,000,000 10.50% senior secured notes due 2024 and (4) U.S.\$29,000,000 10.50% senior secured notes due 2024 (the "2024 Notes"). Tonon made the interest payment on the 2024 Notes that was due on May 14, 2015 prior to the expiration of the applicable grace period and an event of default was not triggered under the 2024 Notes.

## **RISK FACTORS**

*An investment in the New Notes involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in the offering memorandum before making an investment in the New Notes. The risks described below are not the only ones facing the Issuer, the Guarantor, the New Notes or investments in Brazil in general, but are the risks that we currently consider material with respect to the New Notes and the New Notes Guarantee (see the section entitled “Risk Factors” in the Offering Memorandum for a non-exhaustive list of other risks to consider). There are a number of factors, including those described below, which may materially adversely affect our ability to make payments under the New Notes. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.*

*For purposes of this section, the indication that a risk, uncertainty or problem may or will have a “material adverse effect on us” or that we may experience a “material adverse effect” means that the risk, uncertainty or problem could have a material adverse effect on our business, financial condition, results of operations, or our ability to make payments under the New Notes and/or the market price of the New Notes, except as otherwise indicated or as the context may otherwise require. You should view similar expressions in this section as having a similar meaning.*

### ***We may defer interest payments on the New Notes until the Maturity Date.***

We will, subject to the terms and conditions of the New Notes, have the option to defer cash payments of interest due on any interest payment date under the New Notes. For any payments of interest due on any interest payment date that occurs on or prior to January 24, 2017, we may defer such payments of interest in our sole discretion. For any payments of interest due on any interest payment date that occurs after January 24, 2017, we may defer such payments of interest provided that, after giving effect to an interest payment on an interest payment date that occurs after January 24, 2017, the amount of cash on our balance sheet as of the last day of the fiscal quarter immediately preceding such interest payment date would be less than R\$100.0 million.

If we exercise any such option, holders of the New Notes may not receive any interest payments due under the New Notes prior to the Maturity Date. See “Description of the New Notes—Principal, Maturity and Interest” in the Offering Memorandum.

### ***Payments on the New Notes will be effectively subordinated to any secured debt obligations of the Guarantor.***

The New Notes are unsecured and therefore do not have the benefit of any collateral. Accordingly, the New Notes will be effectively subordinated to our secured indebtedness to the extent of the value of the assets securing such indebtedness. Secured creditors will have a prior right to collateral securing their indebtedness in case of an event of default under our secured indebtedness, to the exclusion of the holders of the New Notes, even if we are in default under the New Notes. In that event, such collateral would first be used to repay in full all indebtedness and other obligations secured by such secured creditors, resulting in all or a portion of the collateral being unavailable to satisfy the claims of the holders of the New Notes and other

unsecured indebtedness. Therefore, in the event of any distribution or payment to our secured creditors of collateral in any foreclosure, dissolution, winding up, liquidation, reorganization, or other bankruptcy proceeding, holders of New Notes will participate in our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as such New Notes, and potentially with all other general creditors, based upon the respective amounts owed to each holder or creditor. In any of the foregoing events, holders of New Notes should expect to receive less, ratably, than holders of secured indebtedness.

As of March 31, 2015, our total outstanding indebtedness was R\$2,115.0 million, 37.9% of which was secured by certain of our sugarcane inventories, plant facilities, agricultural and industrial equipment and machinery and accounts receivables.

As of March 31, 2015, after adjusting for the post March 31, 2015 capitalization adjustments described in “Capitalization” in the Offering Memorandum our outstanding indebtedness would have totaled R\$2,339.6 million, of which R\$1,026.9 million was secured by certain of our sugarcane inventories, plant facilities, agricultural and industrial equipment and machinery and accounts receivables.

***Because the Issuer has no operations of its own, holders of the New Notes must depend on the Guarantor to provide the Issuer with sufficient funds to make payments on the New Notes when due.***

The Issuer, a wholly-owned indirect subsidiary of the Guarantor, has no operations other than the issuing and making payments on the New Notes and other indebtedness ranking equally with the New Notes and using the proceeds therefrom as permitted by the documents governing these issuances, including lending the net proceeds of other indebtedness incurred by the Issuer to the Guarantor and subsidiaries of the Guarantor. Accordingly, the ability of the Issuer to pay principal, interest and other amounts due on the New Notes and other indebtedness will depend upon the financial condition and results of operations of the Guarantor and its subsidiaries that are creditors of the Issuer. In the event of an adverse change in the financial condition or results of operations of the Guarantor and its subsidiaries that are creditors of the Issuer, these entities may be unable to service their indebtedness to the Issuer, which would result in the failure of the Issuer to have sufficient funds to repay all amounts due on or with respect to the New Notes.

***The foreign exchange policy of Brazil may affect the ability of the Guarantor to make money remittances outside Brazil in respect of the New Notes Guarantee.***

Under current Brazilian regulations, Brazilian companies are not required to obtain authorization from the Central Bank in order to make payments under guarantees in favor of foreign persons, such as the holders of the New Notes. We cannot assure you that these regulations will continue to be in force at the time the Guarantor is required to perform its payment obligations under the New Notes Guarantee. If these regulations or their interpretation are modified and an authorization from the Central Bank is required, the Guarantor would need to seek an authorization from the Central Bank to transfer the amounts under the New Notes Guarantee out of Brazil or, alternatively, make such payments with funds held by the Guarantor outside Brazil. We cannot assure you that such an authorization will be obtained or that such funds will be available. If such authorization is not obtained, we may be unable to make payments to holders of the New Notes in U.S. dollars. If we are unable to obtain the required

approvals as needed for the payment of amounts owed by the Guarantor through remittances from Brazil, we may have to seek other lawful mechanisms to effect payment of amounts due under the new Notes. However, we cannot assure you that other remittance mechanisms will be available in the future, and even if they are available in the future, we cannot assure you that payment on the New Notes would be possible through such mechanism.

***Brazilian bankruptcy laws may be less favorable to investors than bankruptcy and insolvency laws in other jurisdictions.***

If we are unable to pay our indebtedness, including our obligations under the New Notes, we may become subject to bankruptcy proceedings in Brazil. The bankruptcy laws of Brazil currently in effect are significantly different from, and may be less favorable to creditors than, those of certain other jurisdictions. Holders of the New Notes may nevertheless have voting rights at creditors' meetings in the context of a court reorganization proceeding. In addition, any judgment obtained against us in Brazilian courts in respect of any payment obligations under the New Notes Guarantee normally would be expressed in the real equivalent of the U.S. dollar amount of such sum at the exchange rate in effect (1) on the date of actual payment, (2) on the date on which such judgment is rendered or (3) on the date on which collection or enforcement proceedings are started against us. Consequently, in the event of our liquidation, all of our debt obligations, including the New Notes Guarantee, which are denominated in foreign currency, will be converted into Brazilian *reais* at the prevailing exchange rate on the date of declaration of our bankruptcy by the court. In the event of our extra-judicial reorganization or our judicial reorganization, all of our debt obligations, including the New Notes Guarantee, which are denominated in foreign currency, will only be converted into Brazilian *reais* subject to the prior consent of the relevant creditor. We cannot assure investors that such rate of exchange will afford full compensation of the amount invested in the New Notes plus accrued interest and any additional amounts.

***Luxembourg bankruptcy laws may be less favorable to you than bankruptcy and insolvency laws in other jurisdictions.***

The Issuer is incorporated under the laws of Luxembourg; therefore, any insolvency proceedings applicable to such a company is in principle governed by Luxembourg law. The insolvency laws of Luxembourg may not be as favorable to your interests as creditors as the laws of the United States or other jurisdictions with which you may be familiar. In the event that any one or more of the Issuer, the Guarantor or any other of the Guarantor's subsidiaries experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Moreover, enforcement of security interests granted by the Issuer would be subject to certain generally available defenses, which include those that relate to corporate benefit, fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally. For further information, see "Enforceability of Civil Liabilities—Luxembourg" in the Offering Memorandum.

***The Issuer is incorporated in Luxembourg, and Luxembourg law differs from U.S. law and may afford less protection to holders of the New Notes.***

Holders of the New Notes may have more difficulty protecting their interests than would security holders of a corporation incorporated in a jurisdiction of the United States. As a Luxembourg company, the Issuer is incorporated under and subject to the Luxembourg Companies Law and other provisions of Luxembourg law. The Luxembourg Companies Law differs in some material respects from laws generally applicable to U.S. corporations and security holders, including the provisions relating to interested directors, mergers, amalgamations and acquisitions, takeovers, security holder lawsuits and indemnification of directors.

Under Luxembourg law, the duties of directors, managers and officers of a company are generally owed to the company only. Holders of New Notes issued by Luxembourg companies generally do not have rights to take action against directors, managers or officers of the company, except in limited circumstances. Directors, managers or officers of a Luxembourg company must, in exercising their powers and performing their duties, act in good faith and in the interests of the company as a whole and must exercise due care, skill and diligence. Directors have a duty not to put themselves in a position in which their duties to the company and their personal interests may conflict and also are under a duty to disclose any personal interest in any contract or arrangement with the company or any of its subsidiaries. If a director or officer of a Luxembourg company is found to have breached his or her duties to that company, he or she may be held personally liable to the company in respect of that breach of duty. A director or manager may be jointly and severally liable with other directors implicated in the same breach of duty.

***Tonon's obligation under the New Notes Guarantee is subordinated to certain statutory preferences.***

Under Brazilian law, our obligations under the New Notes Guarantee are subordinated to certain statutory preferences. In the event of our liquidation, such statutory preferences, including post-petition claims, claims for salaries, wages, social security, taxes and court fees and expenses and claims secured by collateral, among others, will have preference over any other claims, including claims by any investor in respect of the New Notes Guarantee. In such a scenario, enforcement of the New Notes Guarantee may be unsuccessful, and holders of the New Notes may be unable to collect amounts that they are due under the New Notes Guarantee. In the event of our extra-judicial reorganization or judicial reorganization, the New Notes Guarantee would be subject to the same proceedings as for unsecured claims and would be repaid according to the payment provisions for unsecured claims set out in the applicable reorganization plan.

***We may be unable to purchase the New Notes upon a specified change of control event, which would result in an event of default under the indenture governing the New Notes.***

The terms of the New Notes will require us to make an offer to repurchase the New Notes upon the occurrence of a specified change of control event at a purchase price equal to 101% of the principal amount of the New Notes, plus accrued and unpaid interest to the date of the repurchase and additional amounts, if any. Such change of control event could for example occur

to the extent that Tonon Holding were to sell shares in our company in order to raise funding to pay FIP DGF Terra Viva if it were to exercise its put right against Tonon Holding and the Tonon Family Holding Companies as described in “Principal Shareholders—FIP DGF Terra Viva” in the Offering Memorandum. Any financing arrangements we may enter into may require repayment of amounts outstanding upon the occurrence of a change of control event and limit our ability to fund the repurchase of the New Notes in certain circumstances. It is possible that we will not have sufficient funds at the time of the change of control to fund the required repurchase of New Notes by the Issuer or that restrictions in our credit facilities and other financing arrangements will not permit the Issuer to effect the required repurchases. See “Description of the New Notes—Repurchases at the Option of the Holders of the New Notes upon Change of Control” in the Offering Memorandum.

***We cannot assure investors that a judgment of a court for liabilities under the securities laws of a jurisdiction outside Luxembourg or Brazil would be enforceable in such jurisdictions, or that an original action can be brought in Luxembourg or Brazil against the Issuer or the Guarantor for liabilities under applicable securities laws.***

The Issuer is incorporated under the laws of Luxembourg. Most of the Issuer’s assets are located in Luxembourg. None of the Issuer’s directors is a resident in the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuer, or its directors, or to enforce against the Issuer, or its directors, in U.S. or Brazilian courts any foreign judgments predicated upon the civil liability provisions of applicable foreign securities laws to the extent that they are deemed against public order, moral and good customs as applied by the Brazilian courts.

In addition, the United States is not currently bound by a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitral awards, rendered in civil and commercial matters with Luxembourg. There is, therefore, doubt as to the enforceability in Luxembourg of civil liabilities based upon U.S. securities laws in an action to enforce a U.S. judgment in Luxembourg. In addition, the enforcement in Luxembourg of any judgment obtained in a U.S. court based on civil liabilities, whether or not predicated solely upon U.S. federal securities laws, will be subject to certain conditions. There is also doubt that a Luxembourg court would have the requisite power or authority to grant remedies sought in an original action brought in Luxembourg on the basis of U.S. securities laws violations. For further information, including regarding the enforcement in Brazil of a judgment of a court for liabilities under the securities laws of a jurisdiction outside Brazil, or the bringing of an original action in Brazil, see “Enforcement of Civil Liabilities” in the Offering Memorandum.

***Judgments of Brazilian courts enforcing the Issuer’s or the Guarantor’s obligations, as applicable, under the New Notes, the indenture governing the New Notes or the New Notes Guarantee would be payable only in Brazilian reais.***

If proceedings were brought in the courts of Brazil seeking to enforce the Issuer’s or the Guarantor’s obligations under the New Notes, the indenture governing the New Notes or the New Notes Guarantee, as applicable, the relevant parties would not be required to discharge their obligations in a currency other than Brazilian *reais*. Any judgment obtained against the Issuer or the Guarantor in Brazilian courts in respect of any payment obligations under the New Notes, the indenture governing the New Notes or the New Notes Guarantee, as applicable, would be

expressed in Brazilian *reais* equivalent to the U.S. dollar amount of such payment at the exchange rate on (1) the date of actual payment, (2) the date on which such judgment is rendered or (3) the actual due date of the obligations, as published by the Central Bank. We cannot assure you that this amount in Brazilian *reais* will afford you full compensation of the amount sought in any such litigation.

***An active trading market for the New Notes may not develop.***

The New Notes constitute a new issue of securities, for which there is no existing market. Although we intend to apply to have the New Notes listed on the Irish Stock Exchange and traded on the Global Exchange Market of that Exchange, we cannot assure investors that any such application will be accepted. We are not under any obligation to make a market with respect to the New Notes, and we cannot assure you that trading markets will develop or be maintained, that holders of the New Notes will be able to sell their New Notes, or the price at which such holders may be able to sell their New Notes. If an active trading market were to develop, the New Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, prospects for other companies in our industry, political and economic developments in and affecting Brazil, the risk associated with Brazilian issuers of similar securities and the market for similar securities. If an active trading market for the New Notes does not develop or is interrupted, the market price and liquidity of the New Notes may be materially adversely affected.

***The New Notes are subject to transfer restrictions.***

The New Notes have not been registered under the Securities Act or any state securities laws, and are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws. Accordingly, an investor of the New Notes may transfer or sell the New Notes in the United States only in a transaction registered under or exempted from the registration requirements of the Securities Act and applicable state securities laws, and an investor of the New Notes may be required to bear the risk of the investment for an indefinite period of time. See “Transfer Restrictions” in the Offer Exchange Memorandum.

***Any reduction in our credit ratings could materially and adversely affect us.***

The ratings address the likelihood of payment of principal at the New Notes’ maturity. The ratings also address the timely payment of interest on each interest payment date. The ratings of the New Notes are not a recommendation to purchase, hold or sell the New Notes, and the ratings do not comment on market price or suitability for any particular investor. We cannot assure you that the rating of the New Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. The assigned ratings may be raised or lowered depending, among other factors, on the rating agencies’ respective assessment of our financial strength, as well as their assessment of Brazilian sovereign risk generally.

In addition, credit ratings impact the interest rates we pay on funds that we borrow and the market’s perception of our financial strength. If the ratings on the New Notes were reduced and the market were to perceive any such reduction as a deterioration of our financial strength, our

cost of borrowing would likely increase and our net income could decrease, all of which could have a material adverse effect on us.



## GENERAL INFORMATION

1. Copies of our audited annual financial statements for the last three fiscal years, and copies of the *estatuto social* (by-laws) of Tonon and of the articles of incorporation of the Issuer, as well as the Indenture (including forms of New Notes and the New Notes Guarantee) will be available, and physical copies thereof may be obtained free of charge and upon request, at: (i) the offices of the Paying Agent, (ii) our offices at Rodovia Jaú-Araraquara, Km. 129, CP-7, Fazenda Santa Cândida, Distrito Rural 17240-000, Bocaina – SP Brazil (or via our website: [www.tononbioenergia.com.br](http://www.tononbioenergia.com.br)), and (iii) for so long as the New Notes are listed on the ISE, at the offices of the Irish Listing Agent. For the life of these Listing Particulars, the documents referred to in this paragraph may be inspected, by physical or electronic means.

2. The total expenses of the admission to trading will be paid by us or on our behalf on the date hereof. The total expenses relating to the admission to trading on the ISE is equal to approximately €5,641.

3. Except as disclosed in the Offering Memorandum, there has been no material adverse change in our prospects and no significant change in our financial or trading position since March 31, 2015, the date of the latest audited financial statements included in the Offering Memorandum which forms part of these Listing Particulars.

4. Except as disclosed in the Offering Memorandum, we are not involved in any governmental, litigation or arbitration proceedings relating to claims or amounts during the last 12 months that have had a significant effect on our financial position, nor so far as we are aware is any such governmental litigation or arbitration pending or threatened.

5. The issuance of the New Notes was authorized by the board of directors of the Issuer by resolutions adopted at a meeting duly called and held on June 17, 2015. The issuance of the New Notes Guarantee by Tonon was authorized by the board of directors of Tonon on July 6, 2015.

6. Except for the matters disclosed in these Listing Particulars (including the Offering Memorandum and any documents incorporated by reference into these Listing Particulars or the Offering Memorandum), there are no potential conflicts of interest between (i) any duties owed to the Issuer by the members of the Issuer's board of directors and such directors' private interests and/or other duties; and (ii) any duties owed to the Guarantor by the members of the Guarantor's board of directors and such directors' private interests and/or other duties.

7. The Bank of New York Mellon SA/NV, Dublin Branch is acting as Irish Listing Agent for the Issuer in connection with the New Notes and is not itself seeking admission of the New Notes to the Official List of the ISE.

## INDEPENDENT AUDITORS

Our financial statements as of and for the years ended March 31, 2015 and 2014, included in the Offering Memorandum have been audited by KPMG Auditores Independentes, or KPMG, independent auditors, as stated in their report appearing therein. The report of KPMG with respect to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014, included in the Offering Memorandum, contains an emphasis paragraph stating that, as of March 31, 2015, our total current liabilities exceeded our total current assets by R\$357.5 million, that our shareholders' equity was a negative R\$370.0 million and that our net loss for the fiscal year was R\$647.6 million. Accordingly, KPMG have stated that there are significant uncertainties regarding Tonon's ability to continue as a going concern. See note 1 to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014, included in the Offering Memorandum, for a detailed explanation of the measures we are adopting to address these issues.

Our financial statements as of and for the years ended March 31, 2014 and 2013, included in the Offering Memorandum have been audited by KPMG, independent auditors, as stated in their report appearing therein.

KPMG is an independent auditor registered under number CRC 2SP014428/O-6 with the Regional Accounting Council of the state of São Paulo (*Conselho Regional de Contabilidade do Estado de São Paulo*), or CRC-SP.

ANNEX I – OFFERING MEMORANDUM DATED JUNE 13, 2015

# EXCHANGE OFFER MEMORANDUM AND CONSENT SOLICITATION STATEMENT



## Tonon Luxembourg S.A.

(a public limited liability company (*société anonyme*) incorporated in the Grand Duchy of Luxembourg)

**Offer to Exchange all of its outstanding U.S.\$300,000,000 9.250% Senior Notes due 2020  
(CUSIP Nos. 890311 AA1/P9T02L AA2 and ISIN Nos. US890311AA14/USP9T02LAA28)  
for newly issued Step-Up Senior Notes due 2020**

and

## Solicitation of Consents

THE EXCHANGE OFFER (AS DEFINED BELOW) WILL EXPIRE AT 11:59 P.M., NEW YORK CITY TIME, ON JULY 13, 2015 UNLESS EXTENDED BY US (SUCH TIME AND DATE, AS THE SAME MAY BE EXTENDED BY US, THE "EXPIRATION DATE"). THE EARLY TENDER PERIOD WILL EXPIRE AT 11:59 P.M., NEW YORK CITY TIME, ON JUNE 26, 2015, UNLESS EXTENDED (SUCH TIME AND DATE, AS THE SAME MAY BE EXTENDED, THE "EARLY EXPIRATION DATE"). ELIGIBLE HOLDERS MUST VALIDLY TENDER THEIR EXISTING NOTES AND DELIVER THEIR NOTES CONSENTS (AS DEFINED BELOW) AT OR PRIOR TO THE EARLY EXPIRATION DATE OR THE EXPIRATION DATE IN ORDER TO RECEIVE THE EXCHANGE CONSIDERATION (AS DEFINED BELOW). WE INTEND TO ENTER INTO A SUPPLEMENTAL INDENTURE WITH RESPECT TO THE EXISTING NOTES PROMPTLY FOLLOWING RECEIPT OF THE REQUISITE NOTES CONSENTS. TENDERED EXISTING NOTES MAY BE WITHDRAWN AND NOTES CONSENTS MAY BE REVOKED PRIOR TO 11:59 P.M., NEW YORK CITY TIME, ON JULY 6, 2015, BUT NOT THEREAFTER, SUBJECT TO LIMITED EXCEPTIONS, UNLESS SUCH TIME IS EXTENDED BY US IN OUR SOLE DISCRETION (SUCH TIME, AS THE SAME MAY BE EXTENDED, THE "WITHDRAWAL DEADLINE").

### The Exchange Offer

Tonon Luxembourg S.A., a public limited liability company (*société anonyme*) organized under the laws of Luxembourg, with its registered office at 5, Rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg, or the issuer, is offering to Eligible Holders (as defined below), upon the terms and subject to the conditions set forth in this exchange offer memorandum and consent solicitation statement (as it may be supplemented and amended from time to time), or this offering memorandum, and the related consent and letter of transmittal (as it may be supplemented and amended from time to time, the "Consent and Letter of Transmittal"), to exchange (the "Exchange Offer") any and all of the issuer's outstanding U.S.\$300,000,000 9.250% Senior Notes due 2020 (the "Existing Notes") for newly issued Step-Up Senior Notes due 2020 (the "New Notes") and is conducting a simultaneous solicitation of consents with respect to certain amendments (the "Proposed Amendments") to the Existing Notes and the indenture governing the Existing Notes. If you tender your Existing Notes into the Exchange Offer, you will be deemed to have delivered your consents to the Proposed Amendments with respect to such Existing Notes tendered. As described more fully in this offering memorandum, the consummation of the Exchange Offer is conditioned upon, among other things, (1) the valid tender, without subsequent withdrawal, of at least 95% in aggregate principal amount of outstanding Existing Notes, (2) the non-continuation of an event of default under the Existing Notes or the 2024 notes (as defined herein) and (3) the receipt of proceeds of at least US\$70.0 million in connection with the loan agreement we will enter into with certain institutional investors, including certain funds managed by Gramercy Funds Management, LLC, or Gramercy.

CUSIP No.	ISIN No.	Series of Existing Notes	Outstanding Principal Amount	Series of New Notes	Exchange Consideration
890311 AA1/ P9T02L AA2	US890311AA14/ USP9T02LAA28	9.250% Senior Notes due 2020	U.S.\$300,000,000	Step-Up Senior Notes due 2020	U.S.\$1,000 per U.S.\$1,000 of Existing Notes

The New Notes will have substantially the same terms as the Existing Notes, except for (1) the terms of payment of interest and (2) certain restricted payments covenants. The New Notes will mature on January 24, 2020 (the "Maturity Date"). The New Notes will bear interest at the rate of (1) 7.250% per annum from January 24, 2015 through January 23, 2017, and (2) 9.250% per annum from January 24, 2017 through the Maturity Date. Interest on the New Notes will accrue from January 24, 2015 and be payable semi-annually in arrears on January 24 and July 24 of each year, beginning on July 24, 2015 unless the issuer exercises its right to defer the payment of interest on such interest payment date as permitted under the terms and conditions of the New Notes.

The issuer will, subject to the terms and conditions of the New Notes, have the option to defer cash payments of interest due on any interest payment date under the New Notes. For any payments of interest due on any interest payment date that occurs on or prior to January 24, 2017, the issuer may defer such payments of interest to January 24, 2017 at its sole discretion. For any payments of interest due on any interest payment date that occurs after January 24, 2017, the issuer may defer such payments of interest to the Maturity Date, provided that, after giving effect to an interest payment on an interest payment date that occurs after January 24, 2017, the amount of cash on the balance sheet of the issuer as of the last day of the fiscal quarter immediately preceding such interest payment date would be less than R\$100.0 million. See “Description of the New Notes—Principal, Maturity and Interest.”

The New Notes will be issued under an indenture, or the Indenture, to be entered into among the issuer, Tonon Bioenergia S.A., as guarantor, or the guarantor, and The Bank of New York Mellon, as trustee, registrar, transfer agent and paying agent, or the Trustee. The obligations of the issuer under the New Notes will be fully and unconditionally guaranteed on a senior unsecured basis by the guarantor. The New Notes will be senior unsecured obligations of the issuer, will rank senior in right of payment to all of the issuer’s future subordinated obligations and equal in right of payment with all of the issuer’s existing and future unsubordinated obligations, in each case, to the extent permitted under the Indenture. The guarantee by the guarantor of the New Notes, or the New Notes Guarantee, will rank senior in right of payment to all of the guarantor’s future subordinated obligations and equal in right of payment with all of the guarantor’s existing and future unsubordinated obligations, in each case, to the extent permitted under the Indenture.

The issuer may, at its option, redeem the New Notes (1) in whole or in part, at any time prior to January 24, 2017 by paying 100% of the principal amount of the New Notes plus the applicable make-whole amount, accrued and unpaid interest and additional amounts, if any; (2) in whole or in part, on and after January 24, 2017 at the redemption prices set forth in this offering memorandum, plus accrued and unpaid interest and additional amounts, if any; (3) at any time on or prior to January 24, 2016 up to 35% of the principal amount of the outstanding New Notes with the proceeds from certain eligible equity offerings at the redemption price set forth in this offering memorandum; and (4) in whole, but not in part, at a price equal to the outstanding principal amount plus accrued and unpaid interest and additional amounts, if any, at any time upon the occurrence of specified events relating to applicable tax laws, as set forth in this offering memorandum. See “Description of the New Notes—Optional Redemption.” If a specified Change of Control event as described herein occurs, each holder of the New Notes may require the issuer to repurchase all or a portion of such holder’s New Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase and additional amounts, if any. See “Description of the New Notes—Repurchase at the Option of the Holders of the New Notes upon Change of Control.”

There is currently no public market for the New Notes. This offering memorandum comprises “Listing Particulars” for the purpose of the application to the Irish Stock Exchange for the listing of the New Notes. We intend to apply to the Irish Stock Exchange to approve these Listing Particulars and to admit the New Notes to listing on the Official List, and to trading on the Global Exchange Market of the Irish Stock Exchange. See “Listing and General Information.” The New Notes will be issued in registered form only in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Eligible Holders who validly tender Existing Notes prior to the Early Expiration Date or the Expiration Date and do not validly withdraw their tender prior to the Withdrawal Deadline will receive the Exchange Consideration. “Exchange Consideration” means, for each \$1,000 principal amount of Existing Notes tendered and accepted by us, \$1,000 principal amount of New Notes. We will not pay accrued and unpaid interest on the Existing Notes exchanged for New Notes on the settlement date for the Exchange Offer (the “Settlement Date”); however, interest on the New Notes will accrue from January 24, 2015.

### **The Consent Solicitation**

In conjunction with the Exchange Offer and on the terms and subject to the conditions set forth in this offering memorandum, the issuer hereby solicits (the “Consent Solicitation”) consents (the “Consents”) from holders of Existing Notes to the Proposed Amendments to the Indenture dated as of January 24, 2013 (as amended on July 18, 2014), by and among the issuer, the guarantor and The Bank of New York Mellon, as trustee (the “Existing Notes Indenture”), pursuant to which the Existing Notes were issued. The Proposed Amendments would eliminate or waive substantially all of the restrictive covenants and certain events of default contained in the Existing Notes Indenture and the Existing Notes and modify and eliminate certain other provisions. In order to be adopted, the Proposed Amendments require the consent of the holders of a majority in aggregate principal amount of outstanding Existing Notes not owned by the issuer or any of its affiliates. See “Proposed Amendments.”

If you tender your Existing Notes into the Exchange Offer, you will be deemed to have given your Consent to the Proposed Amendments with respect to those tendered Existing Notes. In addition to the foregoing, delivery of a Consent will constitute an express waiver with respect to all claims against us and the issuer, and of any breach (including any event of default in effect on the Settlement Date) that may otherwise arise under the Existing Notes Indenture.

The issuer expects to execute with the guarantor and the trustee a supplemental indenture to the Existing Notes Indenture (the “Existing Notes Supplemental Indenture”), providing for the Proposed Amendments, promptly after receipt of the requisite Consents for the Proposed Amendments but no earlier than the Early Expiration Date. The Existing Notes Supplemental Indenture will be effective immediately upon execution thereof, but the provisions thereof will not be operative until all of the

Existing Notes that have been tendered prior to the date of the Existing Notes Supplemental Indenture have been accepted for exchange and exchanged in accordance with the terms of this offering memorandum.

Holders may not tender their Existing Notes without delivering a Consent with respect to the Existing Notes tendered, and holders may not deliver a Consent without tendering the related Existing Notes. The consummation of the Exchange Offer and the Consent Solicitation are subject to the satisfaction or waiver of a number of conditions as set forth in this offering memorandum. See “Conditions of the Exchange Offer and the Consent Solicitation.” The issuer has the right to terminate or withdraw the Exchange Offer and the Consent Solicitation at any time and for any reason, including if any of the conditions described under the “Conditions of the Exchange Offer and the Consent Solicitation” are not satisfied.

Tendered Existing Notes may not be withdrawn and Consents may not be revoked subsequent to the Withdrawal Deadline, subject to limited exceptions. Prior to the Withdrawal Deadline, if a holder withdraws its tendered Existing Notes, such holder will be deemed to have revoked its Consents and may not deliver Consents without re-tendering its Existing Notes. If, after the Withdrawal Deadline, the issuer (i) reduces the principal amount of Existing Notes subject to the Exchange Offer, (ii) reduces the Exchange Consideration or (iii) is otherwise required by law to permit withdrawals, then previously tendered Existing Notes may be validly withdrawn within a reasonable period under the circumstances after the date that notice of such reduction or permitted withdrawal is first published or given or sent to holders of the Existing Notes by the issuer. However, if after the Withdrawal Deadline, the issuer raises or lowers the minimum percentage of aggregate principal amount of outstanding Existing Notes required to be tendered as a condition to the consummation of the Exchange Offer, previously tendered Existing Notes may not be withdrawn. **Under no circumstances may Consents be revoked after the Withdrawal Deadline.** The issuer may extend the Early Expiration Date or the Expiration Date without extending the Withdrawal Deadline, unless otherwise required by law.

In the event of a termination of the Exchange Offer, the Proposed Amendments will not become operative, no Exchange Consideration will be paid, and the Existing Notes tendered pursuant to the Exchange Offer will be promptly returned to the tendering holders.

**Investing in the New Notes involves risks. See “Risk Factors” beginning on page 30.**

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The New Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or the Securities Act. The New Notes may not be offered or sold within the United States or to U.S. persons, except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the New Notes are being offered and sold only to qualified institutional buyers, or QIBs, as defined in Rule 144A under the Securities Act, or Rule 144A, and to certain non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act, or Regulation S. You are hereby notified that sellers of the New Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For more information about restrictions on transfer of the New Notes, see “Transfer Restrictions.”

Delivery of the New Notes will be made to investors in book-entry form through The Depository Trust Company, or DTC, for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, and Clearstream Banking, société anonyme, or Clearstream, on or about July 17, 2015.

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The date of this offering memorandum is June 13, 2015.

## TIMETABLE FOR THE EXCHANGE OFFER AND CONSENT SOLICITATION

Please take note of the following important dates and times in connection with the Exchange Offer and Consent Solicitation. We reserve the right to extend any of these dates.

<b>Date</b>	<b>Calendar Date</b>	<b>Event</b>
Launch Date.....	June 13, 2015.	Commencement of the Exchange Offer and the Consent Solicitation.
Early Expiration Date.....	11:59 p.m., New York City time, on June 26, 2015.	The first deadline for Eligible Holders to validly tender their Existing Notes and deliver Consents in order to receive the Exchange Consideration.
Withdrawal Deadline.....	11:59 p.m., New York City time, on July 6, 2015.	The deadline for holders who validly tendered their Existing Notes to validly withdraw tenders of their Existing Notes and revoke Consents.
Expiration Date .....	11:59 p.m., New York City time, on July 13, 2015.	The final deadline for Eligible Holders to validly tender their Existing Notes and deliver Consents in order to receive the Exchange Consideration.
Settlement Date .....	As soon as practicable after the Expiration Date (or the Early Expiration Date), but not, in any event, later than five business days after the Expiration Date (or the Early Expiration Date).	The date on which New Notes will be issued to Eligible Holders in exchange for Existing Notes accepted in the Exchange Offer.

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**You should only rely on the information contained in this confidential offering memorandum. We have not authorized anyone to provide you with different information. We are not making an offer of the New Notes in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate at any date other than the date on the front of this offering memorandum, regardless of the time of delivery of this offering memorandum or any sale of the New Notes.**

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Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to:

- “our company,” “we,” “our,” “ours,” “us” or similar terms, “Tonon” or the “guarantor” refer to Tonon Bioenergia S.A. and its consolidated subsidiaries;
- “Tonon Luxembourg” or the “issuer” refer to Tonon Luxembourg S.A.;
- “Tonon Holding” refer to Tonon Holding S.A.;
- the “Tonon Family” refer to the individuals who are the ultimate beneficial shareholders of Tonon Holding, Alfredo Tonon, José Antonio Tonon, Renato José Tonon, Celso Roberto Tonon, Abelmir Bartolo Tonon and Antonio Tonon, and their respective sons and daughters, or any of their respective heirs;
- the “Tonon Family Holding Companies” refer to ALT Participações Ltda., JAT Participações Ltda., RJT Participações Ltda., CAJRT Participações Ltda., ABT Participações Ltda. and ANT Participações Ltda.;
- “Paraíso” refer to Paraíso Bioenergia S.A., which we acquired on May 3, 2013 and merged into Tonon on September 30, 2013;
- “FIP DGF Terra Viva” refer to FIP Terra Viva - Fundo de Investimento em Participações, the investment fund managed by DGF Investimentos Ltda., a Brazilian private equity firm;
- the “Pinheiro Family” refer to Mr. Wilson Hélio de Albuquerque Pinheiro Júnior, Mr. Flávio de Albuquerque Pinheiro, Ms. Renata de Albuquerque Pinheiro and Ms. Silvia de Barros Brisolla;
- the “Bunge Group” refer to Bunge Alimentos S.A., Bunge International Commerce Ltd., Bunge London Limited and Ceval International Ltd. - currently Bunge London Limited;
- “ADM” refer to Agrograin Ltd., Sucursal Uruguay;
- “ED&F Man” refer to ED&F Man Sugar Ltd.;
- “BR Distribuidora” refer to Petrobras Distribuidora S.A.;
- “Raízen” refer to Raízen Combustíveis S.A.;
- “Sucden” refer to Sucres Et Denrées;
- “Brazil” refer to the Federative Republic of Brazil; and
- the “Brazilian government” refer to the federal government of Brazil.

We have taken all reasonable care to ensure that the information contained in this offering memorandum is accurate, to the best of our knowledge, in accordance with the facts and contains no omissions likely to affect its import. We accept responsibility accordingly.

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**This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any New Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. This offering memorandum does not comprise a prospectus for the purposes of EU Directive 2003/71/EC, as amended, or otherwise. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.**

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This offering memorandum is confidential and has been prepared by us solely for use in connection with the Exchange Offer and Consent Solicitation. We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the New Notes offered by this offering memorandum. This offering

memorandum is personal to you and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the New Notes. You are authorized to use this offering memorandum solely for the purpose of considering the purchase of the New Notes. Distribution of this offering memorandum by you to any person other than those persons retained to advise you is unauthorized, and any disclosure of any of the contents of this offering memorandum without our prior written consent is prohibited.

You must (1) comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the New Notes, and (2) obtain any required consent, approval or permission for the purchase, offer or sale by you of the New Notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales, and we do not have any responsibility therefor. See “Transfer Restrictions” for information concerning some of the transfer restrictions applicable to the New Notes.

You acknowledge that:

- you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum; and
- no person has been authorized to give any information or to make any representation concerning us or the New Notes other than those as set forth in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us.

**In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved. The New Notes have neither been approved or disapproved, nor recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.**

The offering is being made in reliance upon an exemption from registration under the Securities Act for an offer and sale of securities that does not involve a public offering. The New Notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws, pursuant to registration or exemption therefrom. In making your purchase, you will be deemed to have made certain acknowledgments, representations and agreements set forth in this offering memorandum under the caption “Transfer Restrictions.” As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

This offering memorandum has been prepared by us solely for use in connection with the Exchange Offer and Consent Solicitation. This offering memorandum may only be used for the purposes for which it has been prepared. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future.

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See “Risk Factors” for a description of certain factors relating to an investment in the New Notes, including information about our business. None of us or any of our representatives is making any representation to you regarding the legality of an investment by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the New Notes.

Notwithstanding anything in this document to the contrary, except as reasonably necessary to comply with applicable securities laws, you (and each of your employees, representatives or other agents) may disclose to any and all persons, the U.S. federal income tax treatment and tax structure of this offering and all materials (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For this purpose, “tax structure” is limited to facts relevant to the U.S. federal income tax treatment of this offering.

#### **NOTICE TO INVESTORS WITHIN BRAZIL**

**THE NEW NOTES (AND THE RELATED NEW NOTES GUARANTEE) HAVE NOT BEEN, AND WILL NOT BE, REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OF BRAZIL (COMISSÃO DE VALORES MOBILIÁRIOS), OR THE CVM. THE NEW NOTES MAY NOT BE OFFERED**

OR SOLD IN BRAZIL, EXCEPT IN CIRCUMSTANCES THAT DO NOT CONSTITUTE A PUBLIC OFFERING OR UNAUTHORIZED DISTRIBUTION UNDER BRAZILIAN LAWS AND REGULATIONS. THE NEW NOTES (AND THE RELATED NEW NOTES GUARANTEE) ARE NOT BEING OFFERED INTO BRAZIL. DOCUMENTS RELATING TO THE OFFERING OF THE NEW NOTES, AS WELL AS INFORMATION CONTAINED THEREIN, MAY NOT BE SUPPLIED TO THE PUBLIC IN BRAZIL, NOR BE USED IN CONNECTION WITH ANY OFFER FOR SUBSCRIPTION OR SALE OF THE NEW NOTES TO THE PUBLIC IN BRAZIL.

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#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B:20 WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B:20 IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

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#### **NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED KINGDOM**

This communication is only being distributed to and is only directed at (1) persons who are outside the United Kingdom, (2) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (3) high net worth companies, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). The New Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such New Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

#### **NOTICE TO INVESTORS IN LUXEMBOURG**

This offering memorandum has not been approved by and will not be submitted for approval to the Luxembourg Financial Sector Supervisory Authority (*Commission de Surveillance du Secteur Financier*) for purposes of a public offering or sale in the Grand Duchy of Luxembourg (“Luxembourg”). Accordingly, the New Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this offering memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in or from, or published in, Luxembourg except in circumstances which do not constitute a public offer of securities to the public, subject to prospectus requirements, in accordance with the Luxembourg law of July 10, 2005 on prospectuses for securities as amended and implementing the Prospectus Directive (the “Prospectus Law”). Consequently, this offering memorandum and any other offering circular, prospectus, form of application, advertisement or other material may only be distributed to investors in circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 5 of the Prospectus Law.

#### **Additional Information**

While any New Notes remain outstanding, we will make available, upon request, to any holder and any prospective purchaser of New Notes the information required pursuant to Rule 144A(d)(4)(i) under the Securities Act, during any period in which we are not subject to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act.

We intend to apply to the Irish Stock Exchange to approve these listing particulars and to admit the New Notes to listing on the Official List, and to trading on the Global Exchange Market, of the Irish Stock Exchange. See “Listing and General Information.” We will comply with any undertakings that we give from time to time to the Irish Stock Exchange in connection with the New Notes, and we will furnish to the Irish Stock Exchange all such information required in connection with the listing of the New Notes. The Irish Stock Exchange takes no responsibility for the contents of this offering memorandum, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

## ENFORCEMENT OF CIVIL LIABILITIES

### Luxembourg

#### *Enforcement of Judgments*

The issuer is a company incorporated and established under the laws of the Grand Duchy of Luxembourg under the form of a public limited liability company (*société anonyme*) and it may be difficult for you to obtain or enforce judgments against it or its directors in the United States.

Substantially all of the issuer's assets are located outside the United States. Furthermore none of the issuer's directors resides in the United States. As a result, investors may find it difficult to effect service of process within the United States upon the issuer or these persons or to enforce outside the United States judgments obtained against the issuer or these persons in U.S. courts, including judgments in actions predicated upon the civil liability provisions of the U.S. federal securities laws. Likewise, it may also be difficult for an investor to enforce in U.S. courts judgments obtained against us or these persons in courts located in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to bring an original action in a Luxembourg court predicated upon the civil liability provisions of the U.S. federal securities laws against the issuer or these persons. Luxembourg law, furthermore, does not recognize a shareholder's right to bring a derivative action on behalf of the issuer. It may be possible for investors to effect service of process within Luxembourg upon the issuer provided that The Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters of November 15, 1965 is complied with.

As there is no treaty in force governing the reciprocal recognition and enforcement of judgments in civil and commercial matters between the United States and the Grand Duchy of Luxembourg, courts in Luxembourg will not automatically recognize and enforce a final judgment rendered by a U.S. court. A valid, final and conclusive judgment against the Issuer with respect to the New Notes obtained from a court of competent jurisdiction in the United States, which judgment remains in full force and effect after all appeals as may be taken in the relevant state or federal jurisdiction with respect thereto have been taken, may be entered and enforced through a court of competent jurisdiction of Luxembourg, subject to compliance with the enforcement procedures (*exequatur*) set out in Article 678 *et seq.* of the Luxembourg New Code of Civil Procedure (*Nouveau Code de Procédure Civile*) and Luxembourg case-law, being:

- the judgment of the U.S. court is enforceable (*exécutoire*) in the United States;
- the U.S. court had full jurisdiction over the subject matter leading to the judgment (that is, its jurisdiction was in compliance both with Luxembourg private international law rules and with the applicable domestic U.S. federal or state jurisdictional rules);
- the U.S. court has applied to the dispute the substantive law which would have been applied by Luxembourg courts or, at least, the order must not contravene the principles underlying those rules (based on case law and legal doctrine it is not certain that this condition would still be required for an *exequatur* to be granted by a Luxembourg court);
- the judgment must not violate the rights of defense;
- the U.S. court has acted in accordance with its own procedural laws; and
- the considerations of the foreign order, as well as the judgment, do not contravene international public policy as understood under the laws of Luxembourg or have been given proceedings of a penal, criminal or tax nature (which would include awards of damages made under civil liabilities provisions of the U.S. federal securities laws, or other laws, to the extent that the same would be classified by Luxembourg courts as being of a penal or punitive nature (for example, fines or punitive damages)) or rendered subsequent to an evasion of Luxembourg law (*fraude à la loi*). Ordinarily an award of monetary damages would not be considered as a penalty, but if the monetary damages include punitive damages such punitive damages may be considered as a penalty).

If an original action is brought in Luxembourg, without prejudice to specific conflict of law rules, Luxembourg courts may refuse to apply the designated law (1) if the choice of such foreign law was not made bona fide or (2) if the foreign law was not pleaded and proved or (3) if pleaded and proved, such foreign law as contrary to mandatory Luxembourg laws or incompatible with Luxembourg public policy rules. In an action brought in Luxembourg on the basis of U.S. federal or state securities laws, Luxembourg courts may not have the requisite power to grant the remedies sought. Also, an enforcement procedure (*exequatur*) may be refused in respect of punitive damages.

In practice, Luxembourg courts now tend not to review the merits of a foreign judgment, although there is no clear statutory prohibition of such review.

Further, in the event of any proceedings being brought in a Luxembourg court in respect of a monetary obligation expressed to be payable in a currency other than Euro, a Luxembourg court would have power to grant a judgment to pay a currency other than Euro. However, enforcement of the judgment against any party in Luxembourg would be available only in Euros and for such purposes all claims or debts would be converted into Euros.

### **Registration**

The registration of the New Notes, the Indenture, the New Notes Guarantee and any other transaction documents with respect to this offering (and any document in connection therewith) with the *Administration de l'Enregistrement et des Domaines* in Luxembourg may be required in the case of legal proceedings before Luxembourg courts or in the case that any of such documents must be produced before an official Luxembourg authority (*autorité constituée*). If the registration is required, either a nominal registration duty or an ad valorem duty (or, for instance, 0.24% of the amount of the payment obligation mentioned in the document so registered) will be payable depending on the nature of the document to be registered. No ad valorem duty is payable in respect of security interests subject to the Luxembourg Collateral Law.

The Luxembourg courts or the official Luxembourg authority may require that the New Notes, the Indenture, the New Notes Guarantee and any other transaction documents with respect to this offering (and any document in connection therewith) and any judgment obtained in a foreign court be translated into French or German.

### **Insolvency Proceedings**

The following is a brief description of certain aspects of insolvency law in Luxembourg. The insolvency laws of Luxembourg may not be as favorable to your interests as creditors as the laws of the United States or other jurisdictions with which you may be familiar. In the event that the issuer experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings.

The issuer is incorporated under the laws of Luxembourg and has its registered office in Luxembourg. Accordingly, the Luxembourg District Court, with jurisdiction for commercial matters (the "Commercial Court"), should have, in principle, jurisdiction to open main insolvency proceedings with respect to the issuer, as entity having its registered office and central administration (*administration centrale*) and centre of main interest ("COMI"), as used in the EC Regulation 1346/2000 of 29 May 2000 on insolvency proceedings (the "EU Regulation"), in Luxembourg, such proceedings to be governed by Luxembourg insolvency laws. According to the EU Regulation, there is a rebuttable presumption that a company has its COMI in the jurisdiction in which it has the place of its registered office. As a result, there is a rebuttable presumption that the COMI of the issuer is in Luxembourg and consequently that any "main insolvency proceedings" (as defined in the EU Regulation) would be opened by a Luxembourg court and be governed by Luxembourg law.

However, the determination of where the issuer has its COMI is a question of fact, which may change from time to time. Preamble 13 of the EU Insolvency Regulation states that the COMI of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and "is therefore ascertainable by third parties."

Under Luxembourg insolvency laws, the following types of proceedings (the "Insolvency Proceedings") may be commenced against the issuer:

- bankruptcy proceedings (*faillite*), the opening of which is initiated by the issuer, by any of its creditors or by Luxembourg courts *ex officio*. Following such a request, the Luxembourg courts having jurisdiction may open bankruptcy proceedings, if the issuer (i) is unable to pay its debts as they fall due (*cessation des paiements*) and (ii) cumulatively has lost its commercial creditworthiness (*ébranlement de crédit*). If a court finds that these conditions are satisfied, it may also open *ex officio* bankruptcy proceedings, absent a request made by the issuer. Bankruptcy proceedings are primarily designed to liquidate the assets of the bankrupt entity in order to pay off its debts. The main effects of such proceedings are the suspension of all measures of enforcement against the issuer, except, subject to certain limited exceptions, for secured creditors (which means unsecured creditors and creditors with a general priority right would, as of the bankruptcy order, no longer be permitted to take any action based on title to movable and immovable assets, nor any enforcement action against the issuer's movable or immovable assets) and the payment of the issuer's secured creditors in accordance with their ranking upon the liquidation of the issuer's assets. In addition, the directors of the issuer have the obligation to file for bankruptcy within one month in case it is in a state of stay of payments (*cessation de paiement*), i.e. which is unable to pay its debts as they fall due with normal means of payment). If the directors fail to comply with such obligation they may be held liable towards the issuer or any third party on the basis of principles of directors' liabilities for any loss suffered and criminally liable for simple bankruptcy (*banqueroute simple*) in accordance with article 573 of the Luxembourg Commercial Code. However, secured creditors who are holding security interests falling within the scope of the Luxembourg law of August 5, 2005 on financial collateral arrangements, as amended (the "Luxembourg Collateral Law"), may enforce their security regardless of the bankruptcy adjudication;
- controlled management proceedings (*gestion contrôlée*), the opening of which may only be requested by the issuer and not by its creditors and under which a Luxembourg court may order provisional suspension of payments, including a stay of enforcement of claims by secured creditors. Security interests falling within the scope of the Luxembourg Collateral Law will, however, be enforceable notwithstanding the controlled management proceedings; and
- composition proceedings (*concordat préventif de la faillite*), the obtaining of which may only be requested by the issuer (after having received a prior consent from a majority of its creditors holding at least 75% of the claims against the issuer). The obtaining of such composition proceedings will trigger a provisional stay on enforcement of claims by creditors.

In addition to these proceedings, the ability of the holders of New Notes to receive payment on the New Notes may be affected by a decision of a Court to grant a stay on payments (*sursis de paiement*) or to put the issuer into judicial liquidation (*liquidation judiciaire*). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that are in serious breach or violation of the commercial code or of the laws governing commercial companies dated August 10, 1915, as amended (the "Luxembourg Companies Law"). The management of such liquidation proceedings will generally follow similar rules as those applicable to bankruptcy proceedings.

The issuer's liabilities in respect of the New Notes will, in the event of a liquidation of the issuer following bankruptcy or judicial liquidation proceedings, rank after the costs of liquidation (including any debt incurred for the purpose of such liquidation) and any claims that are entitled to priority under Luxembourg law. For example, preferential debts under Luxembourg law include, among others:

- certain amounts owed to the Luxembourg Revenue;
- value-added tax and other taxes and duties owed to the Luxembourg Customs and Excise;
- social security contributions; and
- remuneration owed to employees.

For the avoidance of doubt, the above list is not exhaustive.

Assets over which a security interest has been granted and perfected will in principle not be available for distribution to unsecured creditors (except after enforcement and to the extent a surplus is realized), and subject to

application of the relevant priority rule and liens and privileges arising mandatorily by law. In particular, pursuant to the Luxembourg Collateral Law in respect of assets over which the Luxembourg security interests have been granted, as well as all enforcement events and valuation and enforcement measures agreed upon by the parties in accordance with this law, are valid and enforceable against third parties, commissioners, receivers, liquidators and other similar persons notwithstanding any insolvency proceedings.

Any international aspects of Luxembourg bankruptcy, controlled management and composition proceedings may be subject to the EU Insolvency Regulation. Insolvency proceedings may therefore have a material adverse effect on the issuer's obligations under the New Notes.

#### *Impact of Insolvency proceedings on Transactions*

During insolvency proceedings, all enforcement measures by unsecured creditors are suspended. In the event of controlled management proceedings, the ability of secured creditors to enforce their security interest may also be limited, automatically causing the rights of secured creditors to be stayed until a final decision has been taken by the court as to the petition for controlled management, and may be affected thereafter by a reorganization order given by the relevant Luxembourg court subject to the exceptions under the Luxembourg Collateral Act. A reorganization order requires the prior approval of more than 50% of the creditors representing more than 50% of the relevant guarantor's liabilities in order to take effect. Furthermore, declarations of default and subsequent acceleration (such as acceleration upon the occurrence of an event of default) may not be enforceable during controlled management proceedings.

#### *Hardening Periods and Fraudulent Transfer*

Luxembourg insolvency laws may also affect transactions entered into or payments made by the issuer during the period before bankruptcy, the so-called "suspect period" (*periode suspecte*), which is a maximum of six months preceding the judgment declaring bankruptcy, except that in certain specific situations the court may set the start of the suspect period at an earlier date, if the bankruptcy judgment was preceded by another insolvency proceedings (e.g., a suspension of payments or controlled management proceedings) under Luxembourg law.

In particular:

- pursuant to article 445 of the Luxembourg code of commerce, specified transactions (such as, in particular, the granting of a security interest for antecedent debts; the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets or entering into transactions generally without consideration or with substantially inadequate consideration) entered into during the suspect period (or the ten days preceding it) will be set aside or declared null and void, if so requested by the insolvency receiver;
- pursuant to article 446 of the Luxembourg code of commerce, payments made for matured debts for considerations, as well as other transactions concluded during the suspect period, are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt's cessation of payments; and
- regardless of the suspect period, article 448 of the Luxembourg Code of Commerce and article 1167 of the Luxembourg Civil Code (*action paulienne*) give any creditor the right to challenge any fraudulent payments and transactions made prior to the bankruptcy.

The Luxembourg Collateral Law provides that with the exception of the provisions of the Luxembourg law of December 8, 2000 on over-indebtedness (*surendettement*) (which only apply to natural persons), the provisions of Book III, Title XVII of the Luxembourg Civil Code, the provisions of Book 1, Title VIII of the Luxembourg Commercial Code, the provisions of Book III of the Luxembourg Commercial Code and the national or foreign provisions governing reorganization measures, winding-up proceedings or other similar proceedings and attachments are not applicable to financial collateral arrangements (such as Luxembourg pledges over shares or bank accounts or receivables) and shall not constitute an obstacle to the enforcement and to the performance by the parties of their obligations. Certain preferred creditors of the issuer (including the Luxembourg tax, social security and other authorities) may have a privilege that ranks senior to the rights of the secured or unsecured creditors.



According to the Luxembourg Collateral Law, foreign law security interests over claims or financial instruments granted by a Luxembourg Obligor will be valid and enforceable as a matter of Luxembourg law notwithstanding any Insolvency Proceedings, if such foreign law security interests are similar in nature to Luxembourg security interests falling within the scope of the Luxembourg Collateral Law. In such situation, Luxembourg hardening period rules are not applied.

#### *Continuance of Ongoing Contracts*

The bankruptcy receiver decides whether or not to continue performance under on-going contracts (*i.e.*, contracts existing before the bankruptcy order). The bankruptcy receiver may elect to continue the business of the debtor, provided the bankruptcy receiver obtains the authorization of the court and such continuation does not cause any prejudice to the creditors. However, two exceptions apply:

- the parties to an agreement may contractually agree that the occurrence of a bankruptcy constitutes an early termination or acceleration event; and
- *intuitu personae* contracts (*i.e.*, contracts whereby the identity of the other party constitutes an essential element upon the signing of the contract) are automatically terminated as of the bankruptcy judgment since the debtor is no longer responsible for the management of the company. Parties can agree to continue to perform under such contracts.

The bankruptcy receiver may elect not to perform the obligations of the bankrupt party which are still to be performed after the bankruptcy under any agreement validly entered into by the bankrupt party prior to the bankruptcy. The counterparty to that agreement may make a claim for damages in the bankruptcy and such claim will rank *pari passu* with claims of all other unsecured creditors and/or seek a court order to have the relevant contract dissolved. The counterparty may not require specific performance of the contract.

#### ***Brazil***

We are incorporated under the laws of Brazil. All of the members of our board of executive officers and all of the members of our senior management named in this offering memorandum reside in Brazil. None of our directors or executive officers are U.S. residents. Substantially all of our assets and these other persons are located in Brazil. As a result, it may not be possible to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil.

In the terms and conditions of the New Notes, we (1) agree that the courts of the state of New York and the courts of the United States, located in the Borough of Manhattan, The City of New York, will have non-exclusive jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the New Notes and, for such purposes, we will irrevocably submit to the jurisdiction of such courts and (2) nominate an agent for service of process in the Borough of Manhattan, The City of New York. See “Description of the New Notes.”

We understand that, subject to specific requirements described below, a final conclusive judgment for payment of a determined sum of money rendered by any court in the United States in respect of the New Notes and the New Notes Guarantee would be recognized in the courts of Brazil (to the extent that Brazilian courts may have jurisdiction) and such courts would enforce such judgment without any retrial or reexamination of the merits of the original action only if such judgment has been previously ratified by the Superior Court of Justice of Brazil (*Superior Tribunal de Justiça*), or STJ. Such ratification shall be available only if the judgment:

- complies with all formalities required for its enforceability under the laws of the jurisdiction where the foreign judgment has been granted;
- is issued by a competent court;
- is issued after due service of process on the parties or after the certification that the judgment in absentia occurred in compliance with the applicable law;
- is final and accordingly not subject to any appeals in the jurisdiction in which it was issued;

- is authenticated by the Brazilian consulate with jurisdiction over the location of the court which issued the judgment;
- is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public order and/or morality.

Notwithstanding the foregoing, no assurance can be given that such ratification would be obtained, that the process described above could be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the U.S. securities laws.

We have also been advised that:

- civil actions may be brought before Brazilian courts based on the federal securities laws of the United States and that, subject to applicable law, Brazilian courts may enforce such liabilities in such actions against us (provided that provisions of the federal securities laws of the United States do not contravene Brazilian public policy, good morals or national sovereignty and provided further that Brazilian courts can assert jurisdiction over the particular action); the ability of a judgment creditor to satisfy a judgment by attaching certain assets of the defendant in Brazil is governed and limited by provisions of Brazilian law;
- the ability of a judgment creditor to satisfy a judgment by the seizure of certain assets of the defendant in Brazil is governed and limited by provisions of Brazilian law;
- under Brazilian law, Brazilian courts may assert jurisdiction whenever the defendant is domiciled in Brazil, the obligation has to be performed in Brazil or the matter under dispute originates in Brazil; and
- Brazilian courts have exclusive jurisdiction over actions related to real estate located in Brazil; and

In addition, in light of the provisions under Article 835 of the Brazilian Code of Civil Procedure (*Código de Processo Civil*), a plaintiff, whether Brazilian or non-Brazilian, who resides outside Brazil or is outside Brazil during the course of the litigation in Brazil and who does not own real estate in Brazil must provide a bond to guarantee the payment of the defendant's legal fees and court expenses in connection with court procedures for the collection of payments under the New Notes and the New Notes Guarantee except in the case of claims for collection based on a *título executivo extrajudicial* (an instrument which may be enforced in Brazilian courts without a review on the merits, which is not the case of the New Notes) or counterclaims (exceptions established under Article 836 of the Brazilian Code of Civil Procedure (*Código de Processo Civil*)).

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references herein to the “*real*,” “*reais*” or “R\$” are to the Brazilian *real*, the official currency of Brazil. All references to “U.S. dollars,” “dollars” or “U.S.\$” are to U.S. dollars.

As of June 5, 2015, the exchange rate for *reais* into U.S. dollars was R\$3.1684 to U.S.\$1.00, based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The selling rate was R\$3.2080 to U.S.\$1.00 as of March 31, 2015, R\$2.2630 to U.S.\$1.00 as of March 31, 2014 and R\$2.0138 to U.S.\$1.00 as of March 31, 2013, in each case, as reported by the Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rates as set out above may not be indicative of future exchange rates. See “Exchange Rates” for information regarding exchange rates for the Brazilian currency.

Solely for the convenience of the reader, we have translated some amounts included in “Summary,” “Summary Financial and Other Information,” “Capitalization,” “Selected Financial and Other Information” and elsewhere in this offering memorandum from *reais* into U.S. dollars using the selling rate as reported by the Central Bank as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

### Financial Statements

#### *Financial Statements of Tonon*

We maintain our books and records in *reais*.

Our financial information relating to our balance sheets and income statements contained in this offering memorandum has been derived from our records and financial statements, which are included elsewhere in this offering memorandum, and comprise of our audited financial statements as of and for each of the fiscal years ended March 31, 2015 and 2014 and March 31, 2014 and 2013. All references herein to “our audited financial statements” are to Tonon’s financial statements included elsewhere in this offering memorandum.

We prepare our financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, and International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB), or IFRS, which are based on:

- Brazilian Law No. 6,404/76, as amended, among others, by Brazilian Law No. 9,457/97 and Brazilian Law No. 10,303/01, and complemented and amended by Brazilian Law No. 11,638/07 and Provisional Measure No. 449/08, converted into Law No. 11,941/09, which we refer to hereinafter collectively as the Brazilian Corporation Law;
- the accounting standards issued by the Brazilian Federal Accounting Council (*Conselho Federal de Contabilidade*), or the CFC, and the Brazilian Accounting Standards Committee (*Comitê de Pronunciamentos Contábeis*), or the CPC; and
- the accounting standards issued by the IASB.

#### *Financial Statements of the Issuer*

The issuer does not have any operations independent from Tonon. The issuer’s obligations under the New Notes will be fully and unconditionally guaranteed by Tonon. Any results of operations of the issuer are fully consolidated in the consolidated financial statements of Tonon as of May 7, 2014 (the date of incorporation of the issuer). Accordingly, we have not included any financial statements for the issuer in this offering memorandum. The issuer does not, and will not, publish financial statements, except for such financial statements that the issuer may be required to publish under the laws of Luxembourg. In addition, the issuer will not furnish to the trustee or the holders of the New Notes any financial statements of, or other reports relating to, the issuer.

***Note regarding going concern emphasis paragraph in our financial statements as of and for the fiscal years ended March 31, 2015 and 2014***

The report of KPMG Auditores Independentes, or KPMG, with respect to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014, included elsewhere in this offering memorandum, contains an emphasis paragraph stating that, as of March 31, 2015, our total current liabilities exceeded our total current assets by R\$357.5 million, that our shareholders' equity was a negative R\$370.0 million and that our net loss for the fiscal year was R\$647.6 million. Accordingly, KPMG have stated that there are significant uncertainties regarding Tonon's ability to continue as a going concern. See note 1 to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014, included elsewhere in this offering memorandum, for a detailed explanation of the measures we are adopting to address these issues.

***Acquisition and Merger of Paraíso***

On May 3, 2013, we completed the acquisition of Paraíso, a sugar and ethanol producer in the state of São Paulo, which operates one mill with a sugarcane crushing capacity of 2.5 million tons per harvest period. Paraíso was merged with and into Tonon on September 30, 2013. As a result, Paraíso was extinguished, ceased to exist as a legal entity and Tonon succeeded to all its assets and liabilities. Our financial statements for the fiscal year ended March 31, 2014 are comprised of the operations of (1) our current three mills (the Vista Alegre mill, the Santa Cândida mill and the Paraíso mill) from May 1, 2013 to March 31, 2014 and (2) our two original mills (the Vista Alegre mill and the Santa Cândida mill), excluding the Paraíso mill, from April 1, 2013 to April 30, 2013. Since our financial statements for the fiscal year ended March 31, 2014 include the financial information of Paraíso as set out above, our financial statements for the fiscal year ended March 31, 2014 (which includes Paraíso financial information as of May 1, 2013) are not directly comparable with our financial statements for the fiscal year ended March 31, 2013 (which do not include any Paraíso financial information).

For periods prior to May 1, 2013, unless the context requires otherwise, financial information pertaining to us or our mills included in this offering memorandum pertains to Tonon and our Santa Cândida and Vista Alegre mills only, and such information with respect to Paraíso is not included.

Operational data pertaining to us and our mills included in this offering memorandum for all periods after March 31, 2013, pertains to all three of our mills, including our Paraíso mill. Accordingly, we include operational data for the Paraíso mill combined with our Santa Cândida and Vista Alegre mills as from April 1, 2013, which includes data from the period before we acquired Paraíso on May 3, 2013. As a result of the above, our financial information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso financial information as of May 1, 2013) is not directly comparable with our operational information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso operational information as of April 1, 2013).

**Special Note Regarding Non-GAAP Financial Measures**

***EBITDA and Adjusted EBITDA***

The body of generally accepted accounting principles is commonly referred to as GAAP. For this purpose, a non-GAAP financial measure is generally defined by the U.S. Securities and Exchange Commission, or the SEC, as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. To be consistent with industry practice, we may disclose so-called non-GAAP financial measures which are not recognized under Brazilian GAAP, IFRS or accounting principles generally accepted in the United States, or U.S. GAAP, including "EBITDA" and "Adjusted EBITDA." However, these non-GAAP items do not have standardized meanings and may not be directly comparable to similarly-titled items adopted by other companies. Potential investors should not rely on information not recognized under Brazilian GAAP, IFRS or U.S. GAAP as a substitute for the GAAP measures of earnings or liquidity in making an investment decision.

We define EBITDA as net profit (loss) from continuing operations before net financial income/expenses, depreciation of property, plant and equipment, amortization of intangible assets, amortization of inter-harvest maintenance carried out, amortization of crops and handling, and income tax and social contribution. We define Adjusted EBITDA as EBITDA adjusted by changes in the fair value of biological assets, gains upon sales of assets

and equity in net income of subsidiaries. Our determination of EBITDA and Adjusted EBITDA does not purport to be compliant with SEC or CVM regulations.

Our management believes that disclosure of EBITDA and Adjusted EBITDA provides useful information to investors, financial analysts and the public in their review of our operating performance and their comparison of our operating performance to the operating performance of other companies in the same industry and other industries. They are not recognized measures under Brazilian GAAP, IFRS or U.S. GAAP, and because not all companies use identical calculations, our presentation of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures or to free cash flow, as it does not consider certain of our cash requirements, such as interest payments, tax payments and debt service payments. EBITDA and Adjusted EBITDA should not be considered as an alternative to net profit (loss) from continuing operations, as an indicator of our operating performance, or as an alternative to cash flow as an indicator of our liquidity. Our definitions of EBITDA and Adjusted EBITDA in this offering memorandum are not necessarily the same as the definitions we use for purposes of establishing covenant compliance for our financing agreements or under the indenture that will govern the New Notes offered hereby. See “Key Financial and Other Information” for a calculation of EBITDA and Adjusted EBITDA used by Paraíso prior to its merger into Tonon.

### ***Net Debt***

Net debt is also a non-GAAP financial measure. For the fourth quarter of each fiscal year and each fiscal year, to reflect an applicable financial covenant under a loan agreement to which we are borrowers, we define net debt as current loans and financing plus non-current loans and financing minus cash, cash equivalents and other investments (current and non-current other than equity interests in relation to our co-generation activities). For the first, second and third quarters of each fiscal year, where this financial covenant does not apply, we define net debt as current loans and financing plus non-current loans and financing minus cash, cash equivalents, other investments (current and non-current other than equity interests in relation to our co-generation activities) and finished goods inventories. Net debt is not a recognized measure under Brazilian GAAP, IFRS or U.S. GAAP. Our definition of net debt in this offering memorandum is not necessarily the same as the net debt definitions that we use for purposes of establishing covenant compliance for our financing agreements or under the indenture that will govern the New Notes offered hereby. Net debt does not have a standardized meaning and our definition of net debt may not be comparable to net debt used by other companies and is not a measure of cash flow, liquidity or resources available for debt service.

### **Harvest and Fiscal Year**

Our mills are located in the Southeast and Midwest regions of Brazil. The annual sugarcane harvesting period in the Southeast and Midwest regions of Brazil typically covers an approximately eight-month period that generally commences in April and ends in December of each year. Our fiscal year begins on April 1 of each calendar year and ends on March 31 during the subsequent calendar year, such that our fiscal year 2015 commenced on April 1, 2014 and ended on March 31, 2015. Given that our fiscal year includes parts of two calendar years, we refer to a particular harvest during a particular calendar year as a harvest beginning in one calendar year and ending in the immediately succeeding calendar year, such that we refer to the harvest that commenced in the Southeast and Midwest regions in April 2014 and ended in December 2014, as the 2014/2015 harvest. Although our fiscal year ends on March 31, for purposes of calculating income and social contribution taxes in accordance with Brazilian tax laws, the applicable tax year ends on December 31.

### **Market Data**

We obtained the market and competitive position data, including market forecasts, used throughout this offering memorandum from internal surveys, market research, publicly available information and industry publications. We include data from reports prepared by sources such as the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or the IBGE, the Luiz de Queiroz College of Agriculture (*Escola Superior de Agricultura Luiz de Queiroz*) at the University of São Paulo, or ESALQ, the Central Bank, Sugarcane Industry Association (*União da Indústria de Cana-de-Açúcar*), or UNICA, F.O. Licht, Agroconsult Consultoria e Marketing Ltda., or Agroconsult, the Canavieira Technology Center (*Centro de Tecnologia Canavieira*), or CTC, the São Paulo Stock Exchange (*BM&FBOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros*), or BM&FBOVESPA, the Brazilian National Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, the Intercontinental Exchange, or ICE, the Brazilian National Association of Automotive Vehicle Manufacturers (*Associação Nacional dos Fabricantes de Veículos Automotores*), or ANFAVEA, the

Brazilian Ministry of Agriculture, Livestock and Supply (*Ministério da Agricultura, Pecuária e Abastecimento*), or MAPA, the Brazilian National Supply Company (*Companhia Nacional de Abastecimento*), or CONAB, the United States Department of Agriculture, or USDA, the Brazilian Foreign Trade Office (*Secretaria de Comércio Exterior*), or SECEX, and the Union of Bioenergy Producers (*União dos Produtores de Bioenergia*), or UDOP. Industry publications, including those referenced here, generally state that the information presented therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while we believe them to be reliable, have not been independently verified, and we do not make any representation as to the accuracy of such information.

Information derived from the industry publications above has been accurately reproduced and, to the best of our knowledge (after having taken all reasonable care to ensure that such is the case), no facts have been omitted which would render the reproduced information inaccurate or misleading.

### **Technical and Other Terms**

As used in this offering memorandum, the following terms have these meanings:

- “ATR” means total recoverable sugar (*açúcares totais recuperáveis*), which represents the total amount of sugar content in the sugarcane.
- “CLT” means cutting, loading and transporting sugarcane (*corte, carregamento e transporte*).
- “ethanol” means a clear, colorless liquid with a characteristic odor, made by fermenting and then distilling starch or sugar crops.
- “flex-fuel vehicle” means a flexible-fuel vehicle or dual-fuel vehicle with an internal combustion engine designed to run on more than one fuel, usually gasoline blended with either ethanol or methanol fuel, and both fuels are stored in the same tank.
- “MTBE” means methyl tertiary butyl ether, which is used primarily as an octane booster for gasoline.
- “NY11” means contract No. 11, which is the world’s benchmark for raw sugar trading on ICE.
- “polarization” refers to the measurement of sucrose content in sugar, where 100 is the maximum and signifies 100% sucrose content.
- “sugar” means any grade or type of saccharine product derived, directly or indirectly, from sugarcane or sugar beet and consisting of, or containing, sucrose or invert sugar, including all raw sugar, refined crystalline sugar, liquid sugar, edible molasses, and cane syrup.

All references in this offering memorandum to “tons” refer to metric tons, which are equivalent to 1,000 kilograms, 2,204.6 pounds or 1.102 short tons. References to “kt” shall mean “kiloton,” equivalent to 1,000 tons. The term “MW” refers to megawatt and the term “MWh” refers to megawatt hours. One “hectare” is equivalent to 10,000 square meters or 2.47105381 acres. One “cubic meter” is equivalent to 1,000 liters. One “gallon” is equal to approximately 3.78 liters. One kilometer is equivalent to approximately 0.621 miles.

### **Rounding**

We have made rounding adjustments to reach some of the figures included in this offering memorandum. As a result, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

## FORWARD-LOOKING STATEMENTS

This offering memorandum contains statements, principally in “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Conditions and Results of Operations,” “Sugar and Ethanol Industries” and “Business” that constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Many of the forward-looking statements contained in this offering memorandum can be identified by the use of forward-looking words such as “anticipate,” “believe,” “could,” “expect,” “should,” “plan,” “seek,” “intend,” “estimate” and “potential,” among others. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us. These statements appear in a number of places in this offering memorandum and include, but are not limited to, statements regarding our intent, belief or current expectations with respect to:

- our ability to consummate the Exchange Offer and Consent Solicitation;
- our ability to consummate the U.S.\$70.0 million financing and our use of the proceeds from such financing;
- our ability to make debt service payments in light of our current liquidity situation;
- general economic, political and business conditions in Brazil and in major international markets to which we export, or which commonly purchase sugar and ethanol, including price and demand for such products;
- climatic conditions, climate changes and natural disasters;
- our ability to successfully implement our strategy and capital expenditure plans;
- our direction and future operation;
- implementation of our main operating, financial and growth strategies;
- the cost and availability of financing and our ability to obtain financing on satisfactory terms;
- our investment, acquisition, joint venture, strategic alliances or divestiture plans, including the integration of, and synergies resulting from, our acquisition and the merger of Paraíso;
- inherent risks associated with acquisitions, including our acquisition and the merger of Paraíso;
- market price variation, client preferences and competition;
- changes in ethanol and sugar prices and inventory levels;
- competition from companies with similar business objectives;
- the performance of our competitors and the consequent impact on the perception of our industry;
- cyclical and seasonal variations in our results of operations;
- potential conflicts of interests of our shareholders;
- our future production capacity and the availability of sugarcane;
- our compliance with financial ratios and other contractual obligations;
- the substitution of sugar and ethanol for other types of sweeteners and energy sources;
- the expectation that demand for ethanol will continue to increase in Brazil and internationally;
- interest rate fluctuations, inflation and exchange rates between *reais* and foreign currencies;

- changes in tax, environmental and labor policies and legislation;
- changes, suspension or cancellation of tax incentives we benefit from;
- existing and future governmental regulations;
- export duties and tariffs, as well as tariff barriers;
- other factors or trends that may affect our financial condition or results of operations;
- force majeure events;
- the factors discussed under the section entitled “Risk Factors” in this offering memorandum; and
- other statements contained in this offering memorandum regarding matters that are not historical facts.

Forward-looking statements are only our current expectations and are based on our management’s beliefs and assumptions and on information currently available to our management. These statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements as a result of various factors, including, without limitation, those identified under the section entitled “Risk Factors” in this offering memorandum. These risks and uncertainties include factors relating to the Brazilian economy, securities and foreign exchange markets, which exhibit volatility and can be adversely affected by developments in other countries, factors relating to the Brazilian and international sugar and ethanol industries and changes in their regulatory environment and factors relating to the highly competitive markets in which we operate, among others. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events. In light of such limitations, you should not make any investment decision on the basis of the forward-looking statements contained in this offering memorandum.



## SUMMARY

*This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all of the information you should consider before investing in the New Notes. You should carefully read this entire offering memorandum before deciding whether to invest in the New Notes, including the “Risk Factors,” “Selected Financial and Other Information,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections and our financial statements and the explanatory notes to those statements, included elsewhere in this offering memorandum.*

### Overview

We are a sugar, ethanol and energy producer with operations in the Southeast and Midwest regions of Brazil. We cultivate, harvest, purchase and process sugarcane, from which we produce very high polarization sugar, or VHP sugar, granulated refined sugar, anhydrous ethanol and hydrous ethanol to sell domestically and internationally. We also provide sugarcane bagasse by-products in exchange for electricity to power our industrial operations through co-generation. We currently conduct our sugar and ethanol operations through three mills: (1) Santa Cândida, in Bocaina, in the state of São Paulo; (2) Vista Alegre, in Maracaju, in the state of Mato Grosso do Sul; and (3) Paraíso, in Brotas, in the state of São Paulo.

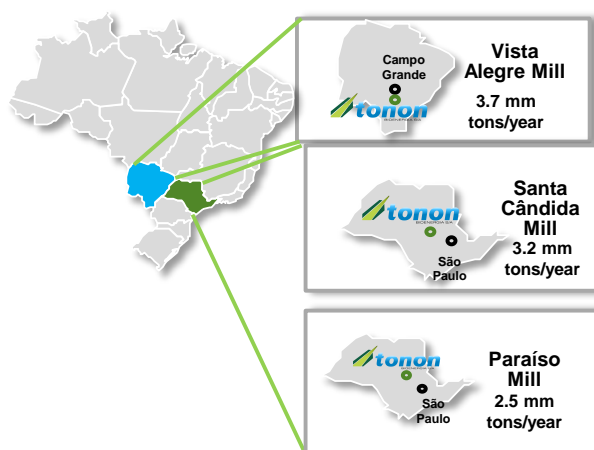
As of the date of this offering memorandum, our three mills had a combined sugarcane crushing capacity of 9.4 million tons per harvest period. The Southeast and Midwest regions of Brazil in which our mills are located provide excellent climate conditions and soil for harvesting sugarcane. As of March 31, 2015, 89.5% of our harvest at our Santa Cândida mill, 100.0% of our harvest at our Vista Alegre mill and 92.0% of our harvest at our Paraíso mill was mechanized.

Our Santa Cândida mill has a sugarcane crushing capacity of 3.2 million tons per harvest period. It is located in the state of São Paulo, in the Southeast region of Brazil, and benefits from higher sugarcane yield than other regions of Brazil. It is also close to Paulínia, the main fuel distribution center in the state of São Paulo, and to the port of Santos, the main port for Brazilian sugarexports.

Our Vista Alegre mill has a sugarcane crushing capacity of 2.5 million tons per harvest period. It is located in Mato Grosso do Sul, in the Midwest region of Brazil and benefits from low cost land leases and flat harvesting land, which enables the complete mechanization of the harvesting process, as well as providing an expansive plantable area for cultivation.

Our Paraíso mill has a sugarcane crushing capacity of 2.5 million tons per harvest period. Our Paraíso mill, which is located less than 40 kilometers (24.9 miles) away from our Santa Cândida mill, underwent a complete industrial retrofit in 2012 and is, in our view, a state-of-the-art facility. As a result of our acquisition of Paraíso on May 3, 2013, we not only increased our total sugarcane crushing capacity at the time by approximately 44% but also expanded our portfolio of sugar products, as Paraíso also produces granulated refined sugar.

The following map shows the locations of our Santa Cândida, Vista Alegre and Paraíso mills in Brazil.



Our Santa Cândida, Vista Alegre and Paraíso mills crushed approximately 6.7 million tons of sugarcane for the fiscal year ended March 31, 2015. For the fiscal year ended March 31, 2015, approximately 52.0% of the sugarcane our mills crushed was used to produce sugar, while the remaining sugarcane was used to produce ethanol. For the fiscal year ended March 31, 2015, our Santa Cândida, Vista Alegre and Paraíso mills produced approximately 412,011 tons of sugar and 247,799 cubic meters of ethanol and reported net revenue of R\$731.9 million and Adjusted EBITDA of R\$321.9 million.

We primarily produce sugarcane, which in Brazil has low production costs and high energy efficiency ratio relative to other energy sources, such as corn and sugarbeet. We currently cultivate and harvest sugarcane on 101,690 hectares, which we lease from third parties. Once harvested, sugarcane is transported to our mills using trucks and trailers. The average distance from the land on which our sugarcane is harvested to our Santa Cândida mill is approximately 27.2 kilometers (17.0 miles), approximately 24.1 kilometers (15.1 miles) to our Vista Alegre mill and approximately 29.9 kilometers (18.7 miles) to our Paraíso mill. The proximity of our mills to the locations where our sugarcane is harvested reduces transportation costs and enables us to process the sugarcane promptly after harvesting, thereby minimizing the loss of sucrose concentration in the sugarcane. We also purchase sugarcane from third-party suppliers, which represented approximately 1.8 million tons, or 26.5%, of the total sugarcane our Santa Cândida, Vista Alegre and Paraíso mills crushed for the fiscal year ended March 31, 2015.

Each of our three mills also have thermoelectric power plants located on the premises. We entered into a strategic partnership with Grupo Energisa S.A., or Energisa, an energy company in Brazil, with respect to our Santa Cândida and Vista Alegre mills. In connection with this partnership, we sold co-generation assets to Energisa and, in relation to our Santa Cândida and Vista Alegre mills, agreed to exchange bagasse for energy and steam produced at the power plants that we continue to operate at those mills. The sale occurred in December 2011, when we executed four share purchase and sale agreements with Energisa pursuant to which we agreed to sell shares of four Special Purpose Entities, or SPEs: (1) Energisa Bioeletricidade Santa Cândida I S.A., or USC I, into which we transferred all of our co-generation assets at our Santa Cândida mill; (2) Energisa Bioeletricidade Santa Cândida II S.A., or USC II, into which we transferred all of our construction and operation rights in case of expansion of our Santa Cândida co-generation plant; (3) Energisa Bioeletricidade Vista Alegre I S.A., or UVA I, into which we transferred all of our co-generation assets at our Vista Alegre mill; and (4) Energisa Bioeletricidade Vista Alegre II S.A., or UVA II, into which we transferred all of our construction and operation rights in case of expansion of our Vista Alegre co-generation plant. In August 2012, pursuant to such share purchase and sale agreements, Energisa acquired: (1) 85% of the capital stock of USC I; (2) 85% of the capital stock of UVA I; (iii) 100% of the capital stock of USC II; and (iv) 100% of the capital stock of UVA II from us for an aggregate amount of approximately R\$150.0 million. On September 29, 2014, Energisa acquired the remaining 15% of the capital stock in each of USC I and UVA I from us for an aggregate amount of approximately R\$23.0 million. Pursuant to the terms of the agreements, in approximately 20 years Energisa will sell back the assets owned by each of USC I, USC II, UVA I and UVA II to us. Energisa publicly announced its plans to increase the installed capacity of the co-generation power plants to 170

MW from the current 60 MW within the next year, including by undertaking to build and operate two additional power plants near the existing assets. In addition, Energisa publicly announced its plans to invest approximately R\$350 million to expand these power plants in order to have the capacity to sell approximately 710 GWh per year on the free market (*Ambiente de Contratação Livre*) by 2016.

The following table sets forth certain of our financial information and operating data for the periods indicated:

	As of and for the Fiscal Years Ended March 31,		
	2015	2014 <sup>(1)</sup>	2013
	in millions of reais, except as indicated otherwise)		
Financial data:			
Net revenue .....	731.9	804.6	594.1
Net income (loss) for the period .....	(647.6)	(175.5)	(14.3)
EBITDA <sup>(2)</sup> .....	424.2	396.7	292.4
Adjusted EBITDA <sup>(3)</sup> .....	314.2	344.9	244.9
Adjusted EBITDA margin .....	42.9%	42.9%	41.2%
Total debt .....	2,115.0	1,365.4	930.1
Short-term <sup>(4)</sup> .....	303.1	568.9	107.5
Long-term .....	1,811.9	796.6	822.6
Net debt <sup>(5)</sup> .....	2,076.3	1,270.1	606.2
Net debt / Adjusted EBITDA ratio .....	6.6x	3.7x	2.5x
Operating data:			
Own sugarcane crushed (in thousand tons) .....	4,921.9	5,740.7	4,035.0
Own sugarcane crushed			
(% of total crushed sugarcane) .....	73.5%	75.8%	79.6%
Third-party purchased sugarcane crushed			
(in thousand tons) .....	1,775.4	1,834.6	1,033.4
Third-party purchased sugarcane crushed			
(% of total crushed sugarcane) .....	26.5%	24.2%	20.4%
Total sugarcane crushed (in thousand tons) .....	6,697.3	7,575.3	5,068.4
Santa Cândida mill sugarcane crushed			
(in thousand tons) .....	2,667.5	3,038.2	2,834.4
Mechanized harvesting at Santa Cândida mill (%) .....	89.5%	86.1%	66.2%
Vista Alegre mill sugarcane crushed			
(in thousand tons) .....	2,018.7	2,274.6	2,234.0
Mechanized harvesting at Vista Alegre mill (%) .....	100.0%	100.0%	100.0%
Paraíso mill sugarcane crushed (in thousand tons) .....	2,011.1	2,262.5	—
Mechanized harvesting at Paraíso mill (%) .....	92.0%	89.4%	—
VHP sugar production (in thousand tons) .....	315.5	353.7	363.7
VHP sugar sales (in thousand tons) .....	315.2	355.4	351.5
% Domestic .....	0.4%	1.1%	4.4%
% Export .....	99.6%	98.9%	95.6%
Granulated refined sugar production			
(in thousand tons) .....	96.5	112.8	—
Granulated refined sugar sales (in thousand tons) .....	96.5	105.8	—
% Domestic .....	1.5%	1.8%	—
% Export .....	98.5%	98.2%	—
Hydrous ethanol production			
(in thousands of cubic meters) .....	118.7	102.8	25.9
Hydrous ethanol sales			
(in thousands of cubic meters) .....	119.3	97.1	27.8
% Domestic .....	100.0%	96.5%	100.0%
% Export .....	—	3.5%	—
Anhydrous ethanol production			
(in thousands of cubic meters) .....	129.1	170.1	149.1
Anhydrous ethanol sales			
(in thousands of cubic meters) .....	131.1	180.8	155.3
% Domestic .....	76.6%	69.2%	67.3%
% Export .....	23.4%	30.8%	32.7%

	As of and for the Fiscal Years Ended March 31,		
	2015	2014 <sup>(1)</sup>	2013
	in millions of reais, except as indicated otherwise		
Number of employees .....	2,108	4,270	2,593

- (1) Our financial statements for the fiscal year ended March 31, 2014 are comprised of the operations of (1) our current three mills (the Vista Alegre mill, the Santa Cândida mill and the Paraíso mill) from May 1, 2013 to March 31, 2014 and (2) our two original mills (the Vista Alegre mill and the Santa Cândida mill), excluding Paraíso, from April 1, 2013 to April 30, 2013. As a result, our financial information for the fiscal year ended March 31, 2014 (which include Paraíso financial information as of May 1, 2013) is not directly comparable to our financial information for the fiscal year ended March 31, 2013 (which do not include any Paraíso financial information). Operational data pertaining to us and our mills included in this offering memorandum for all periods after March 31, 2013, including for the financial year ended March 31, 2014, pertains to all three of our mills, including our Paraíso mill. Accordingly, we include operational data for the Paraíso mill combined with our Santa Cândida and Vista Alegre mills as from April 1, 2013, which includes data from the period before we acquired Paraíso on May 3, 2013. As a result, our financial information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso financial information as of May 1, 2013) is not directly comparable with our operational information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso operational information as of April 1, 2013).
- (2) We define EBITDA as net profit (loss) from continuing operations before net financial income/expenses, depreciation of property, plant and equipment, amortization of intangible assets, amortization of inter-harvest maintenance carried out, amortization of crops and handling, and income tax and social contribution. EBITDA is not a recognized measure under Brazilian GAAP, IFRS or U.S. GAAP, and because not all companies use identical calculations, our presentation of EBITDA may not be comparable to other similarly titled measures or to free cash flow, as it does not consider certain of our cash requirements, such as interest payments, tax payments and debt service payments. EBITDA should not be considered as an alternative to net profit (loss) from continuing operations, as indicator of our operating performance, or as an alternative to cash flow as an indicator of our liquidity. See “Selected Financial and Other Information—Other Data” for a calculation of our EBITDA.
- (3) We define Adjusted EBITDA as EBITDA adjusted by changes in the fair value of biological assets, gains upon sales of assets and equity in net income of subsidiaries. Adjusted EBITDA is not a recognized measure under Brazilian GAAP, IFRS or U.S. GAAP, and because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures or to free cash flow, as it does not consider certain of our cash requirements, such as interest payments, tax payments and debt service payments. Adjusted EBITDA should not be considered as an alternative to net profit (loss) from continuing operations, as indicator of our operating performance, or as an alternative to cash flow as an indicator of our liquidity. See “Selected Financial and Other Information—Other Data” for a calculation of our Adjusted EBITDA.
- (4) If we default on any of our debt, we will be required to reclassify that debt and any other debt subject to cross defaults as short-term debt under IAS 174.
- (5) For the fourth quarter of each fiscal year and each fiscal year, we define net debt as current loans and financing plus non-current loans and financing minus cash, cash equivalents and other investments (current and non-current other than equity interests in relation to our co-generation activities). For the first, second and third quarters of each fiscal year, we define net debt as current loans and financing plus non-current loans and financing minus cash, cash equivalents, other investments (current and non-current other than equity interests in relation to our co-generation activities) and finished goods inventories. Net debt is not a recognized measure under Brazilian GAAP, IFRS or U.S. GAAP. Our definition of net debt in this offering memorandum is not necessarily the same as the net debt definitions that we use for purposes of establishing covenant compliance for our financing agreements or under the indenture that will govern the New Notes offered hereby. Net debt does not have a standardized meaning and our definition of net debt may not be comparable to net debt used by other companies and is not a measure of cash flow, liquidity or resources available for debt service. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness,” note 25 to our financial statements as of and for the fiscal years ended March 31, 2015 and 2014, note 20 to our financial statements as of and for the fiscal years ended March 31, 2014 and 2013, and our financial information included elsewhere in this offering memorandum.

## Our Main Products

Our Santa Cândida and Vista Alegre mills produce VHP sugar and anhydrous and hydrous ethanol. Our Paraíso mill produces granulated refined sugar, VHP sugar and hydrous ethanol, in addition to selling sugarcane juice to Amyris. Our Santa Cândida and Vista Alegre mills are able to adjust their production between hydrous ethanol,

anhydrous ethanol and VHP sugar, which provides them with the flexibility to respond to changes in both customer demand and market prices. Similarly, our Paraíso mill is able to adjust its production mix between hydrous ethanol, granulated refined sugar and VHP sugar. We market and sell the sugar, ethanol and sugarcane by-products that we produce both domestically and internationally.

### *Sugar*

Sugar is a staple consumer product and essential commodity produced in various parts of the world. Sugar is primarily derived from sugarcane and sugarbeet. Brazil accounted for approximately 22% of the world's total sugar production in the 2014/2015 harvest according to the USDA.

Historically, our main sugar product has been VHP sugar (which sugar product our Santa Cândida and Vista Alegre mills produce exclusively). VHP sugar has a higher sucrose content than raw sugar (96.0% polarization), low moisture and is handled in bulk. As a result, VHP sugar is easily transportable allowing for export in port terminals. VHP sugar is traded based on the NY11 price, and, as of March 31, 2015, commanded a premium of 4.05% over the raw sugar price negotiated based on the NY11 price as a result of its higher sucrose content. We sell our VHP sugar exclusively for export through large trading companies. The average price of raw sugar on the New York Mercantile Exchange decreased to U.S.\$0.15695 per pound in the fiscal year ended March 31, 2015, compared to U.S.\$0.17118 per pound in the fiscal year ended March 31, 2014. The Paraíso mill also produces granulated refined sugar. Granulated refined sugar is obtained from either crystal sugar or VHP sugar and is processed in order to obtain defined crystals of uniform grain size.

For the fiscal year ended March 31, 2015, we sold approximately 315,155.9 tons of VHP sugar and recorded net revenue of R\$280.2 million, or 38.3% of our net revenue for that period, from the sale of VHP sugar. For the fiscal year ended March 31, 2014, we sold approximately 355,426.3 tons of VHP sugar and recorded net revenue of R\$304.1 million, or 37.8% of our net revenue for that period, from the sale of VHP sugar.

For the fiscal year ended March 31, 2015, we sold approximately 96,500.2 tons of granulated refined sugar and recorded net revenue of R\$97.5 million, or 13.3% of our net revenue for that period, from the sale of granulated refined sugar. For the fiscal year ended March 31, 2014, we sold approximately 105,806.3 tons of granulated refined sugar and recorded net revenue of R\$118.7 million.

After its production at our Santa Cândida and Vista Alegre mills, we export VHP sugar to the Bunge Group, ADM, ED&F Man and Sucden, among others. Our Paraíso mill exports VHP sugar and granulated refined sugar to Cargill, among others. For more information, see "Business—Our Main Products—Sugar."

### *Ethanol*

We produce two types of ethanol, anhydrous and hydrous. Anhydrous ethanol can be used as a gasoline additive, which improves engine performance and reduces pollution levels, or for industrial purposes in applications such as reactive solvents. Hydrous ethanol is primarily used as fuel for flex-fueled vehicles. Although our Santa Cândida and Vista Alegre mills have the flexibility to produce both hydrous and anhydrous ethanol, we have increasingly prioritized our anhydrous ethanol production during recent harvests in order to benefit from the premium it commands over hydrous ethanol. Our Paraíso mill produces only hydrous ethanol.

For the fiscal year ended March 31, 2015, we produced approximately 247,799.3 cubic meters of ethanol, of which approximately 129,076.6 cubic meters were anhydrous ethanol and approximately 118,722.7 cubic meters were hydrous ethanol. For the fiscal year ended March 31, 2014, we produced approximately 272,845.0 cubic meters of ethanol, of which approximately 170,061.2 cubic meters were anhydrous ethanol and approximately 102,783.8 cubic meters were hydrous ethanol.

The average price of anhydrous ethanol in Brazil was R\$1.3860 per liter for the fiscal year ended March 31, 2015, compared to R\$1.3736 per liter for the fiscal year ended March 31, 2014, according to ESALQ.

For the fiscal year ended March 31, 2015, we sold in the domestic market approximately 100,430.7 cubic meters of anhydrous ethanol and recorded net revenue of R\$144.0 million, or 19.7% of our net revenue, from the

domestic sale of anhydrous ethanol. For the fiscal year ended March 31, 2015, we exported approximately 30,699.5 cubic meters of anhydrous ethanol and recorded net revenue of R\$37.3 million, or 5.1% of our net revenue for that period, from the export sale of anhydrous ethanol.

We sell anhydrous ethanol in Brazil to customers such as BR Distribuidora and Raízen, and export anhydrous ethanol from the Port of Santos to Greenergy Brasil Trading S.A., or Greenergy, a subsidiary of the leading United Kingdom provider of road fuel with significant infrastructure and service capability. We also sell hydrous ethanol to customers such as Raízen and Copersucar, among others. For more information, see “Business—Our Main Products—Ethanol.”

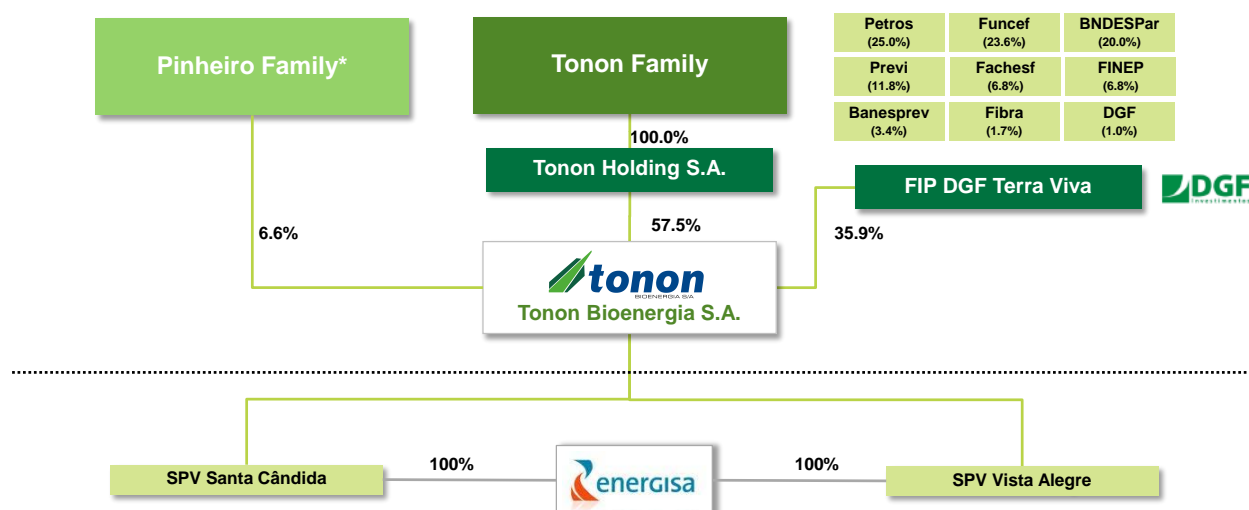
### *Sugarcane by-products*

Sugarcane bagasse is a by-product of both sugar and ethanol. It is a viable renewable source of energy that can help meet some of Brazil’s growing demand for electricity. Our Santa Cândida and Vista Alegre mills provide sugarcane bagasse by-products to USC I and UVA I in exchange for steam and energy to generate electricity, which enables these mills to meet their energy requirements. We sold 100% of our interest in our co-generation activities to Energisa as well as the rights to build and operate two additional power plants near the existing assets. On March 31, 2015, Energisa sold 100% of its interest in the co-generation activities and the two additional power plants that are currently under construction to Brookfield Renewable Energy Partners. We expect to benefit from Brookfield Renewable Energy Partners’ investments in the expansion of these power plants as a result of increased energy and steam available to us.

Our Paraíso mill also provides sugarcane bagasse by-products to Rhodia in exchange for electricity, which enables the Paraíso mill to meet its energy requirements. As a result of the partnership, we reached an agreement with Rhodia, through our Paraíso mill, whereby Rhodia agreed to upgrade and operate its co-generation facility in exchange for our Paraíso mill’s biomass to produce electricity. In addition, our Paraíso mill supplies sugarcane juice to Amyris to produce farnesene, a long-chain branched hydrocarbon, at Amyris’s Brotas facility, which is located next to the mill.

For more information, see “Business—Our Main Products—Bagasse and Co-Generation of Electricity.”

### **Our Corporate Structure**



\* Pinheiro Family: Wilson Hélio de Albuquerque Pinheiro Junior, Flávio de Albuquerque Pinheiro, Renata de Albuquerque Pinheiro and Silvia de Barros Brisolla.

## Differences between the Existing Notes and the New Notes

The New Notes will have substantially the same terms as the Existing Notes, except for the following:

- The Existing Notes bear interest through their maturity at 9.250% per annum. The New Notes will bear interest at the rate of (1) 7.250% per annum from January 24, 2015 through January 23, 2017, and (2) 9.250% per annum from January 24, 2017 through their maturity.
- Interest on the Existing Notes is payable semi-annually in arrears on January 24 and July 24 of each year, with no option of the issuer to defer interest payments. Interest on the New Notes is payable semi-annually in arrears on January 24 and July 24 of each year, and the issuer may, at its option, defer payments of interest due on any interest payment date as follows: (1) for any payments of interest due on any interest payment date that occurs on or prior to January 24, 2017, the issuer may defer such payments of interest to January 24, 2017 at its sole discretion, and (2) for any payments of interest due on any interest payment date that occurs after January 24, 2017, the issuer may defer such payments of interest to the maturity date if, after giving effect to an interest payment on an interest payment date that occurs after January 24, 2017, the amount of cash on the balance sheet of Tonon Bioenergia S.A. as of the last day of the fiscal quarter immediately preceding such interest payment date would be less than R\$100.0 million.
- The New Notes will restrict the ability of Tonon Bioenergia S.A. and its restricted subsidiaries to make capital expenditures. Pursuant to the terms and conditions of the New Notes, capital expenditures by Tonon Bioenergia S.A. and its restricted subsidiaries cannot exceed, individually or in the aggregate, in any given fiscal year, the following amounts: R\$225.0 million (for the fiscal year ending March 31, 2016; in addition to this amount, Tonon Bioenergia S.A. will be permitted to make capital expenditures on industrial equipment associated with expansion at the Santa Cândida mill in the amount of R\$54.0 million, to be financed from outside Tonon Bioenergia S.A.'s operating cash flow); R\$225.0 million (for the fiscal year ending March 31, 2017); R\$225.0 million (for the fiscal year ending March 31, 2018); R\$225.0 million (for the fiscal year ending March 31, 2019); R\$225.0 million (for the fiscal year ending March 31, 2020); and R\$225.0 million (for the fiscal year ending March 31, 2021). Such amounts will be adjusted for inflation. For further information, see "Description of the New Notes."

## Recent Developments

On May 14, 2015, we did not make a scheduled interest payment to the holders of our (1) U.S.\$73,000,000 10.50% senior secured notes due 2024, (2) U.S.\$96,000,000 10.50% senior secured notes due 2024, (3) U.S.\$32,000,000 10.50% senior secured notes due 2024 and (4) U.S.\$29,000,000 10.50% senior secured notes due 2024, or the 2024 notes. Failure to make such interest payment by June 15, 2015 will trigger an event of default under our 2024 notes.

Tonon Luxembourg will enter into a loan agreement, or the U.S.\$70.0 million financing, with certain institutional investors, including Gramercy, or the lenders, whereby, subject to the terms and conditions of the U.S.\$70.0 million financing and provided certain conditions precedent are satisfied, the lenders will make a loan to Tonon Luxembourg, or the loan, in an aggregate principal amount of approximately U.S.\$70.0 million. The loan will be unconditionally guaranteed by us and Tonon Holding. The loan will mature on May 14, 2019 and the principal will be repayable on such date. The loan will bear interest at a rate of 12% per annum, and interest on the loan will be payable quarterly in arrears until the maturity date. The loan will be secured by, among other security interests, a mortgage over the land and a fiduciary lien over the equipment of our Vista Alegre mill and our Santa Cândida mill. We intend to use the proceeds of the issuance of the loan to refinance our current short-term bank debt and for general corporate purposes.

It is a condition precedent to the consummation of the U.S.\$70.0 million financing that we consummate the Exchange Offer and Consent Solicitation. Furthermore, there are additional conditions precedent we must satisfy in order to consummate the U.S.\$70.0 million financing and obtain the proceeds of the issuance, including (but not limited to) the following: (1) the delivery of promissory notes executed by us, Tonon Holding and Tonon

Luxembourg, (2) on the date on which the loan is to be made, the non-continuance of a default or event of default under the Existing Notes, the 2024 notes or certain other agreements being entered into by us, Tonon Holding and Tonon Luxembourg in connection with the loan, and (3) that, since March 31, 2015, no change, event or condition has occurred that has or could reasonably be expected to have a material adverse effect on us, Tonon Luxembourg or Tonon Holding, unless otherwise disclosed by us to the lenders. In addition, the U.S.\$70.0 million financing contains certain restrictive covenants which are materially more restrictive than the corresponding covenants in the Existing Notes, the New Notes and the 2024 notes, including restrictions on our ability to incur debt, incur liens, make investments, make certain restricted payments, sell assets, make capital expenditures and enter into transactions with our affiliates.

Pursuant to the U.S.\$70.0 million financing, we, Tonon Holding and Tonon Luxembourg will enter into an agreement with the lenders, pursuant to which Tonon Luxembourg will agree to pay, as an additional obligation related to the U.S.\$70.0 million financing, an amount equal to 20% of our adjusted EBITDA in excess of R\$475.0 million, calculated on a fiscal year beginning March 31, and payable annually within 10 business days of our receipt from our certified independent public accountants of a report on our annual financial statements for the relevant fiscal year, to each lender (or subsequent assignee) in accordance with the percentage to which such holder is entitled. Any amounts due thereunder will be payable each year through the later of (i) May 14, 2019, and (ii) the date of a payment, if any, due in respect of the fiscal year ended March 31, 2019. Tonon Luxembourg's payment obligations will be unconditionally guaranteed by us and Tonon Holding.

As of the date of this offering memorandum, holders of Existing Notes representing more than 80% of the aggregate outstanding principal amount of Existing Notes have entered into a support agreement, or the support agreement, with us and Tonon Luxembourg and, subject to certain conditions, have committed to participate in the Exchange Offer and Consent Solicitation. The holders may terminate the support agreement upon the occurrence of certain events, including (but not limited to) the following: (1) we shall have publicly announced our intention not to pursue the Exchange Offer and Consent Solicitation or proposed or accepted an alternative transaction, (2) the Exchange Offer and Consent Solicitation shall not have been consummated on or before July 15, 2015, (3) we or Tonon Luxembourg S.A. shall be in breach of any of our obligations in any material respect under the support agreement, (4) our failure to pay principal, interest or premium when due (within any applicable grace period) on any of our outstanding indebtedness, (5) a default shall have occurred with respect to any of our outstanding indebtedness, or (6) bankruptcy or insolvency proceedings shall have been commenced against us or any of our subsidiaries or we or any of our subsidiaries shall have commenced voluntary bankruptcy or insolvency proceedings.

We believe that the consummation of the Exchange Offer and Consent Solicitation and the consummation of the U.S.\$70.0 million financing are critical to our ability to continue as a going concern. If the Exchange Offer and Consent Solicitation and the U.S.\$70.0 million financing are not consummated, we may apply for extra-judicial reorganization, declare bankruptcy, apply for judicial reorganization or be liquidated in Brazil.

In addition, the report of KPMG with respect to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014, included elsewhere in this offering memorandum, contains an emphasis paragraph stating that, as of March 31, 2015, our total current liabilities exceeded our total current assets by R\$357.5 million, that our shareholders' equity was a negative R\$370.0 million and that our net loss for the fiscal year was R\$647.6 million. As a result, KPMG have stated that there are significant uncertainties regarding Tonon's ability to continue as a going concern.

Under Brazilian law, our obligations under the New Notes and Existing Notes are subordinated to certain statutory preferences. In the event of our bankruptcy or liquidation, such statutory preferences, including post-petition claims, claims for salaries, wages, social security, taxes and court fees and expenses and claims secured by collateral, among others, will have preference over any other claims, including claims by any investor in respect of the New Notes and Existing Notes. In such a scenario, enforcement of the New Notes or Existing Notes may be unsuccessful, and holders of the New Notes or Existing Notes may be unable to collect amounts that they are due under the New Notes or Existing Notes. In the event of our extra-judicial reorganization or judicial reorganization, the New Notes and Existing Notes would be subject to the same proceedings as for unsecured claims and they would be subject to a reorganization plan. Accordingly, holders of New Notes and Existing Notes would be repaid



according to the payment provisions for unsecured claims set out in the applicable reorganization plan, as such reorganization plan is approved by the appropriate Brazilian courts.

We received the following disbursements under the indicated CCB credit agreements (*Cédula de Crédito Bancário*), or the 2015 CCBs, after March 31, 2015:

- On April 15, 2015, we received a disbursement in the amount of R\$0.6 million pursuant to the 2015 CCB dated April 13, 2015 with Banco Daycoval S.A., which bears interest at a fixed rate of 14.20% per annum, with principal amortized monthly beginning in October 15, 2015 until maturity in March 15, 2018.
- On April 20, 2015, we received a disbursement in the amount of R\$ 0.9 million pursuant to the 2015 CCB dated March 09, 2015 with Banco Daycoval S.A., which bears interest at a fixed rate of 14.20% per annum, with principal amortized monthly beginning in October 15, 2015 until maturity in March 15, 2018.

### **The Issuer**

The issuer is a direct wholly-owned subsidiary of Tonon. The issuer is a public limited liability company (*société anonyme*) and was incorporated under the laws of Luxembourg on May 7, 2014. The registered office of the issuer is 5, Rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg. The issuer is registered with the Luxembourg Register of Commerce and Companies under number B 186953. The telephone number of the issuer is +352 48 18 28 1.

The by-laws of the issuer provides for a board of directors composed of at least three members. The board of directors of the issuer is currently composed of four members. All directors of the issuer are appointed by Tonon. The directors of the issuer are Rodrigo Caldas de Toledo Aguiar, Aluizio Barbosa Machado, José Correia, and Fabrice Meeuwis.

Under the issuer's articles of incorporation, the issuer is, inter alia, permitted to borrow, raise and secure the payment of money in any way the board of directors thinks fit, including by the issue (to the extent permitted by Luxembourg Law) of debentures and other securities or instruments, perpetual or otherwise, convertible or not, whether or not charged on all or any of the Company's property (present and future) or its uncalled capital, and to purchase, redeem, convert and pay off those securities. On May 15, 2014, the issuer was registered with the Luxembourg Register of Commerce and Companies.

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Our corporate headquarters are located at Rodovia Jaú-Araraquara, Km. 129, CP-7, Fazenda Sta. Cândida, Gleba Industrial, 17.240-000, Bocaina, SP, Brazil. We commenced operations in 1962 and are enrolled with the Taxpayers' Registry (CNPJ/MF) under No. 07.914.230/0001-05. Our telephone number is +55 (14) 3666-9000, and our facsimile number is +55 (14) 3666-9037. Our website address is <http://www.tononbioenergia.com.br>. Information on our website is not incorporated into this offering memorandum and should not be relied upon in determining whether to make an investment in the New Notes.

## THE NEW NOTES OFFERING

*The following summary contains basic information about the New Notes and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of the New Notes, please refer to the section of this offering memorandum entitled “Description of the New Notes.”*

Issuer.....	Tonon Luxembourg S.A.
New Notes Offered .....	Up to U.S.\$300,000,000 in aggregate principal amount of step-up senior notes due 2020.
Maturity Date.....	January 24, 2020.
Interest .....	Interest at (1) 7.250% per annum from January 24, 2015 through January 23, 2017, and (2) 9.250% per annum from January 24, 2017 through the Maturity Date. Interest will accrue from January 24, 2015 and be payable semi-annually in arrears on January 24 and July 24 of each year (each such date, an “Interest Payment Date”), beginning on July 24, 2015 unless the issuer exercises its right to defer the payment of interest on such interest payment date as permitted under the terms and conditions of the New Notes.
Interest Payments.....	<p>The issuer may, at its option, defer payments of interest due on any Interest Payment Date as follows:</p> <ul style="list-style-type: none"> <li>• for any payments of interest due on any Interest Payment Date that occurs on or prior to January 24, 2017, the issuer may defer such payments of interest to January 24, 2017 at its sole discretion; and</li> <li>• for any payments of interest due on any Interest Payment Date that occurs after January 24, 2017, the issuer may defer such payments of interest to the Maturity Date, provided the Deferred Interest Payment Condition is satisfied.</li> </ul> <p>“Deferred Interest Payment Condition” means, after giving effect to an interest payment on an Interest Payment Date that occurs after January 24, 2017, that the amount of cash on the balance sheet of Tonon Bioenergia S.A. as of the last day of the fiscal quarter immediately preceding such Interest Payment Date would be less than R\$100.0 million.</p> <p>If any payments of interest are deferred by the issuer on any Interest Payment Date in accordance with the provisions above, then interest deferred on such Interest Payment date will be added to the then outstanding principal amount of the New Notes. Interest on the New Notes shall thereafter accrue, and will be calculated, by reference to the Adjusted Principal Amount.</p> <p>“Adjusted Principal Amount” means an amount that is equal to the sum of (1) the total amount of payments of interest to date that have been deferred by the issuer in accordance with the provisions above and (2) the outstanding principal amount of the New Notes.</p>
Indenture.....	The New Notes are to be issued under and governed by an indenture among the issuer, the guarantor and The Bank of New York Mellon, as

trustee, registrar, transfer agent and paying agent.

New Notes Guarantee ..... The parent company of the issuer, Tonon Bioenergia S.A., will unconditionally and irrevocably guarantee all of the issuer's obligations under the New Notes.

Ranking of the Notes ..... The New Notes will:

- be senior unsecured obligations of the issuer;
- rank equally in right of payment with all other existing and future senior indebtedness of the issuer;
- rank senior in right of payment to all existing and future subordinated obligations of the issuer;
- be effectively subordinated to all existing and future secured indebtedness of the issuer, to the extent of the value of the assets securing such secured indebtedness;
- be structurally subordinated to all indebtedness of the issuer's existing and future subsidiaries (other than any future subsidiary guarantors); and
- be subordinated to liabilities preferred by statute.

As of March 31, 2015, we had total indebtedness outstanding of R\$2,115.0 million (U.S.\$659.3 million), of which R\$802.4 million (U.S.\$250.1 million) was secured indebtedness.

As of March 31, 2015, after adjusting for the post March 31, 2015 capitalization adjustments described in "Capitalization," our outstanding indebtedness would have totaled R\$2,339.6 million (or U.S.\$729.3 million using the commercial market selling rate as reported by the Brazilian Central Bank at March 31, 2015 of R\$3.2080 to U.S.\$1.00), of which R\$1,026.9 million (U.S.\$320.1 million) was secured by our assets.

Ranking of the New Notes

Guarantee ..... The New Notes Guarantee by the guarantor will:

- be a senior obligation of the guarantor;
- rank equally in right of payment to all other existing and future senior indebtedness of the guarantor;
- rank senior in right of payment to all existing and future subordinated obligations of the guarantor;
- be structurally subordinated to all existing and future indebtedness of the guarantor's subsidiaries that are not subsidiary guarantors (other than the issuer);
- be effectively subordinated to all existing and future indebtedness of the guarantor that is secured by liens, to the extent of the value of the assets securing such secured indebtedness; and

- be subordinated to liabilities preferred by statute.

Optional Redemption with a  
Make-Whole Premium.....

Prior to January 24, 2017, we may, at our option, redeem all of the New Notes at any time or part of the New Notes from time to time, at a redemption price equal to 100% of the principal amount of the New Notes plus the applicable premium, as described in this offering memorandum, accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date (subject to the right of holders of the New Notes on the relevant record date to receive interest due on the relevant interest payment date). In case of any partial redemption of New Notes pursuant to this provision, at least U.S.\$100.0 million in aggregate principal amount of the New Notes shall remain outstanding (not including any New Notes held by us or our affiliates). See “Description of the New Notes—Optional Redemption— Optional Redemption with a Make-Whole Premium.”

Optional Redemption without a  
Make-Whole Premium.....

On and after January 24, 2017, we may, at our option, redeem all of the New Notes at any time or part of the New Notes from time to time, at the redemption prices described in this offering memorandum (expressed as a percentage of principal amount), plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date (subject to the right of holders of the New Notes on the relevant record date to receive interest due on the relevant interest payment date). In case of any partial redemption of New Notes pursuant to this provision, at least U.S.\$100.0 million in aggregate principal amount of the New Notes shall remain outstanding (not including any New Notes held by us or our affiliates). See “Description of the New Notes—Optional Redemption— Optional Redemption without a Make-Whole Premium.”

Optional Redemption upon  
Eligible Equity Offering .....

At any time prior to January 24, 2016, we may, at our option, on one or more occasions redeem New Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the outstanding New Notes (including any additional notes), at a redemption price (expressed as a percentage of principal amount) of 109.25%, plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date, with the net cash proceeds from one or more eligible equity offerings. See “Description of the New Notes—Optional Redemption— Optional Redemption upon Eligible Equity Offering.”

Optional Tax Redemption .....

We may redeem the New Notes, in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest and additional amounts, if any, to, but excluding, the redemption date, at any time upon the occurrence of specified events relating to applicable tax laws. See “Description of the New Notes—Optional Redemption—Optional Tax Redemption.”

Repurchase upon Change of  
Control .....

If a Change of Control that results in a Ratings Decline (each as defined in “Description of the New Notes”) occurs, each holder of the New Notes may require the issuer to repurchase all or a portion of such holder’s New Notes at a price equal to 101% of the aggregate principal amount, plus accrued and unpaid interest to the date of repurchase and

	<p>additional amounts, if any. See “Description of the New Notes—Repurchases at the Option of the Holders of the New Notes upon Change of Control.”</p>
Restrictive Covenants.....	<p>The Indenture governing the New Notes will contain covenants that, among other things, will limit the ability of the issuer and the guarantor and any restricted subsidiaries to:</p> <ul style="list-style-type: none"> <li>• pay dividends on, redeem or repurchase capital stock;</li> <li>• make certain investments;</li> <li>• incur additional indebtedness;</li> <li>• sell assets;</li> <li>• create certain liens;</li> <li>• enter into sale and leaseback transactions;</li> <li>• engage in transactions with affiliates; and</li> <li>• consolidate, merge, transfer or lease all or substantially all of our assets.</li> </ul> <p>In addition, the issuer and the guarantor are subject to additional restrictive covenants pursuant to the Indenture.</p> <p>These covenants are subject to important exceptions and qualifications that are described under the heading “Description of the New Notes—Restrictive Covenants” in this offering memorandum.</p>
Additional Amounts .....	<p>All payments of principal and interest by the issuer or the guarantor in respect of the New Notes will be made without withholding or deduction for any taxes or other governmental charges from Luxembourg, Brazil or any other jurisdiction unless such withholding or deduction is required by law.</p> <p>In the event we are required to withhold or deduct amounts for any taxes or other governmental charges, we will pay such additional amounts as are necessary to ensure that the holders of the New Notes receive the same amount as such holders would have received without such withholding or deduction, subject to certain exceptions. See “Description of the New Notes—Additional Amounts.”</p>
Events of Default .....	<p>For a discussion of certain events of default that will permit acceleration of the principal of the New Notes plus accrued interest, see “Description of the New Notes—Events of Default.”</p>
Additional Notes .....	<p>We may, from time to time, without notice to or consent of the holders of the New Notes, create and issue an unlimited principal amount of additional notes of the same series as the New Notes initially issued in this offering, subject to satisfaction of the conditions set forth in the Indenture.</p>
Form and Denomination .....	<p>The New Notes sold in the United States in reliance on Rule 144A will</p>

be evidenced by a note in global form called a Restricted Global Note, which will be deposited with a custodian for, and registered in the name of a nominee of DTC. The New Notes sold outside the United States in reliance on Regulation S will be evidenced by a separate note in global form called a Regulation S Global Note, which also will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Transfers of beneficial interests between the Restricted Global Note and the Regulation S Global Note are subject to certification requirements. The New Notes will be issued in fully registered form in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof and will be issued as one or more Global Notes. See “Description of the New Notes—Principal, Maturity and Interest.”

Trading and Listing .....	<p>We intend to apply to admit the New Notes to listing on the Official List of the Irish Stock Exchange and to trade on the Global Exchange Market.</p> <p>The issuer cannot assure you, however, that any application to apply to admit the New Notes to listing on the Official List of the Irish Stock Exchange and to trade on the Global Exchange Market will be accepted, or if accepted, that the New Notes will remain so listed. The issuer will at all times use its reasonable efforts to maintain the listing of the New Notes on the Global Exchange Market of the Irish Stock Exchange. If the New Notes are delisted, the issuer will use reasonable efforts to list the New Notes in another comparable exchange. However, there can be no assurance that the issuer will obtain an alternative admission to listing, trading and/or quotation for the New Notes by another listing authority, exchange and/or system within or outside the European Union.</p>
Governing Law .....	The Indenture and the New Notes will be governed by, and will be construed in accordance with, the laws of the state of New York.
Trustee, Registrar, Paying Agent and Transfer Agent.....	The Bank of New York Mellon.
Irish Listing Agent.....	The Bank of New York Mellon SA/NV, Dublin Branch.
Risk Factors .....	See “Risk Factors” and the other information in this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the New Notes.

## SUMMARY FINANCIAL AND OTHER INFORMATION

The following table sets forth certain financial information and operating data for us for the periods and fiscal years indicated.

On May 3, 2013, we completed the acquisition of Paraíso, a sugar and ethanol producer in the state of São Paulo, which operates one mill with a sugarcane crushing capacity of 2.5 million tons per harvest period. We merged Paraíso into our company on September 30, 2013. Our financial statements for the fiscal year ended March 31, 2014 are comprised of the operations of (1) our current three mills (the Vista Alegre mill, the Santa Cândida mill and the Paraíso mill) from May 1, 2013 to March 31, 2014, and (2) our two original mills (the Vista Alegre mill and the Santa Cândida mill), excluding the Paraíso mill, from April 1, 2013 to April 30, 2013. Since our financial statements for the fiscal year ended March 31, 2014 include the financial information of Paraíso as set out above, our financial statements for the fiscal year ended March 31, 2014 (which include Paraíso financial information as of May 1, 2013) are not directly comparable with our financial statements for the fiscal year ended March 31, 2013 (which do not include any Paraíso financial information).

Operational data pertaining to us and our mills included in this offering memorandum for all periods after March 31, 2013, pertains to all three of our mills, including our Paraíso mill. Accordingly, we include operational data for the Paraíso mill combined with our Santa Cândida and Vista Alegre mills as from April 1, 2013, which includes data from the period before we acquired Paraíso on May 3, 2013. As a result of the above, our financial information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso financial information as of May 1, 2013) is not directly comparable with our operational information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso operational information as of April 1, 2013).

This financial information should be read in conjunction with “Presentation of Financial and Other Information,” “Selected Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements, including the units thereto, included elsewhere in this offering memorandum.

	For the Fiscal Year Ended March 31,			
	2015	2015	2014	2013
	(in millions of U.S.\$) <sup>(1)</sup>		(in millions of reais)	
<b>Income Statement Data:</b>				
Net revenue.....	228.1	731.9	804.6	594.1
Cost of goods sold and services rendered.....	(229.6)	(736.6)	(678.8)	(486.6)
Changes in the fair value of biological assets.....	34.3	110.0	51.8	47.5
<b>Gross profit.....</b>	<b>32.8</b>	<b>105.3</b>	<b>177.6</b>	<b>155.0</b>
<b>Results before net financial income (expenses) and taxes.....</b>	<b>5.1</b>	<b>16.2</b>	<b>98.0</b>	<b>99.3</b>
Net financial income (expenses).....	(280.2)	(898.7)	(308.3)	(133.8)
<b>Profit (loss) before taxes.....</b>	<b>(275.1)</b>	<b>(882.5)</b>	<b>(210.3)</b>	<b>(34.5)</b>
Current/deferred income taxes and social contribution.....	73.2	234.9	34.8	19.5
<b>Net profit (loss) from continuing operations.....</b>	<b>(201.9)</b>	<b>(647.6)</b>	<b>(175.5)</b>	<b>(15.0)</b>
Discontinued operation.....	—	—	—	0.7
<b>Net profit (loss).....</b>	<b>(201.9)</b>	<b>(647.6)</b>	<b>(175.5)</b>	<b>(14.3)</b>

- (1) Solely for the convenience of the reader, *real* amounts for the fiscal year ended March 31, 2015 have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

	As of March 31,			
	2015	2015	2014	2013
	(in millions of U.S.\$) <sup>(1)</sup>		(in millions of reais)	
<b>Balance Sheet Data:</b>				
<b>Assets</b>				
Total current assets.....	50.2	161.0	286.2	431.0
Total non-current assets.....	618.4	1,983.8	1,579.5	899.8
<b>Total assets.....</b>	<b>668.6</b>	<b>2,144.7</b>	<b>1,865.7</b>	<b>1,330.8</b>
<b>Liabilities</b>				
Total current liabilities.....	160.7	515.5	737.2	183.9
Total non-current liabilities.....	623.3	1,999.5	875.2	844.4
<b>Shareholders' Equity</b>				
Capital.....	32.7	104.8	88.3	79.3
Income reserves.....	(148.1)	(475.0)	165.1	223.2
<b>Total shareholders' equity.....</b>	<b>(115.4)</b>	<b>(370.2)</b>	<b>253.3</b>	<b>302.5</b>
<b>Total liabilities and shareholders' equity.....</b>	<b>668.6</b>	<b>2,144.7</b>	<b>1,865.7</b>	<b>1,330.8</b>

- (1) Solely for the convenience of the reader, *real* amounts as of the fiscal year ended March 31, 2015, have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.

#### Other data

	As of and for the Fiscal Year Ended March 31,			
	2015	2015	2014	2013
	(in millions of U.S.\$, except financial ratios) <sup>(1)</sup>		(in millions of reais, except financial ratios)	
<b>Other Data:</b>				
EBITDA <sup>(2)</sup> .....	132.2	424.2	396.7	292.4
Adjusted EBITDA <sup>(3)</sup> .....	97.9	314.2	344.9	244.9
Adjusted EBITDA margin <sup>(4)</sup> .....	42.9%	42.9%	42.9%	41.2%
Net debt <sup>(5)</sup> .....	647.2	2,076.3	1,270.1	606.2
Net debt / Adjusted EBITDA ratio <sup>(6)</sup> .....	6.6x	6.6x	3.7x	2.5x

- (1) Solely for the convenience of the reader, *real* amounts as of and for the fiscal year ended March 31, 2015, have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.
- (2) We define EBITDA as net profit (loss) from continuing operations before net financial income/expenses, depreciation of property, plant and equipment, amortization of intangible assets, amortization of inter-harvest maintenance carried out, amortization of crops and handling, and income tax and social contribution. EBITDA is not a recognized measure under Brazilian GAAP, IFRS or U.S. GAAP, and because not all companies use identical calculations, our presentation of EBITDA may not be comparable to other similarly titled measures or to free cash flow, as it does not consider certain of our cash requirements, such as interest payments, tax payments and debt service payments. EBITDA should not be considered as an alternative to net profit (loss) from continuing operations, as indicator of our operating performance, or as an alternative to cash flow as an indicator of our liquidity. See "Selected Financial and Other Information—Other Data" for a calculation of our EBITDA.
- (3) We define Adjusted EBITDA as EBITDA adjusted by changes in the fair value of biological assets, gains upon sales of assets and equity in net income of subsidiaries. Adjusted EBITDA is not a recognized measure under Brazilian GAAP, IFRS or U.S. GAAP, and because not all companies use identical calculations, our presentation of Adjusted EBITDA may not be comparable to other similarly titled measures or to free cash flow, as it does not consider certain of our cash requirements, such as interest payments, tax payments and debt service payments. Adjusted EBITDA should not be considered as an alternative to net profit (loss) from continuing operations, as indicator of our operating performance, or as an alternative to cash flow as an indicator of our liquidity. See "Selected Financial and Other Information—Other Data" for a calculation of our Adjusted EBITDA.
- (4) Adjusted EBITDA margin corresponds to our Adjusted EBITDA divided by our net revenues, expressed as a percentage.
- (5) For the fourth quarter of each fiscal year and each fiscal year, we define net debt as current loans and financing plus non-current loans and financing minus cash, cash equivalents and other investments (current and non-current other than equity interests in relation to our co-generation activities). For the first, second and third quarters of each fiscal year, we define net debt as current loans and financing plus non-current loans and financing minus cash, cash equivalents, other investments (current and non-current other than equity interests in relation to our co-generation activities) and finished goods inventories. Net debt is not a recognized measure under Brazilian GAAP, IFRS or U.S.



GAAP. Our definition of net debt in this offering memorandum is not necessarily the same as the net debt definitions that we use for purposes of establishing covenant compliance for our financing agreements or under the indenture that will govern the New Notes offered hereby. Net debt does not have a standardized meaning and our definition of net debt may not be comparable to net debt used by other companies and is not a measure of cash flow, liquidity or resources available for debt service. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness," note 25 to our financial statements as of and for the fiscal years ended March 31, 2015 and 2014, note 20 to our financial statements as of and for the fiscal years ended March 31, 2014 and 2013, and our financial information included elsewhere in this offering memorandum.

- (6) Net debt / Adjusted EBITDA ratio is the ratio of our net debt as of the end of the applicable period divided by our Adjusted EBITDA for the then-most recently concluded period of four consecutive financial quarters.

## RISK FACTORS

*An investment in the New Notes involves a high degree of risk. You should carefully consider the risks and uncertainties described below and the other information in this offering memorandum before making an investment in the New Notes. The risks described below are not the only ones facing the issuer, the guarantor, the New Notes or investments in Brazil in general, but are the risks that we currently consider material. There are a number of factors, including those described below, which may materially adversely affect our ability to make payments under the New Notes. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Additional risks not presently known to us or that we currently deem immaterial may also impair our business operations.*

*For purposes of this section, the indication that a risk, uncertainty or problem may or will have a “material adverse effect on us” or that we may experience a “material adverse effect” means that the risk, uncertainty or problem could have a material adverse effect on our business, financial condition, results of operations, or our ability to make payments under the New Notes and/or the market price of the New Notes, except as otherwise indicated or as the context may otherwise require. You should view similar expressions in this section as having a similar meaning.*

### **Risks Relating to the Exchange Offer and the Consent Solicitation**

***If an insufficient number of holders tender their Existing Notes and the Exchange Offer and Consent Solicitation are not consummated, we may apply for extra-judicial reorganization, declare bankruptcy, apply for judicial reorganization or be liquidated in Brazil.***

Tonon Luxembourg will enter into the U.S.\$70.0 million financing with the lenders whereby, subject to the terms and conditions of the U.S.\$70.0 million financing and provided certain conditions precedent are satisfied, the lenders will make a loan to Tonon Luxembourg in an aggregate principal amount of approximately U.S.\$70.0 million. The loan will be unconditionally guaranteed by us and Tonon Holding. The loan will mature on May 14, 2019 and the principal will be repayable on such date. The loan will bear interest at a rate of 12% per annum, and interest on the loan will be payable quarterly in arrears until the maturity date. The loan will be secured by, among other security interests, a mortgage over the land and a fiduciary lien over the equipment of our Vista Alegre mill and our Santa Cândida mill. We intend to use the proceeds of the issuance of the loan to refinance our current short-term bank debt and for general corporate purposes.

It is a condition precedent to the consummation of the U.S.\$70.0 million financing that we consummate the Exchange Offer and Consent Solicitation. Furthermore, there are additional conditions precedent we must satisfy in order to consummate the U.S.\$70.0 million financing and obtain the proceeds of the issuance, including (but not limited to) the following: (1) the delivery of promissory notes executed by us, Tonon Holding and Tonon Luxembourg, (2) on the date on which the loan is to be made, the non-continuance of a default or event of default under the Existing Notes, the 2024 notes or certain other agreements being entered into by us, Tonon Holding and Tonon Luxembourg in connection with the loan, and (3) that, since March 31, 2015, no change, event or condition has occurred that has or could reasonably be expected to have a material adverse effect on us, Tonon Luxembourg or Tonon Holding, unless otherwise disclosed by us to the lenders. In addition, the U.S.\$70.0 million financing contains certain restrictive covenants which are materially more restrictive than the corresponding covenants in the Existing Notes, the New Notes and the 2024 notes, including restrictions on our ability to incur debt, incur liens, make investments, make certain restricted payments, sell assets, make capital expenditures and enter into transactions with our affiliates.

Pursuant to the U.S.\$70.0 million financing, we, Tonon Holding and Tonon Luxembourg will enter into an agreement with the lenders, pursuant to which Tonon Luxembourg will agree to pay, as an additional obligation related to the U.S.\$70.0 million financing, an amount equal to 20% of our adjusted EBITDA in excess of R\$475.0 million, calculated on a fiscal year beginning March 31, and payable annually within 10 business days of our receipt from our certified independent public accountants of a report on our annual financial statements for the relevant fiscal year, to each lender (or subsequent assignee) in accordance with the percentage to which such holder is entitled. Any amounts due thereunder will be payable each year through the later of (i) May 14, 2019, and (ii) the date of a payment, if any, due in respect of the fiscal year ended March 31, 2019. Tonon Luxembourg's payment obligations will be unconditionally guaranteed by us and Tonon Holding.

As of the date of this offering memorandum, holders of Existing Notes representing more than 80% of the aggregate outstanding principal amount of Existing Notes have entered into a support agreement, or the support agreement, with us and Tonon Luxembourg and, subject to certain conditions, have committed to participate in the Exchange Offer and Consent Solicitation. The holders may terminate the support agreement upon the occurrence of certain events, including (but not limited to) the following: (1) we shall have publicly announced our intention not to pursue the Exchange Offer and Consent Solicitation or proposed or accepted an alternative transaction, (2) the Exchange Offer and Consent Solicitation shall not have been consummated on or before July 15, 2015, (3) we or Tonon Luxembourg S.A. shall be in breach of any of our obligations in any material respect under the support agreement, (4) our failure to pay principal, interest or premium when due (within any applicable grace period) on any of our outstanding indebtedness, (5) a default shall have occurred with respect to any of our outstanding indebtedness, or (6) bankruptcy or insolvency proceedings shall have been commenced against us or any of our subsidiaries or we or any of our subsidiaries shall have commenced voluntary bankruptcy or insolvency proceedings.

We believe that the consummation of the Exchange Offer and Consent Solicitation and the consummation of the U.S.\$70.0 million financing are critical to our ability to continue as a going concern. If the Exchange Offer and Consent Solicitation and the U.S.\$70.0 million financing are not consummated, we may apply for extra-judicial reorganization, declare bankruptcy, apply for judicial reorganization or be liquidated in Brazil.

In addition, the report of KPMG with respect to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014, included elsewhere in this offering memorandum, contains an emphasis paragraph stating that, as of March 31, 2015, our total current liabilities exceeded our total current assets by R\$357.5 million, that our shareholders' equity was a negative R\$370.0 million and that our net loss for the fiscal year was R\$647.6 million. As a result, KPMG have stated that there are significant uncertainties regarding Tonon's ability to continue as a going concern.

Under Brazilian law, our obligations under the New Notes and Existing Notes are subordinated to certain statutory preferences. In the event of our bankruptcy or liquidation, such statutory preferences, including post-petition claims, claims for salaries, wages, social security, taxes and court fees and expenses and claims secured by collateral, among others, will have preference over any other claims, including claims by any investor in respect of the New Notes and Existing Notes. In such a scenario, enforcement of the New Notes or Existing Notes may be unsuccessful, and holders of the New Notes or Existing Notes may be unable to collect amounts that they are due under the New Notes or Existing Notes. In the event of our extra-judicial reorganization or judicial reorganization, the New Notes and Existing Notes would be subject to the same proceedings as for unsecured claims and they would be subject to a reorganization plan. Accordingly, holders of New Notes and Existing Notes would be repaid according to the payment provisions for unsecured claims set out in the applicable reorganization plan, as such reorganization plan is approved by the appropriate Brazilian courts.

***Even if the US\$70.0 million financing and the Exchange Offer and Consent Solicitation are consummated, we may not be successful in implementing our business strategy and other factors that are outside our control and that may adversely affect our business and financial performance may require us to apply for extra-judicial reorganization, declare bankruptcy, apply for judicial reorganization or be liquidated in Brazil.***

We believe that the consummation of the U.S.\$70.0 million financing and of the Exchange Offer and Consent Solicitation are critical to our ability to continue as a going concern. However, we cannot assure you that, if the U.S.\$70.0 million financing and the Exchange Offer and Consent Solicitation are consummated, we will successfully execute our business strategy. Factors outside our control, such as adverse weather conditions (including drought), seasonality and sugar and ethanol price fluctuations, may adversely affect our business strategy and financial performance and may require us to apply for extra-judicial reorganization, declare bankruptcy, apply for judicial reorganization or be liquidated in Brazil.

***The Exchange Offer and Consent Solicitation may be cancelled or delayed.***

We have the right to terminate or withdraw, in our sole discretion, the Exchange Offer and the Consent Solicitation at any time and for any reason, including failure to satisfy any condition to the Exchange Offer and Consent Solicitation; provided that if the Exchange Offer is terminated, the Consent Solicitation will also be terminated, and if the Consent Solicitation is terminated (other than by reason of the failure to receive requisite consents by the applicable expiration time), the Exchange Offer will also be terminated. Even if the Exchange Offer

is consummated, it may not be consummated on the timetable set forth at the beginning of this offering memorandum. Accordingly, holders participating in the Exchange Offer may have to wait longer than expected to receive their New Notes, during which time such holders will not be able to effect transfers or sales of their Existing Notes tendered pursuant to the Exchange Offer or their New Notes to be issued in the Exchange Offer.

***You must comply with the Exchange Offer procedures to receive New Notes.***

Delivery of New Notes in exchange for Existing Notes tendered and accepted for the exchange pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of the following:

- book-entry confirmation of a book-entry transfer of Existing Notes into the Exchange Agent's account at DTC, New York, New York, as a depository, including an Agent's Message (as defined herein), if the tendering holder does not deliver a Consent and Letter of Transmittal;
- a complete and signed Consent and Letter of Transmittal, or facsimile copy, with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message in place of the Consent and Letter of Transmittal; and
- any other documents required by the Consent and Letter of Transmittal.

Therefore, holders of Existing Notes who would like to tender Existing Notes in exchange for New Notes should be sure to allow enough time for the necessary documents to be timely received by the Exchange Agent. We are not required to notify you of defects or irregularities in tenders of Existing Notes for exchange.

***The minimum amount of Existing Notes that must be tendered as a condition to the consummation of the Exchange Offer is subject to change, and we will not extend withdrawal rights if we make such a change.***

Existing Notes tendered pursuant to the Exchange Offer may not be withdrawn after the Withdrawal Deadline except in certain limited circumstances where withdrawal rights may be required by law (as determined by the issuer). The Exchange Offer is currently subject to a number of conditions, including a minimum participation condition. The issuer reserves the right to decrease or increase the minimum participation condition at any time, which could result in less or more debt reduction. The issuer is not required to, and most likely will not, permit withdrawal in connection with any such change. If holders tender more Existing Notes in the Exchange Offer because they expect that the minimum participation level as specified herein must be satisfied, and the issuer subsequently decreases or increases the minimum participation amount, such holders will not be able to withdraw any of their previously tendered Existing Notes. Accordingly, holders should not tender any Existing Notes that they do not wish to be accepted.

***The exchange ratio for the Exchange Offer does not reflect any independent valuation of the Existing Notes or the New Notes.***

We have not obtained or requested a fairness opinion from any banking or other firm as to the fairness of the exchange ratio or the relative value of the Existing Notes or the New Notes, as the case may be. If you tender your Existing Notes, you may not receive more or as much value than if you choose to keep them.

***Holders who fail to exchange their Existing Notes may have reduced liquidity after the Exchange Offer.***

As Existing Notes are tendered and accepted in the Exchange Offer, the aggregate principal amount of remaining Existing Notes will be reduced. This decrease could reduce the liquidity of the trading markets for the non-tendered Existing Notes. We cannot assure you of the liquidity, or even the continuation, of the trading markets for the Existing Notes following the Exchange Offer. Reduced liquidity could adversely affect the market price for unexchanged Existing Notes.

***Existing ratings for the Existing Notes may not be maintained after the Exchange Offer.***

We cannot assure you that, as a result of the Exchange Offer, one or more rating agencies will not downgrade or negatively comment upon the ratings for the unexchanged Existing Notes, particularly if the Proposed Amendments become operative. Any downgrade or negative comment would likely adversely affect the market price of the Existing Notes.

***If the Proposed Amendments become operative, holders of Existing Notes will no longer benefit from the protections provided by substantially all of the existing restrictive covenants, certain events of default and other provisions.***

The Proposed Amendments will result in the permanent elimination of substantially all restrictive covenants and certain events of default in the Existing Notes Indenture, including, among other things, covenants that limit our ability to incur indebtedness, make restricted payments, create or incur liens and engage in mergers or consolidations or transfer all or substantially all of our property and assets. The elimination of these protections could permit us, subject to restrictions in our other debt instruments, to take certain actions previously prohibited that could materially increase our credit risk or could otherwise be materially adverse to holders, and could adversely affect the market prices and credit ratings of the remaining Existing Notes. See “Proposed Amendments.”

***If the U.S.\$70.0 million financing and the Exchange Offer and Consent Solicitation are consummated, substantially all of our fixed assets and equipment will be collateralized to secure the U.S.\$70.0 million financing, the 2024 notes and our other secured indebtedness.***

If the U.S.\$70.0 million financing and the Exchange Offer and Consent Solicitation are consummated, substantially all of our fixed assets and equipment will be collateralized to secure the U.S.\$70.0 million financing, the 2024 notes and our other secured indebtedness, so claims with respect to the unexchanged Existing Notes and the New Notes will not be secured by any of our assets. As a result, holders of unexchanged Existing Notes and New Notes will be effectively subordinated to our secured indebtedness to the extent of the value of the assets securing such indebtedness, including indebtedness under the U.S.\$70.0 million financing, the 2024 notes and our other secured indebtedness. In the event of our extra-judicial reorganization, bankruptcy, judicial reorganization or liquidation, it is possible that there would be little or no assets remaining from which the holders of the New Notes and the Existing Notes could be repaid.

***We may purchase Existing Notes in the future at different prices.***

Subject to existing contractual restrictions, we may from time to time purchase any Existing Notes that remain outstanding after consummation of the Exchange Offer through open market or privately negotiated transactions, one or more tender or exchange offers or otherwise, on terms that may be more advantageous to holders than the terms of the Exchange Offer.

## **Risks Relating to Our Business and the Ethanol and Sugar Industries**

***Factors outside our control may reduce the productivity of our sugarcane crop and the sugarcane that we purchase, which may materially adversely affect us.***

Our sugar production depends on the volume and sucrose content of the sugarcane that we cultivate or that is supplied to us by growers located in the vicinity of our mills. Crop yields and sucrose content depend primarily on geographic factors, such as land composition and topography, weather conditions, such as the amount of rainfall and average temperatures, agricultural techniques that may be employed and the variety of sugarcane planted. For instance, heavy rainfall and reduced solar radiation during the formation of the sugarcane crop in 2009 (from June 2009 to December 2009) adversely affected the productivity of the 2009/2010 harvest in the Southeast and Midwest regions. As a result of such weather conditions and operating difficulties stemming from heavy rainfall, sugarcane was not harvested.

Conversely, during the 2010/2011 and 2011/2012 harvests, overall sugarcane productivity in the Southeast and Midwest regions of Brazil was adversely affected by severe droughts in the Southeast and Midwest regions, which parched unharvested sugarcane left in the fields from the 2009/2010 harvest. Furthermore, heavy rains during early 2011 and extremely cold temperatures in June 2011 resulted in the failure of crops in the Southeast and Midwest regions, estimated by UNICA to be a total of 11.4% of the sugarcane crops in this region for the 2011/2012 harvest from 556.9 million tons during the 2010/2011 harvest to 493.2 million tons during the 2011/2012 harvest, according to UNICA. Weather conditions have historically caused volatility in the ethanol and sugar industries and, consequently, in our results of operations by causing crop failures or reduced harvests. Future weather patterns may reduce the amount of sugar or sugarcane that we can recover in a given harvest or its sucrose content. For example, Brazil experienced a drought at the end of the 2013/2014 harvest, which adversely impacted the agricultural yield in the region of São Paulo for the 2014/2015 harvest, which decreased from 597.1 million tons during the 2013/2014

harvest to 571.3 million tons during the 2014/2015 harvest, according to UNICA. Accordingly, many factors beyond our control, including drought, frost and/or sugarcane pests and diseases may materially adversely affect the quantity and quality of sugarcane that we produce and purchase from third parties, our sugar and ethanol production volumes and our business.

***Ethanol prices are directly correlated to the prices of sugar and gasoline, thus a decline in the price of sugar or oil may materially adversely affect both our sugar and ethanol businesses.***

The vast majority of ethanol in Brazil is produced at sugarcane mills that produce both ethanol and sugar. Because some sugarcane mills, including ours, are able to alter to some extent their production mix in response to the relative prices of ethanol and sugar, the prices of these products are generally closely correlated. For example, when sugar prices decline, sugarcane mills may have their production shifted to produce more ethanol, which will increase the supply of ethanol and put downward pressure on ethanol prices.

In addition, as sugar prices in Brazil are linked to international sugar prices, Brazilian ethanol prices are also influenced by international sugar prices. The limited liquidity of the ethanol futures market has restricted the availability of hedging mechanisms to protect against fluctuations in ethanol prices. Accordingly, a decline in the domestic or international price of sugar also may materially adversely affect our ethanol business.

Ethanol is marketed as a fuel additive to reduce vehicle emissions from gasoline, as an enhancer to improve the octane rating of gasoline with which it is blended or as a substitute fuel for gasoline. Because flex-fuel vehicles allow consumers to choose whether to use gasoline or ethanol at the pump, ethanol prices are correlated to gasoline prices and, consequently, to oil prices. As a result, ethanol prices are influenced by the supply and demand for gasoline, and our business and financial performance may be materially adversely affected if gasoline demand or prices decrease.

***We operate in industries in which the demand and the market price for our products are cyclical and are affected by general economic conditions in Brazil and the world.***

The sugar and ethanol industries, both globally and in Brazil, have historically been cyclical and sensitive to domestic and international changes in supply and demand, causing fluctuations in the prices of these products, as well as in our profit margins. In addition, sugar and ethanol are commodities and are subject to price fluctuations that generally affect commodities. Various factors beyond our control contribute to the volatility in the prices of sugar, ethanol and other sugarcane by-products, including:

- the demand for sugar and ethanol both in Brazil and abroad;
- climatic conditions and natural disasters in areas where sugarcane is cultivated;
- the production capacity and efficiency of our competitors;
- fluctuations in gasoline prices;
- government tax incentives and subsidies to promote the production, domestic sale, export and consumption of these products both in Brazil and in other countries that produce sugar and ethanol;
- the availability of substitutes for sugar, ethanol and other sugarcane by-products such as saccharine, aspartame, high fructose corn syrup, or HFCS, and petroleum derivatives; and
- developments in trade negotiations, including through the World Trade Organization, or the WTO.

In addition, sugar is traded on commodities and futures exchanges, and thus, is subject to speculative trading, which may affect prices in a manner that may materially adversely affect us.

The prices of sugar and ethanol sold by us are based on prevailing market prices, and thus, are subject to macroeconomic factors that may affect our industry, Brazil and the global economy. Any significant and prolonged decline in sugar or ethanol prices could materially adversely affect us. There can be no assurance that we will be able to maintain sales at generally prevailing market prices for sugar and ethanol in Brazil, nor that we will be able

to sell or export sufficient quantities of sugar and ethanol to ensure an appropriate domestic sales and export market balance.

***We may be materially adversely affected by seasonality, which could negatively impact our operating results.***

Our business is subject to seasonal trends based on the sugarcane growing cycle in the Southeast and Midwest regions of Brazil, which begins in approximately April and ends in approximately December. This cycle creates seasonal fluctuations in our inventory (which usually peaks from September to October to cover sales between the sugarcane harvest (*i.e.*, December through March)), our net sales revenue and gross profit. In addition, seasonality affects our level of outstanding indebtedness and working capital, as we generally incur more indebtedness to meet our greater working capital needs during the harvesting period, which increases our financial expenses during the harvest period.

***We are substantially dependent on the continuity of operations at our mills, and any interruption or operational failure at these mills may result in a reduction of the volume of sugar and ethanol we produce or sell.***

Most of our revenues are from the sale of sugar and ethanol we produce at our mills. If an accident, unanticipated repair, equipment malfunction or natural or climatic disaster were to occur in any of our mills, we may be materially adversely affected. As a result, all or part of our operations may be interrupted, and we cannot assure you that the cost of such damage will be covered under our insurance policies. In addition, we are subject to labor strikes and other operational incidents, such as equipment failures, fires, explosions and transportation accidents. These and other operational accidents may result in physical injury and death, material loss and destruction of our properties and equipment, and in the case of environmental accidents, in the suspension of our operations. Accordingly, an interruption or operational failure in our mills may have a material adverse effect on us.

***We depend on third parties to provide our customers and us with facilities and services that are integral to our business.***

We have entered into agreements with third-party contractors to provide us with facilities and services required for our operations, such as the transportation of our sugarcane from our plantations to our mills. Our reliance on third parties to provide these services gives us less control over the costs, efficiency, timelines and quality of those services. Contractors' negligence could result in damage or loss of our sugarcane, which may materially adversely affect us. We expect to be dependent on these contractors for the foreseeable future. The termination or expiration of our agreements with third-party contractors or our inability to renew these agreements or to negotiate new agreements with other providers on comparable terms could materially adversely affect our business and financial performance.

***Delays or unexpected costs with respect to the expansion of our production facilities, including as a result of delays or failure by Energisa to complete projected expansion projects at the power plants located at our mills as well as factors adversely affecting the exchange of bagasse for energy and steam pursuant to our agreements with Energisa and Rhodia, may materially adversely affect us.***

As a part of our strategy to increase the crushing capacity of our Santa Cândida and Vista Alegre mills, we intend to make significant investments in connection with our production facilities. The expansion, modernization and construction of production facilities involves a number of risks, including challenges related to engineering, construction, project management, ability to obtain financing, regulatory compliance, skilled manpower, environmental licensing, contracting suppliers and other risks that can delay or hinder a successful project or significantly increase the implementation costs. Delays, unexpected costs or failure to implement any expansion or modernization projects as projected may restrict our future growth and development and materially adversely affect our business, financial condition and results of operations.

Furthermore, the expansion of our production facilities to increase our crushing capacity depends on the satisfactory completion of corresponding investments by Energisa to expand the installed capacity of the co-generation power plants at our respective mills, including Energisa's publicly announced plans to build and operate two additional power plants near the existing co-generation assets. Delays or failure by Energisa to complete any investments necessary to supply the increased energy required for increases in our crushing capacity could materially adversely affect us.

Production of energy and steam at the co-generation power plants operated by Energisa, and in the case of our Paraíso mill, Rhodia, and our receipt of such energy and steam for use in our operations depends on our delivery of contractually agreed amounts of biomass inputs and such additional supply by us of biomass that may be necessary to meet the needs of expanded future capacity at the respective power plants. Any inability by us, which does not fall within the exceptions provided in our agreements with Energisa and Rhodia, to supply the necessary biomass could lead to lower than expected levels of energy and steam production available for our use in our operations, as well as constitute breaches of our supply obligations with Energisa or Rhodia which, in each case, could materially adversely affect us.

***Disruption of transportation and logistics services or insufficient investment in public infrastructure could adversely affect our operating results.***

A substantial portion of Brazilian agricultural production, including our output, is transported by truck, which is generally significantly more expensive than the rail transportation available to U.S. and other international producers. One of the principal disadvantages of the Brazilian agriculture sector is that many of the key growing regions lie far from major ports, further increasing logistics costs. As a result, efficient access to transportation infrastructure and ports is critical to the continued growth of Brazilian agriculture generally and of our operations in particular. Improvements in transportation infrastructure are likely to be required to make more agricultural production accessible to export terminals at competitive prices. Improvement projects may not be undertaken or completed on a timely basis, if at all, which could adversely affect the demand for our products, impede our delivery of products or increase our costs.

We depend on the continuous operation of the port facilities we use. Interruptions in port operations could result from various events and circumstances outside of our control including, among others, catastrophic events, environmental issues, strikes or labor issues, adverse meteorological conditions and therefore interruption in the supply of our products. Any such difficulties with port facilities could, accordingly, result in delays in or the suspension of the transportation of sugar and ethanol to our customers, adversely affecting our product distribution capacity, which could have a material adverse effect on our results of operations.

Catastrophic events, environmental issues, strikes or labor issues, adverse meteorological conditions and the interruption in the supply of sugarcane to our facilities may result in delays in, or the suspension of, the transportation of sugar and ethanol to our customers, adversely affecting our product distribution capacity which could have a material adverse effect on our results of operations.

***We engage in hedging transactions, which involve risks that can harm our financial performance.***

We are exposed to market risks arising from the nature of our business activities, in particular, market risks arising from changes in commodity prices, exchange rates or interest rates. Historically, we hedge against market price fluctuations by entering into hedge agreements to fix the prices of all our sugar sales with our customers, which are comprised of large global commodity traders, with banks and directly in ICE Futures. In addition, a portion of our indebtedness is denominated in U.S. dollars. However, in an attempt to minimize the effects of volatility of sugar prices and effects on our cash flows and results of operations from exchange rate fluctuations between the *real* and the U.S. dollar, we engage in hedging transactions involving commodities and exchange rate futures, options, forwards and swaps. We also may engage in interest rate hedging transactions from time to time. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk.”

Hedging transactions expose us to the risk of financial loss in situations where the counterparty to the hedging contract defaults on its contract or there is a change in the expected differential between the underlying price in the hedging agreement and the actual price of commodities or the exchange rate. For instance, for the fiscal year ended March 31, 2015 we recorded a net loss of R\$5.1 million from sugar price and interest and exchange rate hedging transactions. For the fiscal years ended March 31, 2014 and 2013, we recorded a net loss of R\$25.7 million and a net loss of R\$14.0 million, respectively. As we record our derivatives at their fair value, to the extent that the market prices of our products exceed their fixed price pursuant to our hedging agreements, our results would be lower than they would have been had we not engaged in such transactions as a result of the related non-cash derivative expenses that we record. As a result, hedging transactions decrease our net financial income during periods in which commodities prices increase, when compared to what our net financial income might have been had we not entered into such transactions.



***Our exports expose us to factors that are outside of our control.***

For the fiscal year ended March 31, 2015, our net revenues from exports of VHP sugar/granulated refined sugar and ethanol represented 51.3% and 5.1%, respectively, of our total net revenues. For the financial year ended March 31, 2014, our net revenues from exports of VHP sugar/granulated refined sugar and ethanol represented 51.7% and 9.4%, respectively, of our total net revenues. We are subject to risk factors that are outside of our control in connection with our export operations, including:

- changes in foreign currency exchange rates;
- deterioration of economic conditions in our principal export markets;
- imposition of tax increases, anti-dumping tariffs and other trade or health and sanitation barriers;
- exchange controls and restrictions to exchange operations;
- strikes or other events that may affect ports and transportations; and
- compliance with different legal and regulatory regimes.

Our future financial performance will depend significantly on economic, political and social conditions in our principal export markets. Most countries that produce sugar or ethanol, including the United States and European Union member countries, protect local producers from international competition by establishing government policies that affect the production and import of sugar and ethanol. Accordingly, we may have limited or no access to our main export markets or other major potential markets if new trade barriers are established, which could result in difficulties in reallocating our products to other markets under favorable conditions and may have a material adverse effect on our business and results of operations.

Our operations are subject to the laws and regulations of the countries to which we export sugar and ethanol, including imports and exports, anti-dumping, anti-money laundering and anti-terrorism laws. As a result, we are required to observe rigorous procedures for transfers and payments from our foreign customers and to obtain various licenses from regulatory authorities to export to these countries. These authorizations and licenses are renewable as long as we comply with the rules and requirements imposed by local regulatory authorities. If we were to fail to comply with any of these rules and requirements for any reason, these authorizations and licenses could be revoked, or we may be unable to receive transfers and payments from our foreign customers or to renew these authorizations and licenses, which could materially adversely affect our operations. Additionally, regulatory authorities could adopt stricter or more burdensome requirements, which could restrict our ability to conduct business and have a material adverse effect on us.

***We face significant competition in the sugar and ethanol industries, which may materially adversely affect our market share and profitability.***

The sugar and ethanol industries are highly competitive. Domestically, we compete with numerous sugar and ethanol producers of varying sizes. Despite increased consolidation, the Brazilian sugar and ethanol industries remain highly fragmented. Currently, our main competitors in Brazil are Copersucar, Raízen, various producers owned by Louis Dreyfus, Tereos and the Bunge Group.

We also face competition from international sugar producers. In particular, we face strong competition in certain markets, such as the United States and the European Union, which have historically implemented tariffs, agriculture subsidies and/or other governmental incentive programs to protect local sugar producers from foreign competition. Many of these tariffs, subsidies and other governmental incentive programs remain in effect.

In the event that one or more of our competitors increase their financial and other resources, operate their business more efficiently than us, present a greater breadth of products than we do or adopt more successful sales or pricing policies, our competitive position and our company may be materially adversely affected. If we are unable to remain competitive with our competitors, our market share and profitability may also be materially adversely affected.

***Alternative sweeteners have negatively affected demand for our sugar products in Brazil and other countries.***

We believe that increased use of alternative sweeteners, especially artificial alternative sweeteners such as aspartame, saccharine and HFCS, has adversely affected the growth of the overall demand for sugar in Brazil and the rest of the world. For example, soft drink bottlers in Brazil and many other countries have switched from sugar to, or increased their use of, alternative sweeteners. A substantial decrease in sugar consumption, or the increased use of alternative or artificial sweeteners, would decrease demand for our sugar products and could materially adversely affect us.

***Contamination of our products and other related risks may affect our reputation and result in legal and administrative proceedings or the shutdown of our production facilities.***

Some of our products may have adverse effects on our consumers, such as allergic reactions to components included in the raw materials and inputs used to manufacture our products, or to newly-developed product components used in certain processing stages, among others. There could also be adverse reactions related to product contamination caused by failures in production or distribution channels. The contamination of any of our products may result in product recalls or in legal or administrative proceedings against us, which could adversely affect our reputation, business, operation of our manufacturing facilities, financial condition and operating results. Any damage to our reputation may materially adversely affect us.

***A reduction in market demand for ethanol as a clean fuel or a change in the Brazilian government's policy requiring ethanol be added to gasoline may materially adversely affect us.***

The Brazilian government currently requires the use of ethanol as an additive to gasoline. Since 1997, the Brazilian Sugar and Alcohol Interministerial Council (*Conselho Interministerial do Açúcar e Alcool*), or CIMA, has set the percentage of anhydrous ethanol that must be used as an additive to gasoline (which may fluctuate between 18% and 25%). In March 2013, MAPA increased the percentage of anhydrous ethanol that must be used as an additive to gasoline from 20% to 25% by volume, effective as of May 1, 2013.

Any reduction in the percentage of ethanol required to be added to gasoline or any change in the Brazilian government policy towards ethanol use, as well as the growth in the demand for natural gas and other fuels as an alternative to ethanol, lower gasoline prices or an increase in gasoline consumption (as compared to ethanol), may cause demand for ethanol to decline, which may materially adversely affect us.

In addition, ethanol prices are influenced by the supply and demand for gasoline; accordingly, a reduction in oil prices resulting in a decrease in gasoline prices and an increase in gasoline consumption (as compared to ethanol), may have a material and adverse effect on us.

***Government policies and regulations affecting the agricultural and ethanol sectors and related industries could materially adversely affect us.***

Agricultural production and trade flows are significantly affected by government policies and regulations. Governmental policies, such as taxes, tariffs, duties, subsidies and import and export restrictions on agricultural commodities and products made from these commodities can adversely affect the agricultural industry and its profitability, the allocation of agricultural resources, the location and size of crop production, the trading of unprocessed or processed commodity products, and the type and volume of imports and exports, which may materially adversely affect us.

Future government policies in Brazil and elsewhere may adversely affect the supply, and demand for, and prices of, our products or restrict our ability to do business in our existing and target markets, which could materially adversely affect our financial performance. Sugar prices, like the prices of many other staple goods in Brazil, were historically subject to controls imposed by the Brazilian government. Although sugar prices in Brazil have not been subject to price controls since 1997, additional measures may be imposed in the future. Any changes affecting governmental policies and regulations regarding ethanol, sugar or sugarcane in the state of São Paulo, where our Santa Cândida and Paraíso mills operate, and Mato Grosso do Sul, where our Vista Alegre mill operates, may materially adversely affect us.

Additionally, petroleum and petroleum products have historically been subject to price controls in Brazil. Currently, there is no law or regulation in force giving the Brazilian government power to set prices for petroleum,

petroleum products, ethanol or natural gas for vehicles. However, given that Petróleo Brasileiro S.A., or Petrobras, the largest supplier of oil-based fuels in Brazil, is a state-controlled company, prices of petroleum and petroleum products are subject to government influence, resulting in potential inconsistencies between international prices and internal oil derivative prices that affect our business and our financial results, which are not linked to international prices.

Furthermore, on April 28, 2011, the Brazilian government changed the classification of ethanol from an agricultural product to a biofuel. As a result, the production, import, export, storage, transport, transfer, distribution and commercialization of ethanol are now subject to regulation and supervision by ANP. Through this change in classification, the Brazilian government seeks to increase the role of ANP in the regulation of ethanol, in order to avoid price fluctuations during the periods between harvests, by applying to ethanol various regulations that were previously only applicable to petroleum and its derivatives, natural gas and condensate. In addition, in 2011, ANP also set forth new specifications for the manufacture and commercialization of ethanol, the purpose of which is to prohibit the adulteration of ethanol products.

In March 2013, MAPA increased the percentage of anhydrous ethanol that must be used as an additive to gasoline from 20% to 25% by volume, effective as of May 1, 2013.

***We may face conflicts of interest in transactions with related parties.***

Some of our shareholders are also suppliers of sugarcane or owners of rural areas where we grow our crops through agricultural partnerships (*parcerias agrícolas*) and long-term land lease agreements. Furthermore, some of our minority shareholders are also shareholders of companies that supply industrial equipment to sugarcane industry, with which we have entered into agreements. There may be future conflicts of interest in the event of new acquisitions of equipment from these companies or disputes involving existing agreements.

***We are subject to extensive environmental and labor regulations and may be exposed to liabilities and potential costs for environmental and labor compliance.***

We are subject to Brazilian federal, state and local laws and regulations related to environmental protection and health and safety laws of our employees that govern, among other things:

- the development of potentially polluting activities such as production of sugar and ethanol;
- the generation, storage, handling, use and transportation of hazardous materials;
- the emission and discharge of hazardous materials into the ground, air or water;
- the preservation of environmentally protected areas;
- the use of natural resources; and
- the health and safety of our employees.

We are regularly inspected by various governmental environmental protection agencies to ensure our compliance with applicable laws and regulations. We are also required to obtain permits from governmental authorities for certain aspects of our operations. These laws, regulations and permits often require us to purchase and install expensive pollution control equipment or to make operational changes to limit impacts or potential impacts on the environment and health of our employees.

As per Brazilian environmental legislation, we are required to obtain environmental licenses to operate our mills, since our activities may potentially cause pollution or environmental impact. In the administrative context, a company operating without the competent environmental license in Brazil may be subject to warnings, fines up to R\$10.0 million, partial or total suspension of activities and other restrictions. Also, according to Brazilian law, operating without an effective environmental license may, in certain cases, also be understood as an environmental crime, subjecting both the company and its officers to, among other penalties, imprisonment of one year to six months and fines. In addition, due to the regime of concurrent jurisdiction with respect to environmental law, certain states also define their own administrative penalties, such as warnings, suspension of activities, fines of up to R\$50.0

million and other restrictions. We may also be strictly liable for certain environmental damage caused by third parties we hire or related to the properties on which we conduct our activities.

In addition, we seek to assure the compliance of the rural properties we lease with respect to the legal reserve requirements, considering that the respective landowners are responsible for the preservation of the areas. As of the date of this offering memorandum, we believe that most landowners of the rural properties we lease are in compliance with the legal reserve requirements. The new forestry rules of the Brazilian government also require enrollment in the Environmental Rural Registry (*Cadastro Ambiental Rural*), or CAR, for all rural properties in Brazil. The CAR is a responsibility of landowners, who must proceed with the registry within one year from its implementation, extendable for an additional year by an act of the executive branch.

Non-compliance with environmental laws and regulations may require us to remedy any environmental damage, as well as subject us to criminal and administrative penalties, such as fines and the suspension of our activities. Furthermore, our non-compliance with environmental and labor obligations may result in our breach of covenants in certain of our financing agreements.

In addition, any change in applicable environmental regulation or in its interpretation may lead to an increase in compliance costs, which may materially adversely affect us. Environmental protection and labor laws in Brazil are becoming stricter; accordingly, our expenses in complying with our environmental and labor obligations may significantly increase in the future. See “Business—Legal and Administrative Proceedings—Civil and Environmental Proceedings.”

***Government laws and regulations governing the burning of sugarcane could have a material adverse impact on our business or financial performance.***

In 1998, a federal decree was enacted to require that in areas that are suitable for mechanized harvesting, the burning of sugarcane must be reduced by 25% every five years until complete elimination of the practice in 2018.

In the state of São Paulo, in areas that are suitable for mechanized harvesting, applicable regulations provide that the burning of sugarcane must be reduced as follows: (1) 80% of the aggregate suitable harvested area by 2016; and (2) 100% of the aggregate suitable harvested area by 2021. For areas that are not suitable for mechanized harvesting, applicable regulations provide that the burning of sugarcane must be reduced as follows: (1) 20% of the harvested area by 2016; (2) 30% of the harvested area by 2021; (3) 50% of the harvested area by 2026; and (4) 100% of the harvested area by 2031. Also, through Resolution No. 88/2008, the state of São Paulo sets forth the minimum standards to be followed for sugarcane planting, including the adoption of adequate management of crop protection, protection for permanent preservation areas and avoidance of accidental burnings of sugarcane.

We currently incur significant costs to comply with these laws and regulations, and there is a likelihood that increasingly stringent regulations relating to the burning of sugarcane will be imposed by the state of São Paulo, and other governmental agencies in the near future. As a result, our costs to comply with existing or new laws or regulations are likely to increase, which could materially adversely affect us.

Any failure to comply with these laws and regulations may subject us to legal and administrative actions. These actions can result in civil, administrative or criminal penalties, including a requirement to pay penalties or fines (which may range from R\$50.00 to R\$50.0 million and can be doubled or tripled in case of recidivism), an obligation to make capital and other expenditures or an obligation to materially change or cease certain operations.

***Our insurance coverage may be inadequate to cover all losses or liabilities that may be incurred in our operations.***

We maintain insurance against some risks at levels that we believe are customary in our industry to protect against these liabilities; however, our insurance may not be adequate to cover all losses or liabilities that might be incurred in our operations. Moreover, we will be subject to the risk that we may not be able to maintain or obtain insurance of the type and amount desired on reasonable terms. As of June 30, 2013, we no longer carry significant lost profits insurance.

***Certain of our financing agreements and the indenture for the New Notes contain covenants that restrict our ability to engage in certain transactions and may impair our ability to respond to changing business and economic conditions.***

Certain of our financing agreements and the indenture for the New Notes contain covenants that restrict our ability to engage in certain transactions, such as the incurrence of indebtedness and the execution of corporate mergers or reorganizations, and may impair our ability to respond to changing business and economic conditions, including, among other things, limitations on our ability, and the ability of any of our future subsidiaries, to:

- incur additional indebtedness;
- incur additional liens;
- enter into sale and leaseback transactions;
- issue guarantees;
- issue or sell capital stock;
- pay dividends or make certain other restricted payments;
- enter into certain transactions with affiliates;
- make investments; or
- merge or consolidate with any other person or sell or otherwise dispose of or lease all or substantially all of our assets.

In addition, certain of our indebtedness and the indenture for the New Notes require us to satisfy certain financial covenants. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness—Long-term Indebtedness.” Future indebtedness or other contracts could contain financial or other covenants more restrictive than those applicable to our indebtedness and the indenture for the New Notes.

Our ability to comply with these provisions may be affected by general economic conditions, political decisions, industry conditions and other events beyond our control. As a result, we cannot assure you that we will be able to comply with these covenants or obtain waivers for any future non-compliance. Our failure to comply with the covenants contained in certain of our indebtedness and in the indenture for the New Notes, including failure as a result of events beyond our control, could result in an event of default, which could materially adversely affect our operating results and our financial condition.

***Our level of indebtedness, including secured indebtedness, may harm our business.***

As of March 31, 2015, our total outstanding indebtedness was R\$2,115.0 million, consisting of R\$303.1 million of short-term indebtedness, including the current portion of long-term indebtedness (or 14.3% of our total indebtedness), and R\$1,811.9 million of long-term indebtedness (or 85.7% of our total indebtedness). As of March 31, 2015, 37.9% of our total outstanding indebtedness was secured by certain of our sugarcane inventories, plant facilities, agricultural and industrial equipment and machinery and accounts receivables. We may also incur additional debt. See “Description of the New Notes.”

Seasonality affects our level of outstanding indebtedness and working capital, as we generally require more working capital and consequently incur greater indebtedness to support our operations during the first six months of our fiscal year, which generally results in higher financial expenses during this period. Accordingly, our level of indebtedness during the first half of our fiscal year is generally higher than during the second half of our fiscal year. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness.”

If we are unable to incur additional debt or access funds on favorable terms, we may be unable to make necessary investments and capital expenditures in our business, which could reduce our future sales and materially

adversely affect our financial position. In addition, the required capital resources to fulfill our debt obligations may reduce the amount available to support our operations, which could materially adversely affect us.

In addition, if our cash flow from operations does not grow as expected or significantly decreases for any reason, we may be unable to fulfill our debt obligations. If we are unable to pay our debt obligations as they become due, we may have to renegotiate our debt, seek and raise additional capital or attempt to sell certain of our assets. In any of these scenarios, we may not be able to obtain financing or sell our assets on favorable terms, or at all, which could have a material adverse effect on us.

***Disruptive and volatile general economic conditions may have a negative impact on financing available to us. As a result, funding on terms acceptable to us may not be available to meet our future capital needs.***

Global market and economic conditions have been, and continue to be, disruptive and volatile. The debt capital markets have been impacted by significant defaults in the financial services sector and the re-pricing of credit risk, among other things. These events have negatively affected general economic conditions.

If funding is unavailable when needed, or is available only on unfavorable terms, it may become difficult or impossible for us to satisfy our capital needs or otherwise take advantage of business opportunities or respond to competitive pressures, which may have a material and adverse effect on our revenue and results of operations.

***Vertical integration of ethanol production, along with consolidation among fuel distributors may materially adversely affect us.***

The possibility of the vertical integration of ethanol production and fuel distribution may reduce liquidity in the Brazilian ethanol market if distributors acquire a significant portion of ethanol production. The lack of liquidity in the ethanol market could adversely affect ethanol prices and our results of operations.

Consolidation in the fuel distribution business may substantially increase profit margins of fuel distributors, transferring value from the producer to the distributor, which may materially adversely affect our results of operations.

***Termination of our sugarcane supply contracts or land lease agreements or a decrease or an interruption in the sale of sugarcane by our suppliers may materially adversely affect us.***

Sugarcane is the main raw material we use to produce sugar and ethanol. For the fiscal year ended March 31, 2015, we purchased approximately 1,775.4 thousand tons of sugarcane from third parties on a spot basis or with whom we have entered into medium- and long-term agreements. In addition, for the fiscal year ended March 31, 2015, we purchased approximately 1,834.6 thousand tons of the sugarcane that we used in our production of ethanol and sugar directly from several third-party growers on a spot basis. See “Business—Operations.”

If our supply of sugarcane were to be interrupted or a material number of our agricultural partnership or land lease agreements were to be rescinded or not renewed upon the expiration of their respective terms, we may be required to pay higher prices for sugarcane and the volume of sugarcane available to us may decrease significantly, each of which could materially adversely affect us.

***Technological advances could adversely affect demand for ethanol or require substantial capital expenditures for us to remain competitive.***

The development and implementation of new technologies may result in a significant reduction in the costs of ethanol production. We cannot predict when new technologies may become available, the rate of acceptance of new technologies by our competitors or the costs associated with such new technologies. Advances in the development of alternatives to ethanol also could significantly reduce demand or eliminate the need for ethanol as a fuel oxygenate. Any advances in technology which require significant capital expenditures to remain competitive or which otherwise reduce demand for ethanol may have a material adverse effect on our business and financial performance.

***We may be materially adversely affected by unfavorable outcomes in pending legal proceedings.***

We are involved in a number of tax, civil, labor and environmental proceedings, as to which, as of March 31, 2015, we recorded provisions totaling R\$7.6 million. We cannot predict whether we will prevail in these or other

proceedings, or whether we will have to pay significant amounts, including penalties and interest, as payment of our liabilities, which would materially adversely impact our business and financial performance.

***We are dependent on members of our management to develop and implement our strategy and to oversee our operations.***

We are dependent upon members of our senior management and certain of our executive officers, especially with respect to business planning, strategy and operations. The success of our business and expansion strategy depends on our capacity to retain, hire and train qualified professionals. We compete with other companies for personnel, accordingly we may not be able to attract qualified professionals when required by our customers or in a sufficient number to keep pace with our expansion, and we are unable to guarantee that we will be able to retain these professionals. The loss of and our inability to attract and retain qualified professionals may have a material adverse effect on our operations and the expansion of our business.

***Changes to the fair value of our biological assets could affect the valuation of our crops and materially adversely affect our results of operations.***

Applicable accounting rules provide that our own sugarcane is appraised at fair value based on the present value of the cash flow of the crops to be generated over its production cycle. Accordingly, any change in production estimates for such crops, as well as variations in the prices of sugarcane, sugar and ethanol, interest rates, operating costs, capital costs or foreign exchange rate may cause significant changes in the fair value of our crops and material changes in our financial statements, materially adversely affecting our results of operations.

***We are controlled by a small group of shareholders, who have the power to control our business and whose interests may conflict with those of the holders of the New Notes.***

The Tonon Family owns and controls the majority (58.0% on a fully diluted basis assuming payment of the final installment under the Paraíso Acquisition Agreement in shares of Tonon as of the date of this offering memorandum, however which is due on or before May 3, 2015, subject to certain post-closing adjustments and share re-allocations) of our total capital stock and 100.0% of our common shares through Tonon Holding. See “Principal Shareholders.” As a result, the Tonon Family has the power to control us, including the power to:

- elect a majority of our directors and appoint our executive officers, other than our chief financial officer who is appointed by FIP DGF Terra Viva;
- set our management policies and exercise overall control over our company;
- agree to sell or otherwise transfer its controlling stake in our company; and
- determine the outcome of substantially all actions requiring shareholder approval, including transactions with related parties, corporate reorganizations, acquisitions and dispositions of assets, increases in the level of our indebtedness and payment of dividends.

There can be no assurance that the interests of our controlling shareholders will always coincide with those of the holders of the New Notes and that the interests of the holders of the New Notes will not be materially adversely affected as a result.

Furthermore, our controlling shareholder is active in our management through our board of directors. Our controlling shareholders and our management may have an interest in pursuing transactions that, in their judgment, enhance the value of their equity investment, even though such transactions may involve increased risks to the holders of the New Notes. We cannot assure prospective investors that our shareholders or management will be able to address these conflicts of interests or others in an impartial manner.

## Risks Relating to Brazil

***The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian economic and political conditions, and the Brazilian government's economic and other policies, have a direct impact on our business and may negatively affect demand for our products as well as our results of operations and overall financial performance.***

The Brazilian economy has been characterized by frequent, and occasionally drastic, intervention by the Brazilian government, which has often changed monetary, credit and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and affect other policies have often involved wage and price controls, depreciation of the *real*, controls on remittances abroad, fluctuations of the Central Bank's base interest rate, as well as other measures. We have no control over, nor can we foresee any measures or policies that the Brazilian government may adopt in the future. We may be materially adversely affected by changes in the policies of the Brazilian government, in addition to other general economic factors, including, without limitation:

- economic and social instability;
- political elections;
- inflation;
- exchange rate fluctuations;
- exchange controls and restrictions on remittances abroad;
- tax policy and amendments to tax legislation;
- interest rates;
- liquidity of domestic and foreign capital and lending markets;
- government control of oil production;
- restrictive environmental and real estate laws and regulations; and
- other political, social and economic policies or developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies. Historically, the political scenario in Brazil has influenced the performance of the Brazilian economy; in particular, political crises have affected the confidence of investors and the public in general, which adversely affected economic development in Brazil. These and other future developments in the Brazilian economy and governmental policies may materially adversely affect us.

***Inflation, and government measures to curb inflation, may adversely affect the Brazilian economy, the Brazilian securities market, our business and operations and financial condition.***

Brazil experienced high rates of inflation in the past. According to the General Market Price Index (*Índice Geral de Preços do Mercado*), or IGP-M, a general price inflation index, the inflation rates in Brazil were 9.8% in 2008, compared to deflation of 1.7% in 2009, compared to inflation of 11.3%, 5.1%, 7.8%, 5.5% and 3.7% in 2010, 2011, 2012, 2013 and 2014, respectively. In addition, according to the Extended National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, published by the IBGE, the Brazilian consumer price inflation rates were 4.3% in 2009, 5.9% in 2010, 6.5% in 2011, 5.8% in 2012, 5.9% in 2013 and 6.4% in 2014. Increases in certain commodity prices and other factors could cause consumer inflation to deviate from the Central Bank's target for 2015 (currently at 4.5% plus or minus 2%).

The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions have also contributed materially



to economic uncertainty in Brazil in the past and to heightened volatility in the Brazilian securities markets. Brazil may experience high levels of inflation in future periods. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which could lead to reduced demand for our products in Brazil and decreased net sales revenues. Inflation also is likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our debt may increase, resulting in lower net income. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect our ability to refinance our indebtedness in those markets and may have a material adverse effect on our business, results of operations and financial condition.

***Fluctuations in currency exchange rates and the devaluation of the real may adversely affect the Brazilian economy and our financial condition and result of operations.***

As a result of inflationary pressures, the Brazilian currency has been devalued periodically in the past in relation to the U.S. dollar and other foreign currencies. The Brazilian government has in the past implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* depreciated against the U.S. dollar by 18.5% in 2001 and 53.2% in 2002. Although the *real* appreciated 18.3%, 8.1%, 12.1%, 8.5% and 16.7% against the U.S. dollar in 2003, 2004, 2005, 2006 and 2007, respectively, in 2008, the *real* depreciated approximately 31.9% against the U.S. dollar. In 2009 and 2010, the *real* appreciated against the U.S. dollar by 25.5% and 4.3%, respectively. However, in 2011, 2012, 2013 and 2014, the *real* depreciated against the U.S. dollar by 12.6%, 10.6%, 14.7% and 13.4%, respectively. As of March 31, 2015, the U.S. dollar-*real* exchange rate was R\$3.2080 per U.S.\$1.00. There can be no assurance that the *real* would not depreciate or be devalued against the U.S. dollar again.

Devaluations of the *real* relative to the U.S. dollar could create additional inflationary pressures in Brazil, lead to increases in interest rates, limit our access to foreign financial markets and prompt the adoption of recessionary policies by the Brazilian government. Depreciation of the *real* can also, as in the context of an economic slowdown, lead to decreased consumer spending, deflationary pressures and reduced growth of the economy as a whole. Conversely, the appreciation of the *real* against the U.S. dollar may lead to a deterioration of Brazil's current account and balance of payments and cause a decrease of Brazilian exports. Any of the foregoing developments may adversely affect the Brazilian economy as a whole, and, consequently, our results of operations and the market price of the New Notes.

In addition, as of March 31, 2015, R\$24.3 million (U.S.\$7.6 million), or 1.1%, of our outstanding indebtedness was denominated in *reais* and the remaining R\$2,090.7 million (U.S.\$651.7 million), or 98.9%, was denominated in U.S. dollars. For the period from April 1, 2014 to March 31, 2015, we recorded a loss due to foreign exchange variation of R\$672.7 million. In the future, we may be further affected by fluctuations in the *real* and certain other currencies relative to the U.S. dollar, as a substantial part of our revenues are denominated in U.S. dollars and an even greater portion of our indebtedness will be denominated in U.S. dollars as a result of this offering of New Notes. Thus, changes in exchange rates may result in losses or gains on our U.S. dollar-denominated indebtedness.

***Increases in interest rates may adversely affect the Brazilian economy, raise the cost of servicing our debt and materially adversely affect our overall financial performance.***

High interest rates have in the past have adversely affected the Brazilian economy and could materially adversely affect our business. Brazil's base interest rate, as determined by the Central Bank, has been maintained at consistently high levels in the past years. The base interest rate is the benchmark interest rate payable to holders of certain securities issued by the Brazilian government and traded in the Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*), or SELIC. At times, the base interest rate has been maintained at levels that generally are considered incompatible with sustainable economic growth. On December 31, 2008, 2009, 2010, and 2011, the SELIC rate was 13.75%, 8.75%, 10.75% and 11.00%, respectively. During 2012, the Central Bank implemented a series of decreases to the SELIC rate, culminating in a decrease of such rate to 7.25% on October 11, 2012. During 2013, the Central Bank reversed this trend and increased the SELIC rate several times, reaching 10.00% as of December 31, 2013. During 2014, the Central Bank further increased the SELIC rate several

times, reaching 11.75% as of December 31, 2014. As of the date of this offering memorandum, the SELIC rate is 13.25%.

Additionally, our financial expenses are affected by changes in the interest rates that apply to our floating rate debt. As of March 31, 2015, we had, among other debt obligations, R\$34.0 million of loans and financing that was subject to the Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI rate.

The CDI rate has fluctuated significantly in the past in response to the expansion or contraction of the Brazilian economy, inflation, Brazilian government policies and other factors. For example, the CDI rate increased from 11.1% *per annum* at December 31, 2007 to 13.6% *per annum* at December 31, 2008. The CDI rate as of December 31, 2009, 2010, 2011, 2012, 2013 and 2014 was 8.6%, 10.6%, 10.9%, 8.4%, 8.0% and 10.8%, respectively. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk.” A significant increase in either of the CDI or the Long Term Interest Rate, or TJLP, interest rates could materially adversely affect our financial expenses and our overall financial performance.

***Economic and market conditions in other countries, including in developing countries, may materially adversely affect the Brazilian economy and, accordingly, the market value of the New Notes.***

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil, and, to varying degrees, market conditions in other countries, including Latin American and developing countries. For example, recent developments in the sovereign debt markets relating to countries in the European Union, such as Greece, Ireland, Spain and Portugal, and in the United States, have led to increased uncertainty. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or conditions in other countries, including developing countries, have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil, as well as limited access to international capital markets, all of which may materially adversely affect our ability to borrow funds at an acceptable interest rate or to raise equity capital when and if there should be a need for us to do so.

The volatility in market prices for Brazilian securities has increased from time to time, and investors’ perception of increased risk due to crises in other countries, including developing countries, may also have a material adverse effect on the market price of the New Notes.

***The ongoing “Lava Jato” investigation regarding corruption at and with Petróleo Brasileiro S.A., or Petrobras, may hinder the growth of the Brazilian economy and could have an adverse effect on our business.***

Petrobras and certain other Brazilian companies active in the energy and infrastructure sectors are facing investigations by the CVM, the U.S. Securities and Exchange Commission, or the SEC, the Brazilian Federal Police and the Brazilian Federal Prosecutor’s Office, in connection with corruption allegations, or the “Lava Jato” investigations. Depending on the duration and outcome of such investigations, the companies involved may face downgrades from rating agencies, funding restrictions and a reduction in their revenues. Given the relatively significant weight of the companies cited in the investigation in relation to the Brazilian economy, this could have an adverse effect on Brazil’s growth prospects in the near to medium term. Negative effects on a number of companies may also impact the level of investments in infrastructure in Brazil, which may lead to lower economic growth in the near to medium term. Persistently poor macroeconomic conditions resulting from, among other things, the Lava Jato investigations and their consequences could have a material adverse effect on us.

***Changes in Brazilian tax laws may have a material adverse impact on our results of operations.***

The Brazilian government frequently implements changes to tax regimes that affect us and our customers. These changes include changes in the prevailing tax rates and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes.

Some of these changes may result in increases in our tax payments, which can adversely impact industry profitability and increase the prices of our products, restrict our ability to do business in our existing markets and could otherwise adversely affect us. There can be no assurance that we will be able to maintain our prices, projected cash flow and profitability following increases in Brazilian taxes applicable to us or our operations.

## **Risks Relating to the New Notes and the New Notes Guarantee**

### ***We may defer interest payments on the New Notes until January 24, 2017 or the Maturity Date, as applicable***

We will, subject to the terms and conditions of the New Notes, have the option to defer cash payments of interest due on any interest payment date under the New Notes. For any payments of interest due on any interest payment date that occurs on or prior to January 24, 2017, we may defer such payments of interest to January 24, 2017 in our sole discretion. For any payments of interest due on any interest payment date that occurs after January 24, 2017, we may defer such payments of interest to the Maturity Date, provided that, after giving effect to an interest payment on an interest payment date that occurs after January 24, 2017, the amount of cash on our balance sheet as of the last day of the fiscal quarter immediately preceding such interest payment date would be less than R\$100.0 million.

If we exercise any such option, holders of the New Notes may not receive any interest payments due under the New Notes prior to January 24, 2017 or the Maturity Date, as applicable. See “Description of the New Notes—Principal, Maturity and Interest.”

### ***Payments on the New Notes will be effectively subordinated to any secured debt obligations of the guarantor.***

The New Notes are unsecured and therefore do not have the benefit of any collateral. Accordingly, the New Notes will be effectively subordinated to our secured indebtedness to the extent of the value of the assets securing such indebtedness. Secured creditors will have a prior right to collateral securing their indebtedness in case of an event of default under our secured indebtedness, to the exclusion of the holders of the New Notes, even if we are in default under the New Notes. In that event, such collateral would first be used to repay in full all indebtedness and other obligations secured by such secured creditors, resulting in all or a portion of the collateral being unavailable to satisfy the claims of the holders of the New Notes and other unsecured indebtedness. Therefore, in the event of any distribution or payment to our secured creditors of collateral in any foreclosure, dissolution, winding up, liquidation, reorganization, or other bankruptcy proceeding, holders of New Notes will participate in our remaining assets ratably with all holders of our unsecured indebtedness that is deemed to be of the same class as such New Notes, and potentially with all other general creditors, based upon the respective amounts owed to each holder or creditor. In any of the foregoing events, holders of New Notes should expect to receive less, ratably, than holders of secured indebtedness.

As of March 31, 2015, our total outstanding indebtedness was R\$2,115.0 million, 37.9% of which was secured by certain of our sugarcane inventories, plant facilities, agricultural and industrial equipment and machinery and accounts receivables.

As of March 31, 2015, after adjusting for the post March 31, 2015 capitalization adjustments described in “Capitalization,” our outstanding indebtedness would have totaled R\$2,339.6 million, of which R\$1,026.9 million was secured by certain of our sugarcane inventories, plant facilities, agricultural and industrial equipment and machinery and accounts receivables.

### ***Because the issuer has no operations of its own, holders of the New Notes must depend on the guarantor to provide the issuer with sufficient funds to make payments on the New Notes when due.***

The issuer, a wholly-owned indirect subsidiary of the guarantor, has no operations other than the issuing and making payments on the New Notes and other indebtedness ranking equally with the New Notes and using the proceeds therefrom as permitted by the documents governing these issuances, including lending the net proceeds of other indebtedness incurred by the issuer to the guarantor and subsidiaries of the guarantor. Accordingly, the ability of the issuer to pay principal, interest and other amounts due on the New Notes and other indebtedness will depend upon the financial condition and results of operations of the guarantor and its subsidiaries that are creditors of the issuer. In the event of an adverse change in the financial condition or results of operations of the guarantor and its subsidiaries that are creditors of the issuer, these entities may be unable to service their indebtedness to the issuer, which would result in the failure of the issuer to have sufficient funds to repay all amounts due on or with respect to the New Notes.

***The foreign exchange policy of Brazil may affect the ability of the guarantor to make money remittances outside Brazil in respect of the New Notes Guarantee.***

Under current Brazilian regulations, Brazilian companies are not required to obtain authorization from the Central Bank in order to make payments under guarantees in favor of foreign persons, such as the holders of the New Notes. We cannot assure you that these regulations will continue to be in force at the time the guarantor is required to perform its payment obligations under the New Notes Guarantee. If these regulations or their interpretation are modified and an authorization from the Central Bank is required, the guarantor would need to seek an authorization from the Central Bank to transfer the amounts under the New Notes Guarantee out of Brazil or, alternatively, make such payments with funds held by the guarantor outside Brazil. We cannot assure you that such an authorization will be obtained or that such funds will be available. If such authorization is not obtained, we may be unable to make payments to holders of the New Notes in U.S. dollars. If we are unable to obtain the required approvals as needed for the payment of amounts owed by the guarantor through remittances from Brazil, we may have to seek other lawful mechanisms to effect payment of amounts due under the new Notes. However, we cannot assure you that other remittance mechanisms will be available in the future, and even if they are available in the future, we cannot assure you that payment on the New Notes would be possible through such mechanism.

***Brazilian bankruptcy laws may be less favorable to investors than bankruptcy and insolvency laws in other jurisdictions.***

If we are unable to pay our indebtedness, including our obligations under the New Notes, we may become subject to bankruptcy proceedings in Brazil. The bankruptcy laws of Brazil currently in effect are significantly different from, and may be less favorable to creditors than, those of certain other jurisdictions. Holders of the New Notes may nevertheless have voting rights at creditors' meetings in the context of a court reorganization proceeding. In addition, any judgment obtained against us in Brazilian courts in respect of any payment obligations under the New Notes Guarantee normally would be expressed in the real equivalent of the U.S. dollar amount of such sum at the exchange rate in effect (1) on the date of actual payment, (2) on the date on which such judgment is rendered or (3) on the date on which collection or enforcement proceedings are started against us. Consequently, in the event of our liquidation, all of our debt obligations, including the New Notes Guarantee, which are denominated in foreign currency, will be converted into *reais* at the prevailing exchange rate on the date of declaration of our bankruptcy by the court. In the event of our extra-judicial reorganization or our judicial reorganization, all of our debt obligations, including the New Notes Guarantee, which are denominated in foreign currency, will only be converted into *reais* subject to the prior consent of the relevant creditor. We cannot assure investors that such rate of exchange will afford full compensation of the amount invested in the New Notes plus accrued interest and any additional amounts.

***Luxembourg bankruptcy laws may be less favorable to you than bankruptcy and insolvency laws in other jurisdictions.***

The issuer is incorporated under the laws of Luxembourg; therefore, any insolvency proceedings applicable to such a company is in principle governed by Luxembourg law. The insolvency laws of Luxembourg may not be as favorable to your interests as creditors as the laws of the United States or other jurisdictions with which you may be familiar. In the event that any one or more of the issuer, the guarantor or any other of the guarantor's subsidiaries experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Moreover, enforcement of security interests granted by the issuer would be subject to certain generally available defenses, which include those that relate to corporate benefit, fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally. For further information, see "Enforceability of Civil Liabilities—Luxembourg."

***The issuer is incorporated in Luxembourg, and Luxembourg law differs from U.S. law and may afford less protection to holders of the New Notes.***

Holders of the New Notes may have more difficulty protecting their interests than would security holders of a corporation incorporated in a jurisdiction of the United States. As a Luxembourg company, the issuer is incorporated under and subject to the Luxembourg Companies Law and other provisions of Luxembourg law. The Luxembourg Companies Law differs in some material respects from laws generally applicable to U.S. corporations and security holders, including the provisions relating to interested directors, mergers, amalgamations and acquisitions, takeovers, security holder lawsuits and indemnification of directors.

Under Luxembourg law, the duties of directors, managers and officers of a company are generally owed to the company only. Holders of New Notes issued by Luxembourg companies generally do not have rights to take action against directors, managers or officers of the company, except in limited circumstances. Directors, managers or officers of a Luxembourg company must, in exercising their powers and performing their duties, act in good faith and in the interests of the company as a whole and must exercise due care, skill and diligence. Directors have a duty not to put themselves in a position in which their duties to the company and their personal interests may conflict and also are under a duty to disclose any personal interest in any contract or arrangement with the company or any of its subsidiaries. If a director or officer of a Luxembourg company is found to have breached his or her duties to that company, he or she may be held personally liable to the company in respect of that breach of duty. A director or manager may be jointly and severally liable with other directors implicated in the same breach of duty.

***Tonon's obligation under the New Notes Guarantee is subordinated to certain statutory preferences.***

Under Brazilian law, our obligations under the New Notes Guarantee are subordinated to certain statutory preferences. In the event of our liquidation, such statutory preferences, including post-petition claims, claims for salaries, wages, social security, taxes and court fees and expenses and claims secured by collateral, among others, will have preference over any other claims, including claims by any investor in respect of the New Notes Guarantee. In such a scenario, enforcement of the New Notes Guarantee may be unsuccessful, and holders of the New Notes may be unable to collect amounts that they are due under the New Notes Guarantee. In the event of our extra-judicial reorganization or judicial reorganization, the New Notes Guarantee would be subject to the same proceedings as for unsecured claims and would be repaid according to the payment provisions for unsecured claims set out in the applicable reorganization plan.

***We may be unable to purchase the New Notes upon a specified change of control event, which would result in an event of default under the indenture governing the New Notes.***

The terms of the New Notes will require us to make an offer to repurchase the New Notes upon the occurrence of a specified change of control event at a purchase price equal to 101% of the principal amount of the New Notes, plus accrued and unpaid interest to the date of the repurchase and additional amounts, if any. Such change of control event could for example occur to the extent that Tonon Holding were to sell shares in our company in order to raise funding to pay FIP DGF Terra Viva if it were to exercise its put right against Tonon Holding and the Tonon Family Holding Companies as described in "Principal Shareholders—FIP DGF Terra Viva." Any financing arrangements we may enter into may require repayment of amounts outstanding upon the occurrence of a change of control event and limit our ability to fund the repurchase of the New Notes in certain circumstances. It is possible that we will not have sufficient funds at the time of the change of control to fund the required repurchase of New Notes by the issuer or that restrictions in our credit facilities and other financing arrangements will not permit the issuer to effect the required repurchases. See "Description of the New Notes—Repurchases at the Option of the Holders of the New Notes upon Change of Control."

***We cannot assure investors that a judgment of a court for liabilities under the securities laws of a jurisdiction outside Luxembourg or Brazil would be enforceable in such jurisdictions, or that an original action can be brought in Luxembourg or Brazil against the issuer or the guarantor for liabilities under applicable securities laws.***

The issuer is incorporated under the laws of Luxembourg. Most of the issuer's assets are located in Luxembourg. None of the issuer's directors is a resident in the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the issuer, or its directors, or to enforce against the issuer, or its directors, in U.S. or Brazilian courts any foreign judgments predicated upon the civil liability provisions of applicable foreign securities laws to the extent that they are deemed against public order, moral and good customs as applied by the Brazilian courts.

In addition, the United States is not currently bound by a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitral awards, rendered in civil and commercial matters with Luxembourg. There is, therefore, doubt as to the enforceability in Luxembourg of civil liabilities based upon U.S. securities laws in an action to enforce a U.S. judgment in Luxembourg. In addition, the enforcement in Luxembourg of any judgment obtained in a U.S. court based on civil liabilities, whether or not predicated solely upon U.S. federal securities laws, will be subject to certain conditions. There is also doubt that a Luxembourg court would have the requisite power or authority to grant remedies sought in an original action brought in Luxembourg on the basis of

U.S. securities laws violations. For further information, including regarding the enforcement in Brazil of a judgment of a court for liabilities under the securities laws of a jurisdiction outside Brazil, or the bringing of an original action in Brazil, see “Enforcement of Civil Liabilities.”

***Judgments of Brazilian courts enforcing the issuer’s or the guarantor’s obligations, as applicable, under the New Notes, the indenture governing the New Notes or the New Notes Guarantee would be payable only in reais.***

If proceedings were brought in the courts of Brazil seeking to enforce the issuer’s or the guarantor’s obligations under the New Notes, the indenture governing the New Notes or the New Notes Guarantee, as applicable, the relevant parties would not be required to discharge their obligations in a currency other than *reais*. Any judgment obtained against the issuer or the guarantor in Brazilian courts in respect of any payment obligations under the New Notes, the indenture governing the New Notes or the New Notes Guarantee, as applicable, would be expressed in *reais* equivalent to the U.S. dollar amount of such payment at the exchange rate on (1) the date of actual payment, (2) the date on which such judgment is rendered or (3) the actual due date of the obligations, as published by the Central Bank. We cannot assure you that this amount in *reais* will afford you full compensation of the amount sought in any such litigation.

***An active trading market for the New Notes may not develop.***

The New Notes constitute a new issue of securities, for which there is no existing market. Although we intend to apply to have the New Notes listed on the Irish Stock Exchange and traded on the Global Exchange Market of that Exchange, we cannot assure investors that any such application will be accepted. We are not under any obligation to make a market with respect to the New Notes, and we cannot assure you that trading markets will develop or be maintained, that holders of the New Notes will be able to sell their New Notes, or the price at which such holders may be able to sell their New Notes. If an active trading market were to develop, the New Notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, prospects for other companies in our industry, political and economic developments in and affecting Brazil, the risk associated with Brazilian issuers of similar securities and the market for similar securities. If an active trading market for the New Notes does not develop or is interrupted, the market price and liquidity of the New Notes may be materially adversely affected.

***The New Notes are subject to transfer restrictions.***

The New Notes have not been registered under the Securities Act or any state securities laws, and are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws. Accordingly, an investor of the New Notes may transfer or sell the New Notes in the United States only in a transaction registered under or exempted from the registration requirements of the Securities Act and applicable state securities laws, and an investor of the New Notes may be required to bear the risk of the investment for an indefinite period of time. See “Transfer Restrictions.”

***Any reduction in our credit ratings could materially and adversely affect us.***

The ratings address the likelihood of payment of principal at the New Notes’ maturity. The ratings also address the timely payment of interest on each interest payment date. The ratings of the New Notes are not a recommendation to purchase, hold or sell the New Notes, and the ratings do not comment on market price or suitability for any particular investor. We cannot assure you that the rating of the New Notes will remain for any given period of time or that the rating will not be lowered or withdrawn. The assigned ratings may be raised or lowered depending, among other factors, on the rating agencies’ respective assessment of our financial strength, as well as their assessment of Brazilian sovereign risk generally.

In addition, credit ratings impact the interest rates we pay on funds that we borrow and the market’s perception of our financial strength. If the ratings on the New Notes were reduced and the market were to perceive any such reduction as a deterioration of our financial strength, our cost of borrowing would likely increase and our net income could decrease, all of which could have a material adverse effect on us.

## **USE OF PROCEEDS**

The issuer will not receive any cash proceeds from the issuance of the New Notes in exchange for the Existing Notes. Any Existing Notes that are validly tendered, and not validly withdrawn, in connection with the Exchange Offer, will be retired and cancelled and will not be reissued.

## EXCHANGE RATES

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the U.S. dollar-*real* exchange rate to float freely, and, since then, the U.S. dollar-*real* exchange rate has fluctuated considerably.

In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to permit the *real* to float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially. Furthermore, Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or there are serious reasons to foresee a serious imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that such measures will not be taken by the Brazilian government in the future. See "Risk Factors—Risks Relating to Our Business and the Ethanol and Sugar Industries—We engage in hedging transactions, which involve risks that can harm our financial performance," "Risk Factors—Risks Relating to Our Business and the Ethanol and Sugar Industries—Our exports expose us to factors that are outside of our control" and "Risk Factors—Risks Relating to Brazil—Fluctuations in currency exchange rates and the devaluation of the *real* may adversely affect the Brazilian economy and our financial condition and result of operations."

The following table sets forth the period end, average, high and low Foreign Exchange Market selling rates published by the Central Bank on its electronic information system (*Sistema de Informações do Banco Central – SISBACEN*), under transaction code PTAX 800 (*Consultas de Câmbio*), or Exchange Rate Enquiry, Option 5, Venda (*Cotações para Contabilidade*), or Rates for Accounting Purposes, expressed in *reais* per U.S. dollar for the periods and dates indicated. The information in the "Average" column for a fiscal year represents the average of the exchange rates on the last day of each month during the years presented.

Company's Fiscal Year Ended March 31,	Reais per U.S. Dollar			
	High	Low	Average	Period End
2010.....	2.2899	1.7024	1.8689	1.7810
2011.....	1.8811	1.6287	1.7267	1.6287
2012.....	2.1121	1.7024	1.9550	2.0432
2013.....	2.4457	1.9528	2.1605	2.3426
2014.....	2.7403	2.1974	2.3564	2.6562
2015 (through June 12, 2015).....	3.2683	2.5690	3.0053	3.1107

Month	Reais per U.S. Dollar			
	High	Low	Average	Period End
October 2014 .....	2.5341	2.3914	2.4482	2.4420
November 2014 .....	2.6136	2.4839	2.5484	2.5601
December 2014 .....	2.7403	2.5607	2.6430	2.6562
January 2015 .....	2.7107	2.5690	2.6329	2.6623
February 2015.....	2.8811	2.6894	2.8165	2.8782
March 2015 .....	3.2683	2.8655	3.1395	3.2080
April 2015 .....	3.1556	2.8943	3.0432	2.9936
May 2015.....	3.1788	2.9894	3.0617	3.1788
June 2015 (through June 12, 2015).....	3.1789	3.0843	3.1305	3.1107

Source: Central Bank.



## CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2015 based on information derived from our audited consolidated financial statements prepared in accordance with Brazilian GAAP and IFRS (historical only):

- as adjusted for (1) the U.S.\$70.0 million financing, and (2) the 2015 CCBs totaling R\$1.5 million.
- as further adjusted for the issuance of U.S.\$285.0 million aggregate principal amount in the New Notes, cancellation of an equivalent principal amount of the Existing Notes (which assumes holders representing 95% of the aggregate principal amount of the Existing Notes participate in the exchange) and the payment of fees and expenses estimated at U.S.\$10.0 million in connection with this offering.

This table should be read in conjunction with “Selected Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our audited and consolidated financial statements, and the respective explanatory notes thereto, included elsewhere in this offering memorandum.

	As of March 31, 2015					
	Historical		As Adjusted <sup>(1)</sup>		As Further Adjusted <sup>(2)</sup>	
	(in millions of U.S.\$) <sup>(3)</sup>	(in millions of reais)	(in millions of U.S.\$) <sup>(3)</sup>	(in millions of reais)	(in millions of U.S.\$) <sup>(3)</sup>	(in millions of reais)
Short-term loans and financing <sup>(4)(7)</sup> .....	94.5	303.1	94.6	303.4	89.4	286.6
Long-term loans and financing <sup>(5)</sup> .....	564.8	1,811.9	635.2	2,037.6	640.4	2,054.4
Shareholders’ equity .....	(115.4)	(370.2)	(115.4)	(370.2)	(125.4)	(402.3)
<b>Total capitalization<sup>(6)</sup> .....</b>	<b>543.9</b>	<b>1,744.8</b>	<b>614.3</b>	<b>1,970.8</b>	<b>604.3</b>	<b>1,938.7</b>

- (1) As adjusted to reflect the post March 31, 2015 capitalization adjustments as listed above.
- (2) As further adjusted for the issuance of U.S.\$285.0 million aggregate principal amount in the New Notes, corresponding cancellation of an equivalent amount of the Existing Notes (which assumes holders representing 95% of the aggregate principal amount of the Existing Notes participate in the exchange) and the payment of fees and expenses estimated at U.S.\$10.0 million in connection with this offering.
- (3) Solely for the convenience of the reader, *real* amounts as of March 31, 2015 have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.
- (4) Includes current portion of long-term loans and financing.
- (5) Excludes current portion of long-term loans and financing.
- (6) Total capitalization is the sum of short-term loans and financing, long-term loans and financing and shareholders’ equity.
- (7) If we default on any of our debt, we will be required to reclassify that debt and any other debt subject to cross defaults as short-term debt under IAS 174.

There has been no material change in our capitalization since March 31, 2015, except as disclosed above.

## SUMMARY OF THE TERMS OF THE EXCHANGE OFFER AND THE CONSENT SOLICITATION

The summary below describes the principal terms of the Exchange Offer and the Consent Solicitation. Certain of the terms and conditions described below are subject to important limitations and exceptions. For a more complete understanding of the terms and conditions of the Exchange Offer and the Consent Solicitation, you should read this entire offering memorandum.

Exchange Offer ..... The issuer is offering to exchange newly issued Step-Up Senior Notes due 2020 (the “New Notes”) for any and all of its validly tendered and accepted outstanding U.S.\$300,000,000 9.250% Senior Notes due 2020 (the “Existing Notes”).

Exchange Consideration ..... Eligible Holders who validly tender Existing Notes (i) prior to 11:59 p.m., New York City time, on June 26, 2015 (such date and time, as it may be extended by us, the “Early Expiration Date”) or (ii) prior to 11:59 p.m., New York City time, on July 13, 2015 (such date and time, as it may be extended by us to a date that is no later than August 24, 2015, the “Expiration Date”), and do not validly withdraw their tender prior to 11:59 p.m., New York City time, on July 6, 2015 (such date and time, as it may be extended by us, the “Withdrawal Deadline”) will receive the Exchange Consideration for Existing Notes accepted in the Exchange Offer. “Exchange Consideration” means, for each \$1,000 principal amount of Existing Notes tendered and accepted by us, \$1,000 principal amount of New Notes. We will not pay accrued and unpaid interest on the Existing Notes exchanged for New Notes on the settlement date for the Exchange Offer (the “Settlement Date”); however, interest on the New Notes will accrue from January 24, 2015.

The issuer will not accept any tender that would result in the issuance of less than \$200,000 principal amount of New Notes to a participating holder. The aggregate principal amount of New Notes issued to each participating holder for all Existing Notes properly tendered (and not withdrawn) and accepted by the issuer will be rounded down, if necessary, to \$200,000 or the nearest whole multiple of \$1,000 in excess thereof. This rounded amount will be the principal amount of New Notes you will receive, and no additional cash will be paid in lieu of any principal amount of New Notes not received as a result of rounding down.

Consent Solicitation ..... Upon the terms and subject to the conditions described in this offering memorandum and the Consent and Letter of Transmittal, the issuer is soliciting Consents of holders of Existing Notes to the Proposed Amendments. Holders may not tender their Existing Notes without delivering a Consent with respect to the Existing Notes tendered, and holders may not deliver a Consent with respect to any Existing Notes without tendering the related Existing Notes. See “Procedures for Tendering Existing Notes and Delivering Consents” for more information.

Proposed Amendments ..... The Proposed Amendments would eliminate or waive substantially all of the restrictive covenants and certain events of default contained in the Existing Notes Indenture and the Existing Notes. In addition to the foregoing, delivery of a Consent will constitute an express waiver with respect to all claims against us and the issuer, and of any breach (including any event of default in effect on the Settlement Date) that may otherwise arise under the Existing Notes Indenture. For a detailed description of the Proposed Amendments for which Consents are being sought pursuant to the Consent Solicitation, see “Proposed Amendments.”

Requisite Consents; Existing Notes

Supplemental Indenture .....	<p>In order to be adopted, the Proposed Amendments require the consent of the holders of a majority in aggregate principal amount of outstanding Existing Notes not owned by the issuer or any of its affiliates.</p> <p>The issuer expects to execute with the trustee an Existing Notes Supplemental Indenture to the Existing Notes Indenture, providing for the Proposed Amendments, promptly after receipt of the requisite Consents for the Proposed Amendments. The Existing Notes Supplemental Indenture will be effective immediately upon execution thereof, but the provisions thereof will not be operative until all of the Existing Notes that have been tendered prior to the date of the Existing Notes Supplemental Indenture have been accepted for exchange and exchanged in accordance with the terms of this offering memorandum.</p>
Early Expiration Date.....	To tender by the Early Expiration Date, holders must properly tender (and not withdraw) their Existing Notes prior to 11:59 p.m., New York City time, on June 26, 2015, unless extended.
Expiration Date .....	The Exchange Offer and the Consent Solicitation will expire at 11:59 p.m., New York City time, on July 13, 2015, unless extended by us to a date that is no later than August 24, 2015.
Settlement Date .....	Subject to the terms and conditions of the Exchange Offer, the Settlement Date for the Exchange Offer will be as soon as practicable after the Expiration Date (or the Early Expiration Date, if the required amount of Existing Notes has been validly tendered by the Early Expiration Date), but not, in any event, later than the fifth business day following the Expiration Date (or the Early Expiration Date, if the required amount of Existing Notes has been validly tendered by the Early Expiration Date).
New Notes.....	For a description of the terms of the New Notes, see “The New Notes Offering” and “Description of the New Notes.”
Accrued and Unpaid Interest.....	We will not pay accrued and unpaid interest on the Existing Notes exchanged for New Notes on the Settlement Date; however, interest on the New Notes will accrue from January 24, 2015.
Conditions to Exchange Offer and Consent Solicitation .....	<p>Consummation of the Exchange Offer is conditioned upon the valid tender, without subsequent withdrawal, of at least 95% in aggregate principal amount of outstanding Existing Notes. The consummation of the Exchange Offer is also subject to the satisfaction or waiver of a number of conditions described under “Conditions of the Exchange Offer and the Consent Solicitation.”</p> <p>In addition, the issuer has the right to terminate or withdraw the Exchange Offer and the Consent Solicitation at any time and for any reason, including if any of the conditions described under “Conditions of the Exchange Offer and the Consent Solicitation” are not satisfied.</p> <p>The issuer also has the right to waive any condition precedent to the Exchange Offer and Consent Solicitation, at its sole and absolute discretion, but subject to applicable law.</p>
Eligible Holders .....	The Exchange Offer is being made, and the New Notes are being offered and issued, only (i) in the United States to holders of Existing Notes who are

“qualified institutional buyers” (as defined in Rule 144A under the Securities Act), and (ii) outside the United States to holders of Existing Notes who are not U.S. persons in reliance upon Regulation S under the Securities Act. The holders of Existing Notes who are eligible to participate in the Exchange Offer pursuant to at least one of the foregoing conditions are referred to as “Eligible Holders.”

Transfer Restrictions ..... The issuance and sale of the New Notes in the Exchange Offer will not be registered under the Securities Act or any state securities laws. The New Notes will therefore be subject to restrictions on transferability and resale. See “Transfer Restrictions.”

Procedure for Tenders and Delivery  
of Consents..... If a holder wishes to participate in the Exchange Offer and Consent Solicitation, and such holder’s Existing Notes are held by a custodial entity such as a bank, broker, dealer, trust company or other nominee, such holder must instruct such custodial entity (pursuant to the procedures of the custodial entity) to tender the Existing Notes and deliver the related Consents on such holder’s behalf. Custodial entities that are participants in The Depository Trust Company (“DTC”) must tender Existing Notes and deliver the related Consents through DTC’s Automated Tender Offer Program, known as “ATOP,” by which the custodial entity and the beneficial owner on whose behalf the custodial entity is acting agree to be bound by the Consent and Letter of Transmittal. **A Consent and Letter of Transmittal need not accompany tenders effected through ATOP.** For further information, see “Procedures for Tendering Notes and Delivering Consents” and the Consent and Letter of Transmittal.

Withdrawal and Revocation Rights..... Tenders of Existing Notes may be withdrawn at any time before 11:59 p.m., New York City time, on July 6, 2015, but not thereafter, subject to limited exceptions (even if we extend the Early Expiration Date or the Expiration Date), unless such time is extended by us in our sole discretion (such time, as the same may be extended, the “Withdrawal Deadline”). A valid withdrawal of tendered Existing Notes prior to the Withdrawal Deadline will constitute the concurrent valid revocation of a holder’s related Consent. To revoke Consents delivered in connection with tendered notes, holders must withdraw the related tendered Existing Notes. Any Existing Notes that are tendered prior to the Withdrawal Deadline but not validly withdrawn prior to the Notes Withdrawal Deadline may not, subject to limited exceptions, be withdrawn thereafter. Under no circumstances may Consents be revoked after the Withdrawal Deadline. We may extend the Early Expiration Date or the Expiration Date without extending the Withdrawal Deadline, unless required by law. For withdrawal procedures, see “Withdrawal of Tenders and Revocation of Consents.”

Consequences of Failure  
to Tender..... If the Proposed Amendments become operative, holders of Existing Notes left outstanding following the consummation of the Exchange Offer will no longer be entitled to the benefits of the covenants and other provisions that are eliminated pursuant to the Proposed Amendments.

For a description of the consequences of failing to tender your Existing Notes pursuant to the Exchange Offer, see “Risk Factors—Risks Relating to the Exchange Offer and the Consent Solicitation.”

Amendment; Waiver and

The issuer has the right to terminate or withdraw, in its sole discretion, the

Termination.....	Exchange Offer and the Consent Solicitation at any time and for any reason, including if the conditions to the Exchange Offer and the Consent Solicitation are not met by the Expiration Date. The issuer reserves the right, subject to applicable law, (i) to waive any and all of the conditions of the Exchange Offer and the Consent Solicitation, in whole or in part, at any time and from time to time on or prior to the Expiration Date and (ii) to amend the terms of the Exchange Offer and the Consent Solicitation. In the event that the Exchange Offer and the Consent Solicitation are terminated, withdrawn or otherwise not consummated on or prior to the Expiration Date, no consideration will be paid or become payable to holders who have properly tendered their Existing Notes pursuant to the Exchange Offer. In any such event, the Existing Notes previously tendered pursuant to the Exchange Offer will be promptly returned to the tendering holders and any executed supplemental indentures will not become operative with respect to the Existing Notes and the related Consents will be deemed voided. See “General Terms of the Exchange Offer and the Consent Solicitation—Extension, Termination or Amendment.”
Use of Proceeds.....	The issuer will not receive any cash proceeds from the Exchange Offer.
Taxation .....	For a discussion of certain U.S. federal income tax consequences of the Exchange Offer and of the ownership and disposition of New Notes, see “Certain U.S. Federal Income Tax Considerations.”
Information Agent and Exchange Agent.....	KCC.
Risk Factors .....	See “Risk Factors” for a discussion of factors you should carefully consider before deciding to participate in the Exchange Offer and delivering your Consents.

## GENERAL TERMS OF THE EXCHANGE OFFER AND THE CONSENT SOLICITATION

### General

#### *Exchange Offer and Consent Solicitation*

Upon the terms and subject to the conditions set forth in this offering memorandum and the Consent and Letter of Transmittal, the issuer is offering to exchange properly tendered and accepted outstanding Existing Notes listed on the front cover of this offering memorandum for the New Notes.

We will not pay accrued and unpaid interest on the Existing Notes exchanged for New Notes on the Settlement Date; however, interest on the New Notes will accrue from January 24, 2015.

Holders may not tender their Existing Notes without delivering a Consent with respect to the Existing Notes tendered, and holders may not deliver a Consent without tendering the related Existing Notes. The consummation of the Exchange Offer is conditioned upon, among other things, the valid tender, without subsequent withdrawal, of at least 95% in aggregate principal amount of outstanding Existing Notes. **In addition, the completion of the Exchange Offer and the Consent Solicitation are subject to the satisfaction or waiver of a number of conditions as set forth in this offering memorandum. See “Conditions of the Exchange Offer and the Consent Solicitation.”** The issuer has the right to terminate or withdraw the Exchange Offer and the Consent Solicitation at any time and for any reason, including if any of the conditions described under the “Conditions of the Exchange Offer and the Consent Solicitation” are not satisfied.

The issuer is also soliciting consents to amend the Existing Notes Indenture. The purpose of the Consent Solicitation is to obtain the Consents required to adopt the Proposed Amendments, which would, among other things, eliminate or waive substantially all of the restrictive covenants and certain events of default contained in the Existing Notes Indenture and the Existing Notes and eliminate certain other provisions.

The Proposed Amendments with respect to the Existing Notes will be set forth in the Existing Notes Supplemental Indenture to the Existing Notes Indenture. The issuer expects that the Existing Notes Supplemental Indenture will be executed promptly after receipt of the requisite Consents for the Proposed Amendments but no earlier than the Early Expiration Date.

The Existing Notes Supplemental Indenture will be effective immediately upon execution thereof, but the provisions thereof will not be operative until all of the Existing Notes that have been tendered prior to the date of the Existing Notes Supplemental Indenture have been accepted for exchange and exchanged in accordance with the terms of this offering memorandum. In order to be adopted, the Proposed Amendments require the consent of the holders of a majority in aggregate principal amount of outstanding Existing Notes not owned by the issuer or any of its affiliates. See “Proposed Amendments.”

Tendered Existing Notes may not be withdrawn and Consents may not be revoked subsequent to the Withdrawal Deadline, subject to limited exceptions. Prior to the Withdrawal Deadline, if a holder withdraws its tendered Existing Notes such holder will be deemed to have revoked its Consents and may not deliver Consents without re-tendering its Existing Notes. If, after the Withdrawal Deadline, the issuer (i) reduces the principal amount of Existing Notes subject to the Exchange Offer, (ii) reduces the Exchange Consideration or (iii) is otherwise required by law to permit withdrawals, then previously tendered Existing Notes may be validly withdrawn within a reasonable period under the circumstances after the date that notice of such reduction or permitted withdrawal is first published or given or sent to holders of the Existing Notes by the issuer. However, if after the Withdrawal Deadline, the issuer raises or lowers the minimum percentage of aggregate principal amount of outstanding Existing Notes required to be tendered as a condition to the consummation of the Exchange Offer, previously tendered Existing Notes may not be withdrawn. **Under no circumstances may Consents be revoked after the Withdrawal Deadline.** The issuer may extend the Early Expiration Date or the Expiration Date without extending the Withdrawal Deadline, unless otherwise required by law.

In the event of a termination of the Exchange Offer, the Proposed Amendments will not become operative, no Exchange Consideration will be paid, and the Existing Notes tendered pursuant to the Exchange Offer will be promptly returned to the tendering holders.

Holders may not withdraw previously tendered Existing Notes without revoking any Consents relating to such Existing Notes. In each instance, any revocation is subject to the procedures described under “Withdrawal of Tenders and Revocation of Consents.” **For the avoidance of doubt, to the extent that a holder has tendered its Existing Notes and delivered its corresponding Consent, in order for such holder to either withdraw the tender of its Existing Notes or revoke its Consent with respect to such Existing Notes, the holder must withdraw both its previously delivered tender and Consent.**

All Existing Notes properly tendered in accordance with the procedures set forth under “Procedures for Tendering Existing Notes and Delivering Consents” and not properly withdrawn in accordance with the procedures set forth under “Withdrawal of Tender and Revocation of Consents” prior to the Withdrawal Deadline, will, upon the terms and subject to the conditions hereof, be accepted by the issuer.

**If the requisite Consents are received and the Existing Notes Supplemental Indenture has become operative, the Proposed Amendments will be binding on all holders of such Existing Notes. Accordingly, consummation of the Exchange Offer and the adoption of the Proposed Amendments may have adverse consequences for holders who elect not to tender Existing Notes affected thereby in the Exchange Offer. See “Proposed Amendments.”**

From time to time after the Expiration Date, the issuer or its affiliates may acquire any Existing Notes that are not tendered and accepted in the Exchange Offer or any New Notes issued in the Exchange Offer through open market purchases, privately negotiated transactions, tender offers, exchange offer, redemption or otherwise, upon such terms and at such prices as the issuer may determine (or as may be provided for in the Existing Notes Indenture or the Indenture), which with respect to the Existing Notes may be more or less than the consideration to be received by participating holders in the Exchange Offer and, in either case, could be for cash or other consideration. There can be no assurance as to which, if any, of these alternatives or combinations thereof the issuer or its affiliates may choose to pursue in the future.

#### ***Consideration - Exchange Offer***

Eligible Holders who validly tender Existing Notes prior to the Early Expiration Date or the Expiration Date and do not validly withdraw their tender prior to the Withdrawal Deadline will receive the Exchange Consideration for Existing Notes accepted in the Exchange Offer. We will not pay accrued and unpaid interest on the Existing Notes exchanged for New Notes on the Settlement Date; however, interest on the New Notes will accrue from January 24, 2015.

The issuer will not accept any tender that would result in the issuance of less than \$200,000 principal amount of New Notes to a participating holder. The aggregate principal amount of New Notes issued to each participating holder for all Existing Notes properly tendered (and not withdrawn) and accepted by the issuer will be rounded down, if necessary, to \$200,000 or the nearest whole multiple of \$1,000 in excess thereof. This rounded amount will be the principal amount of New Notes you will receive, and no additional cash will be paid in lieu of any principal amount of New Notes not received as a result of rounding down.

#### ***Extension, Termination or Amendment***

The issuer expressly reserves the right, in its sole discretion, at any time and from time to time, and regardless of whether any events preventing satisfaction of the conditions to the Exchange Offer and the Consent Solicitation shall have occurred or shall have been determined by the issuer to have occurred, to extend the period during which the Exchange Offer and Consent Solicitation are open by giving oral (to be confirmed in writing) or written notice of such extension to the Exchange Agent and by making public disclosure by press release or other appropriate means of such extension to the extent required by law. During any extension of the Exchange Offer or Consent Solicitation, all Existing Notes previously tendered and not withdrawn will remain subject to the Exchange Offer and all Consents previously delivered and not revoked will remain subject to the Consent Solicitation and may, subject to the terms and conditions of the Exchange Offer and the Consent Solicitation, be accepted by the issuer. See also “—Announcements.”

Any waiver, amendment or modification of the Exchange Offer or the Consent Solicitation will apply to all Existing Notes tendered pursuant to the Exchange Offer and all Consents delivered pursuant to the Consent Solicitation. If the issuer makes a change that it determines to be material in any of the terms of the Exchange Offer

or the Consent Solicitation, or waives a condition of the Exchange Offer or the Consent Solicitation that the issuer determines to be material, the issuer will give oral (to be confirmed in writing) or written notice of such amendment or such waiver to the Exchange Agent and will disseminate additional Exchange Offer documents and extend the Exchange Offer or the Consent Solicitation and withdrawal rights as it determines are necessary and to the extent required by law. Any such extension, amendment, waiver or decrease or change will not result in the reinstatement of any withdrawal or revocation rights if those rights had previously expired, except as specifically provided above.

The issuer may terminate or withdraw at its sole discretion the Exchange Offer or the Consent Solicitation at any time and for any reason, including if any condition is not satisfied on or after the Expiration Date.

There can be no assurance that the issuer will exercise its right to extend, terminate or amend the Exchange Offer and the Consent Solicitation. During any extension and irrespective of any amendment to the Exchange Offer or the Consent Solicitation, all Existing Notes previously tendered and not withdrawn will remain subject to the Exchange Offer and all Consents previously delivered and not revoked will remain subject to the Consent Solicitation and may be accepted thereafter by the issuer, subject to compliance with applicable law. In addition, the issuer may waive conditions without extending the Exchange Offer and the Consent Solicitation in accordance with applicable law.

### ***Announcements***

Any extension, termination or amendment of the Exchange Offer or the Consent Solicitation will be followed as promptly as practicable by announcement thereof, such announcement in the case of an extension to be issued no later than 9:00 a.m., New York City time, on the next business day following the previously scheduled Expiration Date. Without limiting the manner in which the issuer may choose to make such announcement, the issuer will not, unless otherwise required by law, have any obligation to publish, advertise or otherwise communicate any such announcement other than by making a release to an appropriate news agency or another means of announcement that the issuer deems appropriate. See also “—Extension, Termination or Amendment.”



## PROPOSED AMENDMENTS

### Proposed Amendments

The Existing Notes have been issued pursuant to the Existing Notes Indenture. In general, the Proposed Amendments would eliminate or waive substantially all of the restrictive covenants and certain events of default contained in the Existing Notes Indenture and the Existing Notes and modify and eliminate certain other provisions.

The Proposed Amendments would delete the covenants and certain other provisions listed below and references thereto in their entirety from the Existing Notes Indenture, as well as the defined terms and other references related to such covenants and provisions, but made irrelevant as a result of their deletion.

<u>Section 4.02</u>	(Reports)
<u>Section 4.03</u>	(Limitation on Indebtedness)
<u>Section 4.04</u>	(Limitation on Restricted Payments)
<u>Section 4.05</u>	(Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries)
<u>Section 4.06</u>	(Limitation on Sales of Assets)
<u>Section 4.07</u>	(Limitation on Transactions with Affiliates)
<u>Section 4.08</u>	(Repurchases at the Option of the Holders Upon Change of Control)
<u>Section 4.09</u>	(Limitation on Liens)
<u>Section 4.10</u>	(Limitation on Sale and Lease-Back Transactions)
<u>Section 4.12</u>	(Maintenance of Properties)
<u>Section 4.14</u>	(Maintenance of Governmental Approvals)
<u>Section 4.19</u>	(Statement as to Compliance; Notices of Certain Events)
<u>Section 4.20</u>	(Irish Listing)
<u>Section 4.22</u>	(Future Subsidiary Guarantors)
<u>Section 4.25</u>	(Further Actions)
<u>Section 5.01</u>	(Consolidation, Merger, Conveyance, Sale or Lease – deleting clauses (a), (b), (c), 1(x) and (2), specifying certain conditions to consolidations, mergers, conveyance, sales or leases of all or substantially all of the issuers' or any guarantor's properties and assets)
<u>Section 6.01</u>	(Events of Default – deleting clauses (3)-(10) relating to covenant breaches, cross-defaults, defaults relating to certain bankruptcy events and judgments, defaults relating to the invalidity of certain guarantees and defaults relating to seizure and appropriation events)

It is expected that the Existing Notes Supplemental Indenture will be executed promptly after receipt of the requisite Consents for the Proposed Amendments but no earlier than the Early Expiration Date. The Existing Notes Supplemental Indenture will be effective immediately upon execution thereof, but the provisions thereof will not be operative until all of the Existing Notes that have been tendered prior to the date of the Existing Notes Supplemental Indenture have been accepted for exchange and exchanged in accordance with the terms of this offering memorandum.

The Proposed Amendments will also delete defined terms to the extent such terms are no longer used in the Existing Notes Indenture, eliminate section references that cease to have meaning by virtue of the changes made by the Proposed Amendments and effect certain other conforming changes.

In addition to the foregoing, delivery of a Consent will constitute an express waiver with respect to all claims against us and the issuer, and of any breach (including any event of default in effect on the Settlement Date) that may otherwise arise under the Existing Notes Indenture.

With respect to the Existing Notes, if the Proposed Amendments are adopted and the Exchange Offer is completed, such Existing Notes that are not tendered, or that are not accepted for exchange pursuant to the Exchange Offer, will remain outstanding but will be subject to the terms of the Existing Notes Indenture, as modified by the Existing Notes Supplemental Indenture.

In order to be adopted with respect to the Existing Notes, the Proposed Amendments, require the consent of the holders of a majority in aggregate principal amount of outstanding Existing Notes not owned by the issuer or any of its affiliates.

## **ACCEPTANCE OF EXISTING NOTES AND CONSENTS; ACCRUAL OF INTEREST**

### **Acceptance of Existing Notes; Acceptance of Consents**

If the conditions to the Exchange Offer and Consent Solicitation are satisfied, or if the issuer waives all of the conditions that have not been satisfied, the issuer will accept for exchange on the Settlement Date, after it receives validly completed and duly executed Consents and Letters of Transmittal or Agent's Messages (as defined in "Procedures for Tendering Existing Notes—Tender of Existing Notes Through ATOP" below) with respect to any and all of the Existing Notes properly tendered (and not withdrawn), the Existing Notes to be exchanged by notifying the Exchange Agent of the issuer's acceptance, subject to the terms and conditions set forth in the Exchange Offer. The notice may be oral if the issuer promptly confirms such notice in writing.

The issuer expressly reserves its right, in its sole discretion, to delay acceptance for exchange of Existing Notes tendered under the Exchange Offer and Consent Solicitation (subject to Rule 14e-1(c) under the Exchange Act, which requires that the issuer issues or pays the offered consideration, as applicable, or return the Existing Notes deposited pursuant to the Exchange Offer promptly after termination or withdrawal of the Exchange Offer), or to terminate the Exchange Offer and not accept any Existing Notes not previously accepted, (1) if any of the conditions to the Exchange Offer shall not have been satisfied or validly waived by the issuer or (2) in order to comply in whole or in part with any applicable law.

In all cases, the Exchange Consideration for Existing Notes tendered pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of (1) certificates representing the Existing Notes, or timely confirmation of a book-entry transfer (a "Book-Entry Confirmation") of the Existing Notes into the Exchange Agent's account at DTC, (2) the properly completed and duly executed Consent and Letter of Transmittal (or a facsimile thereof) or an Agent's Message in lieu thereof, and (3) any other documents required by the Consent and Letter of Transmittal. The Exchange Offer and Consent Solicitation are scheduled to expire on the Expiration Date, unless extended by the issuer to a date that is no later than August 24, 2015, at its sole discretion.

For purposes of the Exchange Offer, the issuer will have accepted properly tendered (and not withdrawn) Existing Notes, if, as and when the issuer gives oral or written notice to the Exchange Agent of the issuer's acceptance of the Existing Notes for exchange pursuant to the Exchange Offer. In all cases, exchange of, and payment for, Existing Notes pursuant to the Exchange Offer will be made by the deposit of any Exchange Consideration with the Exchange Agent, which will act as your agent for the purposes of receiving payments and New Notes from the issuer, and delivering New Notes to you. If, for any reason whatsoever, acceptance for exchange of any Existing Notes tendered pursuant to the Exchange Offer is delayed (whether before or after the issuer's acceptance of the Existing Notes) or the issuer extends the Exchange Offer and Consent Solicitation or is unable to accept the Existing Notes tendered pursuant to the Exchange Offer, then, without prejudice to the issuer's rights set forth herein, the issuer may instruct the Exchange Agent to retain tendered Existing Notes, and those Existing Notes may not be withdrawn, subject to the limited circumstances described in "Withdrawal of Tenders and Revocation of Consents" below.

Existing Notes may be tendered and consents with respect to the Existing Notes may be delivered only in principal amounts equal to minimum denominations of \$200,000 and integral multiples of \$1,000 in excess thereof. No alternative, conditional or contingent tenders will be accepted. Holders who tender less than all of their Existing Notes must continue to hold Existing Notes in the minimum authorized denomination of \$200,000 principal amount. The issuer will not accept any tender that would result in the issuance of less than \$200,000 principal amount of New Notes to a participating holder.

The issuer will pay or cause to be paid all transfer taxes with respect to the tender of any Existing Notes unless the box titled "Special Payment or Issuance Instructions" or the box titled "Special Delivery Instructions" on the Consent and Letter of Transmittal has been completed, as described in the Instructions thereto.

### **Accrued Interest**

We will not pay accrued and unpaid interest on the Existing Notes exchanged for New Notes on the Settlement Date; however, interest on the New Notes will accrue from January 24, 2015.

Under no circumstances will any special interest be payable because of any delay in the transmission of funds to any holder of Existing Notes with respect to the New Notes to be received in exchange for the Existing Notes or otherwise.

The issuer will pay all reasonable fees and expenses of the Exchange Agent and the Information Agent in connection with the Exchange Offer and Consent Solicitation.

## PROCEDURES FOR TENDERING EXISTING NOTES AND DELIVERING CONSENTS

### General

In order to participate in the Exchange Offer and the Consent Solicitation, you must properly tender your Existing Notes and properly deliver your Consents to the Exchange Agent as further described below. It is your responsibility to properly tender your Existing Notes and deliver your Consents. The issuer has the right to waive any defects. However, the issuer is not required to waive defects and is not required to notify you of defects in your tender.

**Holders may not tender their Existing Notes without delivering a Consent with respect to the Existing Notes tendered, and holders may not deliver a Consent with respect to any Existing Notes without tendering the related Existing Notes.**

If you have any questions or need help in tendering your Existing Notes, please contact the Information Agent or the Exchange Agent whose addresses and telephone numbers are listed on the back cover of this offering memorandum.

### Valid Tender of Existing Notes and Delivery of Consents

Except as set forth below with respect to ATOP (as defined under “—Tender of Existing Notes through ATOP” below) procedures, for a holder to properly tender Existing Notes pursuant to the Exchange Offer and to deliver Consents pursuant to the Consent Solicitation, a properly completed and duly executed Consent and Letter of Transmittal (or a facsimile thereof) together with any signature guarantees and any other documents required by the Instructions to the Consent and Letter of Transmittal, or an Agent’s Message in lieu thereof, must be received by the Exchange Agent at the address or facsimile number set forth on the back cover of this offering memorandum prior to the Expiration Date (or the Early Expiration Date, if the holder wishes to tender by the Early Expiration Date), and, in the case of tendered Existing Notes, either (1) certificates representing the Existing Notes must be received by the Exchange Agent at such address, or (2) the Existing Notes must be transferred pursuant to the procedures for book-entry transfer described below and a Book-Entry Confirmation must be received by the Exchange Agent, in each case at or prior to the Expiration Date (or the Early Expiration Date, if the holder wishes to tender by the Early Expiration Date). **Holders may not tender their Existing Notes without delivering a Consent with respect to the Existing Notes tendered, and holders may not deliver a Consent with respect to any Existing Notes without tendering the related Existing Notes.**

In all cases, exchange of Existing Notes tendered and accepted pursuant to the Exchange Offer will be made only after timely receipt by the Exchange Agent of:

- certificates representing such Existing Notes or a Book-Entry Confirmation with respect to such Existing Notes;
- the Consent and Letter of Transmittal (or a facsimile thereof) properly completed and duly executed, or an Agent’s Message in lieu thereof; and
- any required signature guarantees and other documents required by the Consent and Letter of Transmittal.

### Tender of and/or Delivery of Consents for Existing Notes Held in Physical Form

The issuer does not believe any Existing Notes exist in physical form. If you believe you hold Existing Notes in physical form, please contact the Exchange Agent regarding procedures for participating in the Exchange Offers and/or delivering Consents.

### Tendering and Consenting With Respect to Existing Notes Held through a Custodian

Any holder whose Existing Notes are held by a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender Existing Notes or deliver Consents should contact such custodial entity promptly and instruct such custodial entity to tender the Existing Notes or deliver Consents on such holder’s behalf.

## **Book-Entry Transfer**

The Exchange Agent has or will establish an account with respect to the Existing Notes at DTC for purposes of the Exchange Offer, and any financial institution that is a participant in the DTC system and whose name appears on a security position listing as the record owner of the Existing Notes may make book-entry delivery of Existing Notes by causing DTC to transfer the Existing Notes into the Exchange Agent's account at DTC in accordance with DTC's procedure for transfer. Although delivery of Existing Notes may be effected through book-entry transfer into the Exchange Agent's account at DTC, either an Agent's Message or a Consent and Letter of Transmittal (or a facsimile thereof) properly completed and duly executed, along with any required signature guarantees and any other required documents, must be transmitted to and received by the Exchange Agent at one of the addresses set forth on the back cover of this offering memorandum on or prior to the Expiration Date (or the Early Expiration Date, if the holder wishes to tender by the Early Expiration Date).

## **Tender of Existing Notes through ATOP**

In lieu of physically completing and signing the Consent and Letter of Transmittal and delivering it to the Exchange Agent, DTC participants may electronically transmit their acceptance of the Exchange Offer through DTC's Automated Tender Offer Program ("ATOP"), for which the transaction will be eligible. In accordance with ATOP procedures, DTC will then verify the acceptance of the Exchange Offer and send an Agent's Message (as hereinafter defined) to the Exchange Agent for its acceptance.

An "Agent's Message" is a message transmitted by DTC, received by the Exchange Agent and forming part of the Book-Entry Confirmation, which states that DTC has received an express acknowledgement from you that you have received the Exchange Offer documents and agree to be bound by the terms of the Consent and Letter of Transmittal, and that the issuer may enforce such agreement against you.

If a holder of Existing Notes transmits its acceptance through ATOP, delivery of such tendered Existing Notes must be made to the Exchange Agent (either physically or pursuant to the book-entry delivery procedures set forth herein). Unless such holder delivers (either physically or by book-entry delivery) the Existing Notes being tendered to the Exchange Agent, the issuer may, at its option, treat such tender as defective for purposes of delivery of acceptance for exchange and for the right to receive New Notes. Delivery of documents to DTC (physically or by electronic means) does not constitute delivery to the Exchange Agent. If you desire to tender your Existing Notes and deliver your Consent on the day that the Early Expiration Date or the Expiration Date occurs, you must allow sufficient time for completion of the ATOP procedures during the normal business hours of DTC on such date. The issuer will have the right, which may be waived, to reject the defective tender of Existing Notes as invalid and ineffective.

The issuer has not provided guaranteed delivery procedures in conjunction with the Exchange Offer or under any of the Exchange Offer documents or other Exchange Offer materials provided therewith. Holders must timely tender their Existing Notes in accordance with the procedures set forth in the Exchange Offer documents.

## **Delivery of Consents Through ATOP**

In lieu of physically completing and signing the Consent and Letter of Transmittal and delivering it to the Exchange Agent, DTC participants may deliver their Consents through ATOP. In accordance with ATOP procedures, DTC will then verify the delivery of Consents and send an Agent's Message to the Exchange Agent for its acceptance. **Holders may not tender their Existing Notes without delivering a Consent with respect to the Existing Notes tendered, and holders may not deliver a Consent with respect to any Existing Notes without tendering the related Existing Notes.**

## **Effect of Consent and Letter of Transmittal**

Subject to and effective upon the acceptance of and the exchange of the Existing Notes tendered thereby, by executing and delivering a Consent and Letter of Transmittal, a tendering holder (1) irrevocably sells, assigns and transfers to or upon the order of the issuer's all right, title and interest in and to all the Existing Notes tendered thereby; and (2) irrevocably appoints the Exchange Agent as its true and lawful agent and attorney-in-fact (with full knowledge that the Exchange Agent also acts as the issuer's agent with respect to the tendered Existing Notes, with full power coupled with an interest) to:

- deliver certificates representing the Existing Notes, or transfer ownership of the Existing Notes on the account books maintained by DTC, together with all accompanying evidences of transfer and authenticity, to or upon the issuer's order, as applicable;
- present the Existing Notes for transfer on the relevant security register; and
- receive all benefits or otherwise exercise all rights of beneficial ownership of the Existing Notes (except that the Exchange Agent will have no rights to or control over, the issuer's funds), all in accordance with the terms of the Exchange Offer.

### **Signature Guarantees**

Signatures on all Consents and Letters of Transmittal must be guaranteed by a recognized participant in the Securities Transfer Agents Medallion Program, the New York Stock Exchange, Inc. Medallion Signature Program or the Stock Exchange Medallion Program (each, a "Medallion Signature Guarantor"), unless the Existing Notes tendered thereby are tendered (i) by a holder of Existing Notes (or by a participant in DTC whose name appears on a security position listing as the owner of such Existing Notes) who has not completed either the box entitled "Special Payment or Issuance Instructions" or "Special Delivery Instructions" on the Consent and Letter of Transmittal or (ii) for the account of a member firm of a registered national securities exchange, a member of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States (each of the foregoing being referred to as an "Eligible Institution"). If the Existing Notes are registered in the name of a person other than the signer of the Consent and Letter of Transmittal or if Existing Notes not tendered are to be returned to a person other than the registered holder, then the signatures on the Letters of Transmittal accompanying the tendered Existing Notes must be guaranteed by a Medallion Signature Guarantor as described above.

### **Determination of Validity**

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any tendered Existing Notes and delivery of Consents pursuant to any of the procedures described above, and the form and validity (including time of receipt of notices of withdrawal) of all documents will be determined by the issuer in its sole discretion, which determination will be final and binding. The issuer reserves the absolute right to reject any or all tenders of any Existing Notes or delivery of Consents determined by the issuer not to be in proper form, or if the acceptance of or exchange of such Existing Notes may, in the opinion of the issuer's counsel, be unlawful. The issuer also reserves the right to waive any conditions to the Exchange Offer that the issuer is legally permitted to waive.

Your tender and/or delivery of Consents will not be deemed to have been validly made until all defects or irregularities in your tender have been cured or waived. All questions as to the form and validity (including time of receipt) of any delivery or withdrawal of a tender will be determined by the issuer in its sole discretion, which determination shall be final and binding. None of the issuer, the Exchange Agent, the Information Agent or any other person or entity is under any duty to give notification of any defects or irregularities in any tender or withdrawal of any Existing Notes or revocation of Consents, or will incur any liability for failure to give any such notification.

**PLEASE SEND ALL MATERIALS TO THE EXCHANGE AGENT AND NOT TO THE ISSUER.**

## WITHDRAWAL OF TENDERS AND REVOCATIONS OF CONSENTS

### Exchange Offer

A holder may not revoke a Consent without withdrawing the previously tendered notes to which such Consent relates. Tenders of Existing Notes may be validly withdrawn, and Consents may be validly revoked, at any time prior to the Withdrawal Deadline. A valid withdrawal of tendered Existing Notes effected prior to the Withdrawal Deadline will constitute the concurrent valid revocation of such holder's related Consent. In order for a holder to revoke a Consent, such holder must withdraw the related tendered notes prior to the Withdrawal Deadline. Tendered notes may not be withdrawn subsequent to the Withdrawal Deadline. The valid withdrawal of tendered Existing Notes prior to the Withdrawal Deadline will be deemed to be a concurrent revocation of the corresponding consent to the Proposed Amendments.

Prior to the Withdrawal Deadline, if a holder withdraws its tendered Existing Notes such holder will be deemed to have revoked its Consents and may not deliver Consents without re-tendering its Existing Notes. If, after the Withdrawal Deadline, the issuer (i) reduces the principal amount of Existing Notes subject to the Exchange Offer, (ii) reduces the Exchange Consideration or (iii) is otherwise required by law to permit withdrawals, then previously tendered notes may be validly withdrawn within a reasonable period under the circumstances after the date that notice of such reduction or permitted withdrawal is first published or given or sent to holders of the Existing Notes by the issuer. However, if after the Withdrawal Deadline, the issuer raises or lowers the minimum percentage of aggregate principal amount of outstanding Existing Notes required to be tendered as a condition to the consummation of the Exchange Offer, previously tendered Existing Notes may not be withdrawn. **Under no circumstances may Consents be revoked after the Withdrawal Deadline.** The issuer may extend the Early Expiration Date or the Expiration Date without extending the Withdrawal Deadline, unless otherwise required by law.

In the event of a termination the Exchange Offer, the Proposed Amendments will not become operative, no Exchange Consideration will be paid, and the Existing Notes tendered pursuant to the Exchange Offer will be promptly returned to the tendering holders.

Existing Notes validly withdrawn may thereafter be retendered and Consents thereby given at any time at or prior to the Early Expiration Date or the Expiration Date, as the case may be, by following the procedures described herein; provided, however, that if a holder's Existing Notes are not properly retendered pursuant to the Exchange Offer at or prior to the Early Expiration Date or the Expiration Date, such Holder will not receive the Exchange Consideration.

If, for any reason whatsoever, acceptance for exchange of, or exchange of, any Existing Notes tendered pursuant to the Exchange Offer or any Consents delivered pursuant to the Consent Solicitation, as applicable, is delayed (whether before or after the issuer's acceptance for exchange of Existing Notes) or the issuer extends an exchange or Consent Solicitation, or are unable to accept for exchange, or exchange the Existing Notes tendered pursuant to the Exchange Offer, the issuer may instruct the Exchange Agent to retain tendered Existing Notes, and those Existing Notes may not be withdrawn, and all Consents previously delivered and not revoked will remain subject to the Consent Solicitation, except to the extent that you are entitled to the withdrawal and revocation rights set forth herein.

**For the avoidance of doubt, to the extent that a holder has tendered its Existing Notes and thereby delivered its corresponding Consent, in order for such holder to either withdraw the tender of its Existing Notes or revoke its Consent with respect to such Existing Notes, the holder must withdraw both its previously delivered tender and Consent.**

To be effective, a written or facsimile transmission notice of withdrawal of a tender or revocation of a Consent or a properly transmitted "Request Message" through DTC's ATOP system for a withdrawal of a tender must:

- be received by the Exchange Agent at one of the addresses specified on the back cover of this offering memorandum prior to the Withdrawal Deadline;
- specify the name of the holder of the Existing Notes to be withdrawn;



- contain the description of the Existing Notes to be withdrawn or revoked, as applicable, the certificate numbers shown on the particular certificates representing such Existing Notes (or, in the case of Existing Notes tendered by book-entry transfer, the number of the account at DTC from which the Existing Notes were tendered and the name and number of the account at DTC to be credited with the Existing Notes withdrawn) and the aggregate principal amount represented by such Existing Notes; and
- be signed by the holder of the Existing Notes in the same manner as the original signature on the Consent and Letter of Transmittal or be accompanied by documents of transfer sufficient to have the trustee register the transfer of the Existing Notes into the name of the person withdrawing the Existing Notes.

If the Existing Notes to be withdrawn have been delivered or otherwise identified to the Exchange Agent, a signed notice of withdrawal or revocation, as applicable, is effective immediately upon receipt by the Exchange Agent of written or facsimile transmission of the notice of withdrawal (or receipt of a Request Message) even if physical release is not yet effected. A withdrawal of Existing Notes and the revocation of Consents can only be accomplished in accordance with the foregoing procedures.

If you withdraw Existing Notes, you will have the right to re-tender them on or prior to the Expiration Date (or on or prior to the Early Expiration Date, if you wish to tender by the Early Expiration Date) in accordance with the procedures described above for tendering Existing Notes. If the issuer amends or modifies the terms of the Exchange Offer or the Consent Solicitation, or the information concerning the Exchange Offer or Consent Solicitation in a manner determined by the issuer to constitute a material change to holders of Existing Notes, the issuer will disseminate additional Exchange Offer materials and extend the period of such Exchange Offer or Consent Solicitation, including any withdrawal or revocation rights, to the extent required by law and as the issuer determines necessary. An extension of the Early Expiration Date or the Expiration Date will not affect a holder's withdrawal rights unless otherwise provided herein or in any additional Exchange Offer materials or as required by applicable law.

## CONDITIONS OF THE EXCHANGE OFFER AND THE CONSENT SOLICITATION

The Exchange Offer and Consent Solicitation and the effectiveness of the Existing Notes Supplemental Indenture containing the Proposed Amendments is subject to the satisfaction or waiver of the conditions as described below.

The consummation of the Exchange Offer is conditioned upon, among other things, (1) the valid tender, without subsequent withdrawal, of at least 95% in aggregate principal amount of outstanding Existing Notes, (2) the non-continuation of an event of default under the Existing Notes or the 2024 notes and (3) the receipt of proceeds of at least US\$70.0 million in connection with the loan agreement that Tonon Luxembourg will enter into with certain institutional investors, including certain funds managed by Gramercy.

In order to be adopted, the Proposed Amendments require the consent of the holders of a majority in aggregate principal amount of outstanding Existing Notes not owned by the issuer or any of its affiliates.

In addition, the issuer has the right to terminate or withdraw the Exchange Offer and the Consent Solicitation at any time and for any reason, including if any of the conditions described under “Conditions of the Exchange Offer and Consent Solicitation” are not satisfied. The issuer also has the right to waive any condition precedent to the Exchange Offer and Consent Solicitation, at its sole and absolute discretion.

Notwithstanding any other provisions of the Exchange Offer and the Consent Solicitation, the issuer will not be required to accept for exchange or to exchange Existing Notes properly tendered (and not withdrawn) pursuant to the Exchange Offer and the Consent Solicitation, and may, in its sole discretion, terminate, amend or extend the Exchange Offer or delay or refrain from accepting for exchange or exchanging the Existing Notes for any reason, including if the General Conditions shall not have been satisfied or waived.

### General Conditions

The “General Conditions” mean any of the following:

- there shall not have been instituted, threatened or be pending any action, proceeding, application, claim counterclaim or investigation (whether formal or informal) (or there shall not have been any material adverse development to any action, application, claim, counterclaim or proceeding currently instituted, threatened or pending) before or by any court, governmental, regulatory or administrative agency or instrumentality, domestic or foreign, or by any other person, domestic or foreign, in connection with the Exchange Offer or the Consent Solicitation that, in the issuer’s reasonable judgment, either (a) is, or is reasonably likely to be, materially adverse to the issuer’s business, operations, properties, condition (financial or otherwise), income, assets, liabilities or prospects, (b) would or might prohibit, prevent, restrict or delay consummation of the Exchange Offer or the Consent Solicitation or (c) would materially impair the contemplated benefits of the Exchange Offer or the Consent Solicitation to the issuer or be material to holders in deciding whether to accept the Exchange Offers or provide its Consents;
- no order, statute, rule, regulation, executive order, stay, decree, judgment or injunction shall have been proposed, enacted, entered, issued, promulgated, enforced or deemed applicable by any court or governmental, regulatory or administrative agency or instrumentality that, in the issuer’s reasonable judgment, either (a) would or might prohibit, prevent, restrict or delay consummation of the Exchange Offer or the Consent Solicitation or (b) is, or is reasonably likely to be, materially adverse to the issuer’s business, operations, properties, condition (financial or otherwise), income, assets, liabilities or prospects;
- there shall not have occurred or be likely to occur any event or condition affecting the issuer’s business or financial affairs and its subsidiaries that, in the issuer’s reasonable judgment, either (a) is, or is reasonably likely to be, materially adverse to the issuer’s business, operations, properties, condition (financial or otherwise), income, assets, liabilities or prospects, (b) would or might prohibit, prevent, restrict or delay consummation of the Exchange Offer, (c) would materially impair the contemplated benefits of the Exchange Offer or the Consent Solicitation or (d) would result in a Consent Solicitation default under any material agreement of the issuer;

- we shall have received proceeds of at least US\$70.0 million in connection with the loan agreement that Tonon Luxembourg will enter into with certain institutional investors, including certain funds managed by Gramercy;
- no event of default shall have occurred and be continuing under the Existing Notes or the 2024 notes; or
- there shall not have occurred (a) any general suspension of, or limitation on prices for, trading in securities in the United States securities or financial markets, (b) any significant adverse change in the price of New Notes in the United States or other major securities or financial markets, (c) a material impairment in the trading market for debt securities, (d) a declaration of a banking moratorium or any suspension of payments in respect to banks in the United States or other major financial markets, (e) any limitation (whether or not mandatory) by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, or other event that, in the issuer's reasonable judgment, might affect the extension of credit by banks or other lending institutions, (f) a commencement of a war, armed hostilities, terrorist acts or other national or international calamity directly or indirectly involving the United States or (g) in the case of any of the foregoing existing on the date hereof, a material acceleration or worsening thereof.

In addition, the issuer's obligation to transfer any Exchange Consideration is conditioned upon the issuer's acceptance of Existing Notes for exchange.

These conditions are for the issuer's benefit and may be asserted by the issuer or may be waived by the issuer, including any action or inaction by the issuer giving rise to any condition, in whole or in part at any time and from time to time, in its sole discretion. The issuer may additionally terminate the Exchange Offer and the Consent Solicitation if any condition is not satisfied on or after the Expiration Date. Under the Exchange Offer and the Consent Solicitation, if any of these events occur, subject to the termination rights described above, the issuer may (i) return Existing Notes tendered thereunder to you, (ii) extend the Exchange Offer or the Consent Solicitation and retain all tendered Existing Notes until the expiration of the extended Exchange Offer or the Consent Solicitation (as applicable), or (iii) amend either of the Exchange Offer or the Consent Solicitation in any respect by giving oral or written notice of such amendment to the Exchange Agent and making public disclosure of such amendment to the extent required by law.

The issuer has not made a decision as to what circumstances would lead the issuer to waive any such condition, and any such waiver would depend on circumstances prevailing at the time of such waiver. Although the issuer has no present plans or arrangements to do so, the issuer reserves the right to amend, at any time, the terms of any Exchange Offer and the Consent Solicitation. The issuer will give holders notice of such amendments as may be required by applicable law.

## **EXCHANGE AGENT, INFORMATION AGENT**

### **Exchange Agent**

KCC has been appointed the exchange agent for the Exchange Offers. Consents and Letters of Transmittal and all correspondence in connection with the Exchange Offer should be sent or delivered by each holder of Existing Notes, or a beneficial owner's custodian bank, depository, broker, trust company or other nominee, to the Exchange Agent at the address and telephone numbers set forth below. The issuer will pay the Exchange Agent reasonable compensation for its services and will reimburse it for certain reasonable expenses in connection therewith.

KCC  
1290 Avenue of the Americas, 9th Floor  
New York, NY 10104  
United States of America  
Attention: Tonon Exchange Offer

By Facsimile (Eligible Institutions Only): (917) 281-4921  
Confirm Facsimile Transmission by Telephone: (917) 281-4800  
By Mail, Overnight Courier or Hand Delivery: 1290 Avenue of the Americas, 9th Floor, New York, NY 10104,  
United States of America (Attention: Tonon Exchange Offer)

### **Information Agent**

KCC has also been appointed as the information agent for the Exchange Offer, and will receive reasonable compensation for its services. Questions concerning tender procedures and requests for additional copies of this offering memorandum or the Consent and Letter of Transmittal should be directed to the information agent at the address and telephone numbers set forth below. Holders of Existing Notes may also contact their custodian bank, depository, broker, trust company or other nominee for assistance concerning the Exchange Offer.

KCC  
1290 Avenue of the Americas, 9<sup>th</sup> Floor  
New York, NY 10104  
United States of America  
Attention: Tonon Exchange Offer

KCC Email: [TononInfo@kccllc.com](mailto:TononInfo@kccllc.com)  
Banks and Brokers call: (917) 281-4800  
Toll free: (888) 733-1431

## SELECTED FINANCIAL AND OTHER INFORMATION

The following table sets forth certain financial information and operating data for us for the periods and fiscal years indicated.

On May 3, 2013, we completed the acquisition of Paraíso, a sugar and ethanol producer in the state of São Paulo, which operates one mill with a sugarcane crushing capacity of 2.5 million tons per harvest period. We merged Paraíso into our company on September 30, 2013. Our financial statements for the fiscal year ended March 31, 2014 are comprised of the operations of (1) our current three mills (the Vista Alegre mill, the Santa Cândida mill and the Paraíso mill) from May 1, 2013 to March 31, 2014, and (2) our two original mills (the Vista Alegre mill and the Santa Cândida mill), excluding the Paraíso mill, from April 1, 2013 to April 30, 2013. Since our financial statements for the fiscal year ended March 31, 2014 include the financial information of Paraíso as set out above, our financial statements for the fiscal year ended March 31, 2014 (which include Paraíso financial information as of May 1, 2013) are not directly comparable with our financial statements for the fiscal year ended March 31, 2013 (which do not include any Paraíso financial information).

Operational data pertaining to us and our mills included in this offering memorandum for all periods after March 31, 2013, pertains to all three of our mills, including our Paraíso mill. Accordingly, we include operational data for the Paraíso mill combined with our Santa Cândida and Vista Alegre mills as from April 1, 2013, which includes data from the period before we acquired Paraíso on May 3, 2013. As a result of the above, our financial information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso financial information as of May 1, 2013) is not directly comparable with our operational information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso operational information as of April 1, 2013).

This financial information should be read in conjunction with “Presentation of Financial and Other Information,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our audited consolidated financial statements, including the units thereto, included elsewhere in this offering memorandum.

	For the Fiscal Year Ended March 31,			
	2015	2015	2014	2013
	(in millions of U.S.\$) <sup>(1)</sup>	(in millions of reais)		
<b>Income Statement Data:</b>				
Net revenue.....	228.1	731.9	804.6	594.1
Cost of goods sold and services rendered.....	(229.6)	(736.6)	(678.8)	(486.6)
Changes in the fair value of biological assets.....	34.3	110.0	51.8	47.5
<b>Gross profit.....</b>	<b>32.8</b>	<b>105.3</b>	<b>177.6</b>	<b>155.0</b>
Administrative expenses.....	(2.0)	(6.4)	(17.2)	(5.2)
Sales expenses.....	(15.1)	(48.4)	(53.7)	(36.0)
General expenses.....	(8.3)	(26.5)	(18.0)	(14.0)
Equity in net income of subsidiaries.....	(0.5)	(1.7)	(0.9)	—
Other net operating income.....	(1.9)	(6.1)	9.2	(0.5)
<b>Result before the net financial income (expenses) and taxes.....</b>	<b>5.1</b>	<b>16.2</b>	<b>97.0</b>	<b>99.3</b>
Financial income.....	422.4	1,355.1	289.3	79.1
Financial expenses.....	(702.6)	(2,253.8)	(597.6)	(212.9)
<b>Net financial income (expenses).....</b>	<b>(280.2)</b>	<b>(898.7)</b>	<b>(308.3)</b>	<b>(133.8)</b>
<b>Profit (loss) before taxes.....</b>	<b>(275.1)</b>	<b>(882.5)</b>	<b>(211.2)</b>	<b>(34.5)</b>
Current income and social contribution taxes.....	—	—	—	—
Deferred income and social contribution tax benefit.....	73.2	234.9	34.8	19.5
<b>Net profit (loss) from continuing operations.....</b>	<b>(201.9)</b>	<b>(647.6)</b>	<b>(176.4)</b>	<b>(15.0)</b>
<b>Discontinued operations.....</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>0.7</b>
<b>Net profit (loss) for the period.....</b>	<b>(201.9)</b>	<b>(647.6)</b>	<b>(176.4)</b>	<b>(14.3)</b>

- (1) Solely for the convenience of the reader, *real* amounts as of and for the fiscal year ended March 31, 2015, have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.

	As of March 31,			
	2015	2015	2014	2013
	(in millions of U.S.\$) <sup>(1)</sup>	(in millions of reais)		
<b>Balance Sheet Data (at period end):</b>				
<b>Assets</b>				
Cash and cash equivalents.....	12.1	38.7	79.8	304.6
Other investments .....	—	—	15.5	19.3
Derivatives .....	—	—	—	1.4
Accounts receivable, net .....	6.6	21.2	7.5	1.5
Inventories.....	17.0	54.5	53.1	31.8
Advances to suppliers .....	10.3	32.9	76.0	38.1
Prepaid expenses.....	0.1	0.3	0.5	0.2
Recoverable taxes .....	4.1	13.0	50.1	29.3
Assets held for sale .....	—	—	3.0	3.0
Income and social contributions taxes .....	—	0.2	0.2	0.2
Other accounts receivable .....	—	—	0.5	1.6
<b>Total current assets.....</b>	<b>50.2</b>	<b>161.0</b>	<b>286.2</b>	<b>431.0</b>
Prepaid expenses .....	—	—	—	—
Other investments .....	1.2	3.7	38.1	34.2
Advances to suppliers .....	31.3	100.5	37.1	33.4
Deferred tax assets .....	77.8	249.7	18.7	—
Recoverable taxes .....	10.4	33.5	2.7	0.5
Judicial deposits.....	1.5	4.8	5.3	3.1
Investments.....	0.8	2.4	4.1	—
Property, plant and equipment .....	191.6	614.5	594.6	354.9
Biological assets.....	256.8	823.9	740.1	471.4
Intangibles, net .....	47.0	150.7	138.8	2.3
<b>Total non-current assets.....</b>	<b>618.4</b>	<b>1,983.8</b>	<b>1,579.5</b>	<b>899.8</b>
<b>Total assets .....</b>	<b>668.6</b>	<b>2,144.7</b>	<b>1,865.7</b>	<b>1,330.8</b>
<b>Liabilities</b>				
Suppliers.....	35.9	115.3	98.1	41.7
Derivatives .....	0.4	1.2	2.1	1.7
Loans and financing.....	94.5	303.1	568.9	107.5
Salaries and social charges .....	5.9	18.9	28.7	14.5
Taxes payable.....	0.7	2.3	2.8	2.7
Tax installments .....	2.5	8.1	6.3	5.3
Advances from customers.....	19.8	63.6	22.8	7.1
Dividends payable.....	—	—	—	—
Other accounts payable.....	0.9	2.8	7.5	3.4
<b>Total current liabilities.....</b>	<b>160.7</b>	<b>515.5</b>	<b>737.2</b>	<b>183.9</b>
Suppliers.....	0.6	2.1	4.1	—
Derivatives .....	—	—	—	2.9
Loans and financing.....	564.8	1,811.9	796.6	822.6
Advances .....	49.6	159.2	57.3	—
Deferred tax liabilities .....	—	—	—	6.5
Provision for contingencies .....	2.4	7.6	10.4	6.6
Tax installments .....	5.8	18.7	6.9	5.8
<b>Total non-current liabilities.....</b>	<b>623.3</b>	<b>1,999.5</b>	<b>875.2</b>	<b>844.4</b>
<b>Net Equity</b>				
Capital stock.....	32.7	104.8	88.3	79.3
Income reserves.....	(171.1)	(548.9)	83.1	177.9
Adjustment of equity evaluation .....	23.1	74.0	82.0	45.3
<b>Total stockholders' equity.....</b>	<b>(115.4)</b>	<b>(370.2)</b>	<b>253.3</b>	<b>302.5</b>
<b>Total liabilities and stockholders' equity.....</b>	<b>668.6</b>	<b>2,144.7</b>	<b>1,865.7</b>	<b>1,330.8</b>

(1) Solely for the convenience of the reader, *real* amounts as of and for the fiscal year ended March 31, 2015, have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See "Exchange Rates" for further information about recent fluctuations in exchange rates.

	As of and for the Fiscal Year Ended March 31,			
	2015	2015	2014	2013
	(in millions of U.S.\$, except financial ratios) <sup>(1)</sup>		(in millions of reais, except financial ratios)	
Other Data:				
Adjusted EBITDA <sup>(2)</sup> .....	97.9	314.2	344.9	244.9
Adjusted EBITDA margin.....	42.9%	42.9%	42.9%	41.2%
Net debt <sup>(5)</sup> .....	647.2	2,076.3	1,270.1	606.2
Net debt / Adjusted EBITDA ratio <sup>(4)</sup> .....	6.6x	6.6x	3.7x	2.5x

- (1) Solely for the convenience of the reader, *real* amounts as of and for the fiscal year ended March 31, 2015, have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.
- (2) We evaluate our business performance based primarily upon our operating margin, or the spread between the average price of our product and the sum of our cost of goods sold and services rendered and operating expenses. We also focus on the volume and quality of products that we produce, the price and cost per unit sold and ultimately, our Adjusted EBITDA. Our management believes that disclosure of EBITDA and Adjusted EBITDA provides useful information to investors, financial analysts and the public in their review of our operating performance and their comparison of our operating performance to the operating performance of other companies in the same industry and other industries. They are not recognized measures under Brazilian GAAP, IFRS or U.S. GAAP, and because not all companies use identical calculations, our presentation of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures or to free cash flow, as they does not consider certain of our cash requirements, such as interest payments, tax payments and debt service payments. EBITDA and Adjusted EBITDA should not be considered as an alternative to net profit (loss) from continuing operations, as indicator of our operating performance, or as an alternative to cash flow as an indicator of our liquidity. We calculate our EBITDA and Adjusted EBITDA as follows:

	As of and for the Fiscal Year Ended March 31,			
	2015	2015	2014	2013
	(in millions of U.S.\$) <sup>(a)</sup>		(in millions of reais)	
Net profit (loss) from continuing operations.....	(201.9)	(647.6)	(175.5)	(15.0)
(+) Net financial (income) expenses.....	280.2	898.7	308.3	133.8
(+) Depreciation of property, plant and equipment.....	12.8	41.2	41.8	38.6
(+) Amortization of intangible assets.....	0.8	2.6	0.6	0.2
(+) Amortization of inter-harvest maintenance carried out.....	42.1	135.0	79.9	55.4
(+) Amortization of crops and handling.....	71.5	229.2	176.5	98.9
(+/-) Income and social contribution taxes.....	(73.2)	(234.9)	(34.8)	(19.5)
<b>EBITDA.....</b>	<b>132.2</b>	<b>424.2</b>	<b>396.7</b>	<b>292.4</b>
(+/-) Changes in the fair value of biological assets.....	(34.3)	(110.0)	(51.8)	(47.5)
(+/-) Gains upon sales of asset.....	—	—	—	—
<b>Adjusted EBITDA.....</b>	<b>97.9</b>	<b>314.2</b>	<b>344.9</b>	<b>244.9</b>

- (a) Solely for the convenience of the reader, *real* amounts as of and for the fiscal year ended March 31, 2015, have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.
- (3) Net debt is not a recognized measure under Brazilian GAAP, IFRS or U.S. GAAP. Our definition of net debt in this offering memorandum is not necessarily the same as the net debt definitions that we use for purposes of establishing covenant compliance for our financing agreements or under the indenture that will govern the New Notes offered hereby. Net debt does not have a standardized meaning and our definition of net debt may not be comparable to net debt used by other companies and is not a measure of cash flow, liquidity or resources available for debt service. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness” and note 30 to our financial statements and financial information included elsewhere in this offering memorandum. We calculate our net debt as follows:

	As of and for the Fiscal Year Ended March 31,			
	2015	2015	2014	2013
	(in millions of U.S.\$) <sup>(a)</sup>		(in millions of reais)	
Current loans and financing.....	94.5	303.1	568.9	107.5
Non-current loans and financing.....	564.8	1,811.9	796.6	822.6
<b>Total loans and financing.....</b>	<b>659.3</b>	<b>2,115.0</b>	<b>1,365.4</b>	<b>930.1</b>
(-) Cash and cash equivalents.....	12.1	38.7	79.8	304.6
(-) Other investments <sup>(b)</sup> .....	0.0	0.0	15.5	19.3
(-) Inventories.....	—	—	—	—
<b>Net debt<sup>(c)</sup>.....</b>	<b>647.2</b>	<b>2,076.3</b>	<b>1,270.1</b>	<b>606.2</b>

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- (a) Solely for the convenience of the reader, *real* amounts as of and for the fiscal year ended March 31, 2015, have been translated into U.S. dollars at the selling exchange rate as of March 31, 2015, of R\$3.2080 to U.S.\$1.00. See “Exchange Rates” for further information about recent fluctuations in exchange rates.
  - (b) Other investments (current and non-current other than equity interests in relation to our co-generation activities).
  - (c) For the fourth quarter of each fiscal year and each fiscal year, to reflect an applicable financial covenant under a loan agreement under which we are borrower, we define net debt as current loans and financing plus non-current loans and financing minus cash, cash equivalents and other investments (current and non-current other than equity interests in relation to our co-generation activities). For the first, second and third quarters of each fiscal year, for which this financial covenant does not apply, we define net debt as current loans and financing plus non-current loans and financing minus cash, cash equivalents, other investments (current and non-current other than equity interests in relation to our co-generation activities) and finished goods inventories.
- (4) Net debt / Adjusted EBITDA ratio is the ratio of our net debt as of the end of the applicable period divided by our Adjusted EBITDA for the then-most recently concluded period of four consecutive financial quarters.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations should be read in conjunction with our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014 and March 31, 2014 and 2013, included elsewhere in this offering memorandum, as well as the information presented under "Presentation of Financial and Other Information" and "Selected Financial and Other Information."*

*The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."*

### Overview

We are a sugar, ethanol and energy producer with operations in the Southeast and Midwest regions of Brazil. We cultivate, harvest, purchase and process sugarcane, from which we produce very high polarization sugar, or VHP sugar, granulated refined sugar, anhydrous ethanol and hydrous ethanol to sell domestically and internationally. We also provide sugarcane bagasse by-products in exchange for electricity to power our industrial operations through co-generation. We currently conduct our sugar and ethanol operations through three mills: (1) Santa Cândida, in Bocaina, in the state of São Paulo; (2) Vista Alegre, in Maracaju, in the state of Mato Grosso do Sul; and (3) Paraíso, in Brotas, in the state of São Paulo.

As of the date of this offering memorandum, our three mills had a combined sugarcane crushing capacity of 9.4 million tons per harvest period. The Southeast and Midwest regions of Brazil in which our mills are located provide excellent climate conditions and soil for harvesting sugarcane. As of March 31, 2015, 89.5% of our harvest at our Santa Cândida mill, 100.0% of our harvest at our Vista Alegre mill and 92.0% of our harvest at our Paraíso mill was mechanized.

Our Santa Cândida mill has a sugarcane crushing capacity of 3.2 million tons per harvest period. It is located in the state of São Paulo, in the Southeast region of Brazil, and benefits from higher sugarcane yield than other regions of Brazil. It is also close to Paulínia, the main fuel distribution center in the state of São Paulo, and to the port of Santos, the main port for Brazilian sugar exports.

Our Vista Alegre mill has a sugarcane crushing capacity of 2.5 million tons per harvest period. It is located in Mato Grosso do Sul, in the Midwest region of Brazil and benefits from low cost land leases and flat harvesting land, which enables the complete mechanization of the harvesting process, as well as providing an expansive plantable area for cultivation.

Our Paraíso mill has a sugarcane crushing capacity of 2.5 million tons per harvest period. Our Paraíso mill, which is located less than 40 kilometers (24.9 miles) away from our Santa Cândida mill, underwent a complete industrial retrofit in 2012 and is, in our view, a state-of-the-art facility. As a result of our acquisition of Paraíso on May 3, 2013, we not only increased our total sugarcane crushing capacity at the time by approximately 44% but also expanded our portfolio of sugar products, as Paraíso also produces granulated refined sugar.

### Factors Affecting Operating Results

Our results of operations have been influenced and will continue to be influenced by the following key factors:

#### *Sugar and Ethanol Industries*

The Brazilian and the international sugar and ethanol industries have been marked by periods of instability of supply and demand, resulting in fluctuations in sales prices and profit margins. In addition, sugar is a commodity and is subject to price fluctuations in the international market. A number of factors beyond our control contribute to the price fluctuations of sugar, ethanol and other sugarcane by-products, as follows:

- demand for sugar, ethanol and other sugarcane by-products in Brazil and abroad;
- production of sugar in other countries, notably India, China, Thailand, the United States and in Europe;

- weather conditions and natural disasters in the regions where sugarcane is cultivated;
- the production capacity of our competitors;
- the performance of our competitors and consequent impact on the perception of our sector;
- fluctuation in gasoline prices and the prices of agricultural commodities;
- incentive trade policies in Brazil and abroad for the production, sale, export and consumption of sugar, ethanol and other sugarcane by-products;
- the availability of substitutes for sugar, ethanol and other sugarcane by-products, such as saccharin, aspartame, HFCS and petroleum derivatives;
- governmental incentives and subsidies from other countries that also produce sugar, ethanol and other sugarcane by-products;
- developments in international trade, including at the WTO;
- trade barriers in the U.S., European and other markets that currently limit access to their domestic sugar industry through quotas, subsidies and restrictions on imports;
- the growth rate of the world economy and the corresponding growth in sugar consumption;
- the increase or decrease in general per capita consumption in emerging markets;
- the GDP growth rate in Brazil, which directly influences the consumption of sugar and ethanol products in Brazil, in particular by industries that produce or process food or fuel;
- the exchange rate of the *real* against the U.S. dollar, which directly affects our export revenues in *reais* and our domestic sales of sugar that are indexed in international sugar prices, our financing costs and, indirectly affects the price of sugar in the international market (Brazil is one of the principal participants in the international sugar market);
- market speculation of sugar price, which is negotiated in futures and commodities exchanges; and
- tax policies adopted by the Brazilian government.

### ***Our Cost of Goods Sold and Services Rendered***

We incur costs and expenses in producing sugar and ethanol. We classify our cost of goods sold and services rendered into two major categories: (1) the cost of sugarcane; and (2) costs that we incur that are directly related to our processing of sugarcane into sugar and ethanol, or industrial costs. Our cost of sugarcane reflects the cost of producing sugarcane and purchasing sugarcane from related parties and from third parties and amortization. Our industrial costs include costs relating to our purchase of other raw materials that we use to process sugarcane, labor costs and benefits, third-party service costs, maintenance and replacement part costs, depreciation, and fuel and lubricant costs. Our cost of goods sold and services rendered represented 82.7%, 80.8% and 76.4% of our net revenues for the fiscal years ended March 31, 2015, 2014 and 2013, respectively.

The following table shows the evolution of our principal costs for the periods presented.

	For the Fiscal Year Ended March 31,		
	2015	2014	2013
	(as a percentage of total costs of goods sold for the period or fiscal year)		
Cost of sugarcane.....	83%	81%	74%
Industrial costs.....	17%	19%	26%

	For the Fiscal Year Ended March 31,		
	2015	2014	2013
	(as a percentage of total costs of goods sold for the period or fiscal year)		
Total cost of goods sold and services rendered .....	100%	100%	100%

As a producer of commodities, we attempt to increase our margins through efficient management of our operations, including effective control over our cost of sugarcane and industrial costs. We believe that our significant investments in mechanization (for both planting and harvesting) and in sugarcane planting have assisted us in improving our gross margin.

The unit price (per kilogram) of sugarcane varies in part based on the amount of ATR, equivalents in the ethanol and sugar that we produce. The quality of sugarcane is also expressed in ATR equivalents. To determine the amount of ATR equivalents in sugarcane delivered to our mills, we inspect all of the sugarcane that we process upon its receipt by our mills. Accordingly, the price of sugarcane that we pay to third parties is based on the quality of the sugarcane (as measured by ATR equivalents), the volume of sugarcane delivered to us and the price per kilogram of ATR equivalents.

### ***Our Productivity***

Our results of operations are directly affected by our productivity levels, including the level of ATR equivalents per ton of our harvested sugarcane and the volume of sugarcane per harvested hectare of land, which are both also affected by the quality of our soil, the age of our sugarcane fields and climatic conditions and harvesting techniques. Our agricultural productivity decreased to 68.4 tons of sugarcane per hectare harvested for the fiscal year ended March 31, 2015, from 77.7 tons of sugarcane per hectare harvested for the fiscal year ended March 31, 2014. This decrease was primarily due to the adverse effects of the severe drought in the São Paulo region on the agricultural yield for the 2014/2015 harvest period. For the fiscal year ended March 31, 2015, we harvested approximately 93.4% of the total sugarcane that we produced using mechanized harvesters, respectively, which we operate 24-hours per day throughout the harvesting season.

We use computer simulations to model the harvesting, loading and transportation of our sugarcane under various conditions, which has assisted us in improving our productivity. We have improved the quality of our soil through mechanized harvesting, as the leaves that remain after the sugarcane has been harvested mechanically form a protective cover over the crop. This protective cover helps reduce erosion and increases the organic matter in the soil, which in turn reduces our use of chemical fertilizers and lowers our costs, increasing productivity over time.

In addition, we have improved our productivity by planting new varieties of sugarcane developed by CTC that are more resistant to diseases and pests and richer in ATR concentration. Our productivity is also determined in part by the level of ATR equivalents per ton of our harvested sugarcane. For the fiscal year ended March 31, 2015, the ATR equivalents per ton of our harvested sugarcane were 127.2, which compares with ATR equivalents per ton of our harvested sugarcane for the fiscal years ended March 31, 2014 and 2013 of 126.4 and 136.1, respectively. The level of ATR equivalents per ton of our harvested sugarcane is also positively impacted by our research and technological developments on soil productivity and sugarcane varieties.

### ***Pricing***

#### ***Sugar***

Prices for sugarcane (including sugarcane that is harvested on land that we lease) are set based on criteria published by CONSECANA, a sugar industry association that analyzes, develops and publishes criteria to determine the quality and price of sugarcane. Although the CONSECANA system is voluntary, we and all of our sugarcane suppliers (as most other sugar and ethanol producers and sugarcane suppliers in Brazil) use the CONSECANA system to establish the price of sugarcane from time to time. Under the CONSECANA system, the benefit or burden of higher or lower prices for sugar and ethanol products is shared between sugarcane suppliers and sugar and ethanol producers. The margin shared is calculated based on the market price for sugar and ethanol products and their respective production costs. The market price for sugar and ethanol products is derived from average prices published by the Center for Advanced Studies on Applied Economics (*Centro de Estudos Avançados em Economia*

*Aplicada*), or CEPEA, which is administered by the University of São Paulo (*Universidade de São Paulo*), or USP, and ESALQ.

Prices for sugar we sell in Brazil are set in accordance with Brazilian market prices, published by ESALQ. The profitability of our VHP sugar sold to clients for export is principally affected by fluctuations in the international price of raw sugar and in the *real*/dollar exchange rate. International raw sugar prices are determined based on NY11. The main difference between VHP sugar and NY11 raw sugar is the higher sugar content of VHP sugar, which therefore has a price premium over NY11 raw sugar.

Pricing of our granulated refined sugar sold for export is principally affected by fluctuations in the international price of contract 5 in Euronext LIFFE of London and in the *real*/dollar exchange rate. Granulated refined sugar is usually sold at a premium over NY 11 (the price for raw sugar) due to its higher quality.

For the fiscal year ended March 31, 2015, substantially all of our net revenue from sugar sales was denominated in U.S. dollars or linked to U.S. dollar prices. A devaluation of the *real* relative to the U.S. dollar affects our financial statements by:

- generating foreign exchange transactions gains on U.S. dollar-denominated monetary assets;
- generating financial losses based on changes in the market value of our financial derivatives;
- generating gains on U.S. dollar-denominated sales; and
- generating foreign exchange transactions losses on U.S. dollar-denominated monetary liabilities.

On the other hand, an appreciation of the *real* relative to the U.S. dollar would have the opposite effects.

Sugar prices are also affected by the perceived and actual supply and demand for sugar and its substitute products. The supply of sugar is affected by weather conditions, governmental trade policies, subsidies and regulations and the amount of sugarcane and sugar beet planted by farmers, including substitution by farmers of other agricultural commodities for sugarcane or sugar beet. Demand is affected by growth in domestic and worldwide consumption of sugar and the prices of substitute sugar products. See “Sugar and Ethanol Industries—World Sugar and Ethanol Industry—Sugar.” From time to time, imbalances may occur between overall sugarcane and sugar beet processing capacity, sugarcane and sugar beet supply and the demand for sugar products. Prices of sugar products are also affected by these imbalances, which, in turn, impact our decisions regarding whether and when to purchase or process sugarcane, to produce or store sugar or whether to produce more ethanol.

The following table sets forth our average selling prices per ton in *reais* for export of VHP sugar for the periods indicated:

Tonon	For the Fiscal Year Ended March 31,		
	2015	2014	2013
	(R\$/ton)		
Average sugar selling price in Brazil (VHP sugar exports).....	889.1	855.7	1,006.0

Source: Tonon.

The table below shows the average market prices for raw sugar (export) and crystal sugar (domestic) for the periods indicated:

Brazil/Export	For the Fiscal Year Ended March 31,		
	2015	2014	2013
Average crystal sugar selling price in Brazil (R\$/ton).....	986.7	952.4	1,037.05
Export raw sugar average sugar export selling price (US\$/ton).....	346.0	377.4	442.29

Source: CEPEA-ESALQ for crystal sugar and NYBOT (NY11 Contract) for raw sugar.

### *Ethanol*

Our ethanol operations are affected by weather conditions, domestic Brazilian prices of ethanol and gasoline, competition, governmental policies and regulations and market demand for ethanol as an alternative or additive to gasoline.

The price for ethanol we sell in Brazil is set in accordance with market prices, using indices published by ESALQ. For the fiscal year ended March 31, 2015, the Brazilian monthly average quote of per thousand liters of hydrous ethanol increased by R\$0.0333. For the fiscal year ended March 31, 2015, the Brazilian monthly average quote of anhydrous ethanol per thousand liters increased by R\$0.0124. We believe the demand for ethanol in Brazil is likely to continue to grow. The introduction of flex-fuel vehicles in Brazil in 2003 has served to substantially increase the demand in Brazil for hydrous ethanol. According to ANFAVEA, approximately 3.2 million flex-fuel vehicles were sold in Brazil in 2013, while approximately 2.9 million flex-fuel vehicles were sold in Brazil in 2014. In addition, the use of anhydrous ethanol as a gasoline additive in Brazil can reach up to 25% of the volume of the gasoline blend and is currently set at the maximum of 25%. In addition, the Brazilian Government has announced plans to exempt the ethanol sector from the obligation to pay both social contribution tax (*Contribuição para o Programa de Integração Social*), or PIS, and social security financing contributions (*Contribuição para o Financiamento da Seguridade Social*), or COFINS, on sales of ethanol.

In Brazil, ethanol prices are influenced by gasoline prices. An increase in gasoline prices leads to a corresponding increase in ethanol prices. Generally, hydrous ethanol prices are 70% of the gasoline prices at fuel retail stations. See “Sugar and Ethanol Industries—World Sugar and Ethanol Industry—Ethanol.”

The following table sets forth our average selling prices for hydrous and anhydrous ethanol in the domestic market for the periods indicated:

Tonon	For the Fiscal Year Ended March 31,		
	2015	2014	2013
	(R\$/liter)		
Average hydrous ethanol selling price .....	1.21	1.15	1.12
Average anhydrous ethanol selling price .....	1.38	1.34	1.22

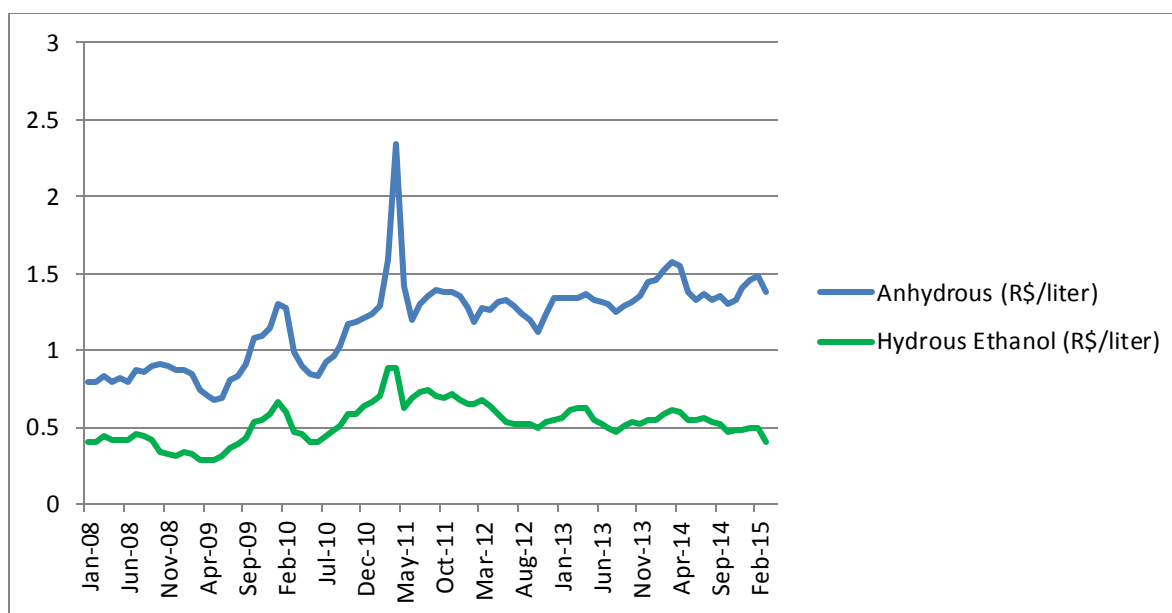
Source: Tonon.

The table below shows the market prices for hydrous and anhydrous ethanol in the Brazilian market for the periods indicated:

Brazil	For the Fiscal Year Ended March 31,		
	2015	2014	2013
	(R\$/liter)		
Average hydrous ethanol selling price .....	1.2475	1.2142	1.1164
Average anhydrous ethanol selling price .....	1.3860	1.3736	1.2792

Source: CEPEA-ESALQ.

The following chart sets forth hydrous and anhydrous ethanol market prices in *reais* per liter during the period from January 2009 to February 2015:



Source: CEPEA/ESALQ/USP.

#### *Factors Affecting Pricing of Sugar and Ethanol*

Other factors that we believe will influence the price of sugar and ethanol in the future include:

- trade barriers in European and other markets that currently limit access to their domestic sugar industry through quotas, subsidies and restrictions on imports;
- climatic conditions in areas where sugarcane is cultivated;
- the use of ethanol as a source of cleaner-burning fuel, derived from renewable sources;
- changes in international prices of oil (denominated in U.S. dollars) and related changes in the domestic prices of oil (denominated in *reais*);
- Government pricing, subsidy, tax and trade policies with respect to sugar, ethanol and energy;
- the growth rate of the global economy and resulting corresponding growth in worldwide sugar consumption; and
- the growth rate of Brazil's GDP, which impacts demand for our sugar and ethanol products in Brazil.

#### *Brazilian Economic Conditions*

The Brazilian economic environment has been characterized by significant variations in economic growth, inflation and currency exchange rates. The following table sets forth Brazilian inflation rates, interest rates, and exchange rates as of and for the calendar years ended December 31, 2014, 2013 and 2012, respectively:

	As of and for the Calendar Year Ended December 31,		
	2014	2013	2012
GDP growth (1)	0.1%	2.7%	1.8%
Inflation rate (IGP-M)(2)	3.7%	5.5%	7.8%
Inflation rate (IPCA)(3)	6.4%	5.9%	5.8%
CDI(4)	10.8%	8.0%	8.4%

	As of and for the Calendar Year Ended December 31,		
	2014	2013	2012
SELIC rate(5)	11.75%	10.0%	7.25%
Appreciation (devaluation) of <i>real</i> against the U.S. dollar	(13.4)%	(14.6)%	(8.9)%
Selling exchange rate (at period end) of <i>reais</i> against U.S.\$1.00	R\$2.66	R\$2.34	R\$2.04
Average exchange rate — <i>reais</i> against U.S.\$1.00(6)	R\$2.36	R\$2.17	R\$ 2.11

Sources: IBGE, Central Bank and Getulio Vargas Foundation (*Fundação Getulio Vargas*), or FGV.

- (1) GDP growth presents the variation in the seasonally adjusted GDP index compared to the previous equivalent period, expressed as a percentage.
- (2) IGP-M is the general index of market prices calculated by the FGV (accumulated for the end of each period).
- (3) IPCA is a consumer price index calculated by the IBGE (accumulated for the end of each period).
- (4) The CDI rate is the average interbank deposit index applicable in Brazil (accumulated for the end of each period).
- (5) As of the last day of the relevant period.
- (6) Average exchange rate for the last day of each month for the period.

### ***Volume of our Exports***

Our products are not subject to any regulation or restriction on exports. Therefore, all our production of both sugar and ethanol can be sold in domestic or foreign markets. The prices of our products sold outside Brazil vary significantly in relation to the prices of our products sold in the domestic market from year to year. The variations in prices are due to several factors, including:

- the U.S. dollar/*real* exchange rate;
- tariffs and duties;
- freight costs; and
- supply and demand of our products in Brazil and abroad.

Our VHP sugar exports represented approximately 38.2%, 37.4% and 56.9% of our net revenue for the fiscal years ended March 31, 2015, 2014 and 2013, respectively.

The volume of our exports of VHP sugar decreased by 10.7% to approximately 313,935.2 tons for the fiscal year ended March 31, 2015, compared to approximately 351,657.4 tons for the fiscal year ended March 31, 2014, and approximately 335,827 tons for the fiscal year ended March 31, 2013.

Our ability to export our products depends on several factors, including (1) the level of economic growth in our export markets, (2) other economic conditions in our export markets (such as foreign currency exchange rates), (3) fluctuations in the global demand for our products and (4) the level of sugar and ethanol production and imports from other countries in our export markets. Any changes in these or other factors that affect our exports may result in us selling more of our products in the domestic market.

### ***Tax Incentives***

Our mills located in the states of Mato Grosso do Sul and São Paulo currently benefit from certain tax incentives granted by state authorities in connection with the Brazilian sales tax (*Imposto sobre Circulação de Mercadorias e Prestação de Serviços*), or ICMS. For the fiscal year ended March 31, 2015, we recorded tax incentives of R\$19.6 million. The tax incentives from which we benefit have definite terms, and may be terminated under certain circumstances, and we may not be able to renew or replace such benefits in the future. See “Business—Tax Incentives.”

### ***Tax Payment Programs***

We have included federal taxes and social security contribution debts as ordinary payments in our income statement pursuant to an installment agreement we entered into with the Brazilian Tax Authorities (*Receita Federal do Brasil*), or RFB, and the National Treasury Attorney-General's Office (*Procuradoria Geral da Fazenda Nacional*), or PGFN. We pay monthly installments of approximately R\$230.1 thousand and, as of March 31, 2015, approximately R\$10.3 million remains outstanding under this agreement.

In addition, we have included several ICMS debts as ordinary payments in our income statement pursuant to an installment agreement we entered into with the Treasury of the state of São Paulo. We pay monthly installments of approximately R\$532.2 thousand and, as of March 31, 2015, approximately R\$10.3 million remains outstanding under this agreement.

In September 2009, we joined the Tax Recovery Program instituted by Law No. 11.941/2009 (*REFIS IV*), which allows us to pay outstanding tax liabilities in installments and on more favorable terms than would apply if payment were to be made outside the program. As of March 31, 2015 the outstanding amount of Corporate Income Tax (*Imposto de Renda Pessoa Jurídica*), or IRPJ, and Social Contribution on Net Income (*Contribuição Social sobre o Lucro Líquido*), or CSLL, was approximately R\$45,494. The amounts included in these installment programs have been acknowledged as uncontroversial debts by us *vis-à-vis* the tax authorities, meaning we can no longer dispute the amounts due in any administrative or judicial legal proceedings.

### ***Investment Agreement***

On January 27, 2010, we, FIP DGF Terra Viva, the Tonon Family Holding Companies and the members of the Tonon Family entered into an investment agreement, in order to regulate the investment made by FIP DGF Terra Viva in our Company as well as other matters relating to us. In order to secure the obligations in connection with the investment agreement, Tonon Holding pledged 8,793,361, or 15.9%, of our shares. This pledge agreement expired in February 2015.

Under the terms of this investment agreement, Tonon Holding, the Tonon Family Holding Companies and the members of the Tonon Family are liable for any losses or contingencies related to acts or omissions related to the investment agreement. See "Principal Shareholders."

### ***Corporate Transactions***

On May 3, 2013, we completed the acquisition of Paraíso, a sugar and ethanol producer in the state of São Paulo, which operates one mill with a sugarcane crushing capacity of 2.5 million tons per harvest period. On September 30, 2013, Paraíso was merged with and into Tonon. As a result, Paraíso was extinguished and ceased to exist as a legal entity and Tonon succeeded to all its assets and liabilities. Our financial statements for the fiscal year ended March 31, 2014 are comprised of the operations of (1) our current three mills (the Vista Alegre mill, the Santa Cândida mill and the Paraíso mill) from May 1, 2013 to March 31, 2014, and (2) our two original mills (the Vista Alegre mill and the Santa Cândida mill), and excluding Paraíso, from April 1, 2013 to April 30, 2013. Since our financial statements for the fiscal year ended March 31, 2014 include the financial information of Paraíso as set out above, our financial statements for the fiscal year ended March 31, 2014 (which include Paraíso financial information as of May 1, 2013) are not directly comparable with our financial statements for the fiscal year ended March 31, 2013 (which do not include any Paraíso financial information).

For periods prior to May 1, 2013, unless the context requires otherwise, financial information pertaining to us or our mills included in this offering memorandum pertains to Tonon and our Santa Cândida and Vista Alegre mills only, and such information with respect to Paraíso is not included in our results. Operational data pertaining to us and our mills included in this offering memorandum for all periods after March 31, 2013, pertains to all three of our mills, including our Paraíso mill. Accordingly, we include operational data for the Paraíso mill combined with our Santa Cândida and Vista Alegre mills as from April 1, 2013, which includes data from the period before we acquired Paraíso on May 3, 2013. As a result of the above, our financial information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso financial information as of May 1, 2013) is not directly comparable with our operational information presented in this offering memorandum for the fiscal year ended March 31, 2014 (which includes Paraíso operational information as of April 1, 2013).



On October 18, 2012, we acquired from Tonon Holding and the Tonon Family Holding Companies 100% of the capital stock of Auto Posto Santa Cândida de Bocaina Ltda., a company that owns a gas station located close to our Santa Cândida mill. The acquisition cost was R\$4.6 million, and we made this acquisition to reduce our transportation costs in view of the proximity of the gas station to the Santa Cândida mill.

On June 30, 2010, Tonon Agricultura S.A. merged into Tonon. At the time of this merger, FIP DGF Terra Viva owned 100% of Tonon Agricultura S.A.'s shares, which, in turn, owned an equity interest in Tonon. As a result of this merger, FIP DGF Terra Viva became our direct shareholder.

### ***Operating Expenses***

We incur operating expenses, including (1) our general and administrative expenses, which consist of salaries and benefits paid to our employees, taxes, expenses related to third-party services, leases (other than land), depreciation, amortization and other expenses and (2) sales expenses, which consist of freight costs, commissions and port costs related to storage and loading of our products onto ships. As a percentage of our net revenue, our general and administrative expenses represented 4.5%, 4.4% and 3.2% for the fiscal years ended March 31, 2015, 2014 and 2013, respectively. Sales expenses accounted for approximately 6.6%, 6.7% and 6.1% of our net revenue for the fiscal years ended March 31, 2015, 2014 and 2013, respectively. We incurred sales expenses that represented 54.4%, 67.5% and 64.6% of our total operating expenses for the fiscal years ended March 31, 2015, 2014 and 2013, respectively.

The costs and expenses we incur in selling our products include freight costs, commissions and port costs related to storage and loading of our products onto ships.

### ***Seasonality***

Our business is subject to seasonal trends based on the sugarcane growing cycle in the Southeast and Midwest regions of Brazil. The annual sugarcane harvesting period in the Southeast and Midwest regions of Brazil begins in April and ends in December. The location of our operations in these regions enables us to harvest sugarcane for approximately nine months in each calendar year. This creates fluctuations in our inventory, usually peaking in December to cover sales between crop inter-harvest (*i.e.*, January through March). Our overall sugarcane supply and consequently, our production, can be impacted by adverse weather conditions such as heavy rains or drought. In addition, seasonality affects our level of outstanding indebtedness and working capital, as we generally incur more indebtedness and as we require more working capital to support our operations during the harvesting period, which increases our financial expenses.

### ***Other Factors***

Other factors that may impact the results of our sugar and ethanol operations include:

- hedging transactions (as discussed under “—Quantitative and Qualitative Disclosures about Market Risk”);
- fluctuations in oil price levels; and
- the tax policies adopted by the Brazilian federal government and the governments of the Brazilian states in which we operate (including tax incentives), and our resulting tax obligations.

## **Financial Presentation and Accounting Policies**

### ***Critical Accounting Policies***

The presentation of our financial condition and results of operations in conformity with Brazilian GAAP and IFRS requires us to make certain judgments and estimates regarding the effects of matters that are inherently uncertain and that impact the carrying value of our assets and liabilities. Actual results could differ from those estimates. In order to provide an understanding regarding how we form our judgments and estimates of certain future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, we have summarized the following critical accounting policies set forth below under Brazilian GAAP and IFRS.

### ***Revenue Recognition***

Revenue from the sale of products in the normal course of business is recognized at fair value of the consideration received or receivable. The revenue is recognized when there is convincing evidence that the most significant risks and benefits inherent to the ownership of property are transferred to the buyer, that it is probable that the financial economic benefits will flow to us, that the associated costs and possible return of goods can be estimated reliably, that there is no continuing involvement with the products sold, and that the sales price may be measured reliably. The moment of transfer of risks and benefits varies depending on the individual terms of each sales contract. For sugar and ethanol sales in the domestic market, the transfer normally occurs when the product is delivered to the establishment of the client or when it is picked up by the client directly from us. In the case of export sales, the transfer occurs upon loading the goods onto the ship at the seller's port. For sales of electricity, we use power meters installed for clients, whereby we calculate the quantity at the end of each month and consequently, the revenue recognized.

### ***Property, Plant and Equipment***

Property, plant and equipment is measured at the historic cost of acquisition or construction, less accumulated depreciation and impairment. This cost includes expenses that are directly attributed to the acquisition of an asset. Software purchased as an integral part of equipment is capitalized as a part of the equipment. When parts of an item of property, plant and equipment have different useful lives, these items are recorded separately. Gains and losses in the disposal of fixed assets (established by comparing the sales price with the book value of the fixed assets) are recognized in other income/net operating expenses in the statement of income. Depreciation is recognized in the income statement using the straight-line method in the operating results based on the estimated life of each component. Land is not depreciated.

### ***Impairment of Non-financial Assets***

The book value of our non-financial assets, which are goodwill, non-biological assets, deferred assets and inventory are reviewed on every financial statement presentation date to determine whether there is any indication of loss in the recoverable value. If there is such an indication of loss, then the recoverable value of the asset is estimated. An impairment loss through a reduction in recoverable value is recognized if the carrying amount of the asset or cash-generating unit, or CGU, exceeds its recoverable value.

The recoverable value of an asset or reporting unit is the higher of (1) the value in-use and (2) the fair value less sales costs. When determining the value in-use, the estimated future cash flows are discounted to their present values at a pre-tax discount rate that reflects the current market terms accounting for the capital recoverability period and the asset's specific risks or CGU. For impairment testing purposes, assets that cannot be tested individually are grouped in the smallest group of assets that generate cash for continuous use and which are largely independent from the cash flows from other assets or groups of assets.

Losses resulting from a reduction in the recoverable value are recognized as profit or loss. The impairment is reverted only to the extent that the carrying amount of the asset does not exceed the book value that has been established, net of depreciation or amortization, if the loss of value has not been previously recognized.

For purposes of impairment testing goodwill was tested at the entity level.

### ***Biological Assets***

Biological assets are measured at their fair value less sales expenses. Adjustments to the fair value, minus the sales expenses, are recognized in the statement of income. Sales costs include all costs that are necessary to sell the assets. The standing sugarcane is transferred to the inventory at its fair value, deducting the estimated sales expenses as of the cutting date.

### ***Inventory***

Inventories are measured as the lower of their cost and net realizable value. Inventory costs are valued at the average cost of purchase or production and include expenses incurred in the acquisition of inventories, production and conversion costs and other costs incurred in transporting them to their current locations and conditions. The net realizable value is the estimated sale price in the normal course of business, less estimated completion costs and

sales expenses. The cost transferred from the biological assets to inventory is the fair value minus the sales expenses, estimated on the cutting date.

### ***Provision for Contingencies***

A provision is recognized when we have a legal or constructive obligation as a result of a past event that can be reliably estimated, and it is probable that an outflow of resources will be required to settle the obligation. The provisions are established based on our best estimates of the risk involved.

### ***Leasing***

The minimum leasing payments made under financial leases are allocated between financial expenses and reduction of liabilities. Financial expenses are allocated for each period during the leasing term in order to produce a periodic rate including the interest rate on the remaining balance of the financing lease liabilities. Upon execution of a contract for the use of an asset, we determine whether it is a lease, which must meet both of the following conditions:

- compliance with the contract requires the use of a specific asset; and
- the contract allows the right to use the asset.

At the inception of the arrangement or upon a reassessment of the arrangement, we separate payments and other consideration required by the arrangement into those for the lease and those for other aspects on the basis of their relative fair values. If we conclude that it is impracticable to separate the payments of a financial lease reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently, the payments under the financial lease are allocated to financial expense (using our incremental borrowing rate) and reduce the outstanding liability.

### ***Income and Social Contribution Taxes***

Income and social contribution taxes, both current and deferred, are calculated at the rate of 15% plus a surcharge of 10% on taxable income in excess of R\$240,000 for income tax and 9% on taxable income for social contribution on net income, considering the offsetting of any tax loss carryforwards and negative basis of social contribution, limited to 30% of annual taxable profit. Income and social contribution expenses consist of current and deferred income tax. Current income tax and deferred taxes are recognized in the income statement. Current tax is tax payable or receivable on the expected taxable income or loss for the year, at rates effective or substantially effective at the reporting date and any adjustment to the taxes payable in relation to prior years. Deferred tax is recognized in relation to temporary differences between the book values of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes. Deferred tax is measured at the rates expected to apply to the temporary differences when they are reversed, based on the laws in effect or substantially in effect as of the reporting date.

In determining current and deferred income tax, we take into consideration the impact of uncertainties related to the tax position taken and if any additional payment of income tax and interest rate has been made. We believe that the provision for income tax in the liabilities is appropriate in comparison to all the pending fiscal years based on its evaluation of several factors, including interpretations of tax laws and past experience. This evaluation is based on estimates and premises that could involve a series of judgments on future events. New information may be made available, which would cause us to change our judgment as to the adequacy of the existing reserves; these changes may impact income tax expenses during the year in which they are made.

Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets and liabilities, and they are related to income taxes levied by the same tax authority on the same entities subject to taxation. Deferred income and social contribution tax assets are recognized on deductible tax losses, tax credits and temporary differences not used when it is probable that future taxable earnings will be generated against which they can be offset. Deferred income and social contribution tax assets are reviewed at each reporting date and reduced when their realization is no longer probable.

## **Description of the Principal Statement of Income Line Items**

### ***Net Revenue***

Our net revenue comprises revenues from the sale of sugar, ethanol and others to the domestic and foreign markets.

In addition to the income and social contribution taxes described below, we are subject to the following taxes: (1) ICMS, on revenues from the sale of all our products in the domestic market, at a rate of 7% for sugar and 12% for ethanol, according to their importance for human consumption (*essencialidade ao consumo humano*) and product use; (2) PIS and COFINS at the rates of our revenues of 1.65% and 7.6%, respectively, for sugar, and a fixed rate of R\$48 per cubic meter, for ethanol; (3) INSS at a rate of 2.85% on the gross revenue from the sale of sugarcane in the domestic market, applicable to our agricultural activities; and (4) Tax on Services (*Imposto sobre Serviços*), or ISS, at a rate ranging from 2% to 5%, depending on the municipality where the applicable services are rendered.

### ***Other Revenues***

Our other revenues comprise revenues from the sale of bagasse, yeast and other by-products.

### ***Cost of Goods Sold and Services Rendered***

We incur costs and expenses in producing sugar and ethanol. We classify our cost of goods sold into two major categories: the cost of sugarcane and industrial costs. Our cost of sugarcane reflects the cost of producing sugarcane and purchasing sugarcane from related parties and from third parties, and amortization. Our industrial costs include costs relating to our purchase of other raw materials that we use to process sugarcane, labor costs and benefits, third-party service costs, maintenance and replacement part costs, depreciation, and fuel and lubricant costs.

### ***Changes in the Fair Value of Biological Assets***

This line item consists of unrealized gains or losses arising from changes in fair value less estimated costs of our biological assets. It is calculated based on the discounted cash flow method according to technical pronouncement CPC 29-Biological assets.

### ***Sales Expenses***

Our selling expenses consist of freight, commissions and port costs related to storage and loading products on to ships.

### ***General and Administrative Expenses***

Our general and administrative expenses consist of salaries and benefits paid to our employees, taxes, expenses related to third-party services, rentals (other than land), depreciation, amortization and other expenses.

### ***Other Net Operating Income***

Other operating income (expenses), net consist of the sale of the co-generation assets to Energisa, sale of scrap and provision for doubtful receivables, among others.

### ***Financial Income (Expenses)***

Financial expenses consist primarily of (1) interest payable and bank expenses, (2) gains/losses from financial derivative instruments, (3) gains/losses from exchange rate fluctuations, (4) discounts obtained, (5) contractual fines and (6) earnings from financial investments.

### ***Current and Deferred Income and Social Contribution Taxes***

The income and social contribution taxes, both current and deferred, are calculated based on rates of 15% plus a surcharge of 10% on taxable income of the fiscal year in excess of R\$240,000 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis

of social contribution, limited to 30% (for industrial entities) and 100% (for agricultural entities) of annual taxable income.

## Results of Operations

The following discussion of our results of operations is based on our consolidated financial statements prepared in accordance with Brazilian GAAP and IFRS.

### *Fiscal Year Ended March 31, 2015 Compared to Fiscal Year Ended March 31, 2014*

The following table sets forth financial information for the fiscal years ended March 31, 2015 and 2014:

	For the Fiscal Year Ended March 31,		% Change	% of Net revenue	
	2015	2014		2015	2014
	(in millions of reais)				
Net revenue .....	731.9	804.6	(9.0)	100.0	100.0
Cost of goods sold and services rendered.....	(736.6)	(678.8)	8.5	(100.6)	(84.4)
Changes in the fair value of biological assets .....	110.0	51.8	112.3	15.0	6.4
Gross profit .....	105.3	177.6	(40.7)	14.4	22.1
Sales expenses .....	(48.4)	(53.7)	(9.9)	(6.6)	(6.7)
General expenses .....	(26.5)	(18.0)	47.4	(3.6)	(2.2)
Administrative expenses.....	(6.4)	(17.2)	(62.8)	(0.9)	(2.1)
Other operating (expenses) income, net.....	(7.7)	9.2	(183.1)	(1.0)	1.1
Financial income (expenses), net .....	(898.7)	(308.3)	191.5	(122.8)	(38.3)
Financial income .....	1,355.1	289.3	368.4	185.2	36.0
Financial expenses .....	(2,253.8)	(597.6)	277.2	(308.0)	(74.3)
Current and deferred income and social contribution taxes.....	234.9	34.8	574.4	32.1	4.3
Net profit (loss) from continuing operations.....	(647.5)	(175.5)	269.0	(88.5)	(21.8)
<b>Net profit (loss).....</b>	<b>(647.5)</b>	<b>(175.5)</b>	<b>(171.9)</b>	<b>(88.5)</b>	<b>(21.8)</b>

#### *Net Revenue*

Net revenue decreased 9.0% to R\$731.9 million for the fiscal year ended March 31, 2015 from R\$804.6 million for the fiscal year ended March 31, 2014. The principal components of our net revenue are discussed further below.

#### *Sugar*

Net revenue from sugar sales decreased 10.7% to R\$377.7 million for the fiscal year ended March 31, 2015 from R\$422.9 million for the fiscal year ended March 31, 2014. This decrease was primarily due to a 10.7% decrease in the volume of sugar sold, which decreased to approximately 411,656.2 tons of sugar for the fiscal year ended March 31, 2015 from approximately 461,232.5 tons of sugar for the fiscal year ended March 31, 2014. This decrease in volume sold was primarily due to a decrease in our sugar production (specifically a decrease in the volume of sugarcane crushed), which was primarily due to the adverse effects of the severe drought in the São Paulo region on the agricultural yield for the 2014/2015 harvest period.

#### *Ethanol*

Net revenue from ethanol sales decreased 8.0% to R\$325.7 million for the fiscal year ended March 31, 2015 from R\$354.1 million for the fiscal year ended March 31, 2014 for the reasons described below.

#### *Anhydrous*

Net revenue from anhydrous ethanol sales decreased 25.3% to R\$181.3 million for the fiscal year ended March 31, 2015 from R\$242.7 million for the fiscal year ended March 31, 2014. This decrease was primarily due to a 27.5% decrease in the volume of anhydrous ethanol sold to approximately 131,130.2 cubic meters for the fiscal year ended March 31, 2015 from 180,778.7 cubic meters for the fiscal year ended March 31, 2014. This decrease was

primarily due to a decrease in ethanol production during the fiscal year ended March 31, 2015 compared to the same period in 2014 as a result of a decrease in our sugar production (specifically a decrease in the volume of sugarcane crushed), which was primarily due to the adverse effects of the severe drought in the São Paulo region on the agricultural yield for the 2014/2015 harvest period. This decrease was partially offset by an increase in the price of anhydrous ethanol, which increased to R\$1,382.5 per cubic meter for the fiscal year ended March 31, 2015 from R\$1,342.7 per cubic meter for the fiscal year ended March 31, 2014.

#### *Hydrous*

Net revenue from hydrous ethanol sales increased 29.7% to R\$144.4 million for the fiscal year ended March 31, 2015 from R\$111.4 million for the fiscal year ended March 31, 2014. This increase was primarily due to a 22.8% increase in the volume of hydrous ethanol sold to approximately 119,276.0 cubic meters for the fiscal year ended March 31, 2015 from approximately 97,107.2 cubic meters for the fiscal year ended March 31, 2014. This increase was primarily due to our decision to increase our production of hydrous ethanol relative to anhydrous ethanol in our product mix.

#### *Other Revenues, Net*

Other revenues, net increased 2.9% to R\$28.4 million for the fiscal year ended March 31, 2015 from R\$27.6 million for the fiscal year ended March 31, 2014.

#### *Cost of Goods Sold and Services Rendered*

Cost of goods sold and services rendered increased 8.5% to R\$736.6 million for the fiscal year ended March 31, 2015 from R\$678.8 million for the fiscal year ended March 31, 2014. This increase was primarily due to (1) an increase in the annual and monthly payments (which are calculated by reference to the unit price (per kilogram) of sugarcane established by CONSECANA and a fixed amount of total ATR) we made to our third-party partners pursuant to our long-term agricultural partnership agreements and (2) an increase in the price of sugarcane purchased from third-party suppliers, mainly as a result of the adverse effects of the severe drought in the São Paulo region on the agricultural yield for the 2014/2015 harvest period. As a percentage of our net revenue, cost of goods sold and services rendered increased to 100.6% for the fiscal year ended March 31, 2015 from 84.4% for the fiscal year ended March 31, 2014.

#### *Changes in the Fair Value of Biological Assets*

Changes in the fair value of biological assets increased 112.3% to R\$110.0 million for the fiscal year ended March 31, 2015 from R\$51.8 million for the fiscal year ended March 31, 2014. This increase was primarily due to an increase in the productivity of our sugarcane fields in the Vista Alegre region as a result of the increase in the agricultural yield in that region.

#### *Sales, General and Administrative Expenses*

Sales, general and administrative expenses (including executive officers' compensation) decreased 8.5% to R\$81.3 million for the fiscal year ended March 31, 2015 from R\$88.9 million for the fiscal year ended March 31, 2014. As a percentage of our net revenue, sales, general and administrative expenses increased to 11.1% for the fiscal year ended March 31, 2015 from 11.0% for the fiscal year ended March 31, 2014.

Sales expenses decreased 9.9% to R\$48.4 million for the fiscal year ended March 31, 2015 from R\$53.7 million for the fiscal year ended March 31, 2014. This decrease was primarily due to a decrease in volume of sugar sold. As a percentage of our net revenue, sales expenses decreased to 6.6% for the fiscal year ended March 31, 2015 from 6.7% for the fiscal year ended March 31, 2014.

General expenses increased 47.4% to R\$26.5 million for the fiscal year ended March 31, 2015 from R\$18.0 million for the fiscal year ended March 31, 2014. As a percentage of our net revenue, general expenses increased to 3.6% for the fiscal year ended March 31, 2015 from 2.2% for the fiscal year ended March 31, 2014.

Administrative expenses (including executive officers' compensation) decreased 62.8% to R\$6.4 million for the fiscal year ended March 31, 2015 from R\$17.2 million for the fiscal year ended March 31, 2014. As a percentage of

our net revenue, administrative expenses decreased to 0.9% for the fiscal year ended March 31, 2015 from 2.1% for the fiscal year ended March 31, 2014.

*Other Operating (Expenses) Income, Net*

Other operating (expenses) income, net was an expense of R\$7.7 million for the fiscal year ended March 31, 2015 compared to an income of R\$9.2 million for the fiscal year ended March 31, 2014.

*Financial Income (Expenses), Net*

Financial income (expenses), net increased 191.5% to an expense of R\$898.7 million for the fiscal year ended March 31, 2015 from an expense of R\$308.3 million for the fiscal year ended March 31, 2014. This increase was primarily due to (1) an increase in the principal amounts of outstanding loans and financings and (2) an increase in the expenses associated with our U.S. dollar denominated indebtedness as a result of the depreciation of the *real* against the U.S. dollar during the fiscal year ended March 31, 2015, compared to the fiscal year ended March 31, 2014.

*Current and Deferred Income and Social Contribution Taxes*

Income and social contribution taxes were a credit of R\$234.9 million for the fiscal year ended March 31, 2015, compared to a credit of R\$34.8 million for the fiscal year ended March 31, 2014. This change was primarily due to deferred taxes from assets and liabilities and lower pretax income.

*Net Profit (Loss)*

As a result of the foregoing, we recorded a net loss of R\$647.5 million for the fiscal year ended March 31, 2015, compared to a net loss of R\$175.5 million for the fiscal year ended March 31, 2014.

***Fiscal Year Ended March 31, 2014 Compared to Fiscal Year Ended March 31, 2013***

On May 3, 2013, we completed the acquisition of Paraíso, which we merged with and into Tonon on September 30, 2013. Our financial statements for the fiscal year ended March 31, 2014 are comprised of the operations of (1) our current three mills (the Vista Alegre mill, the Santa Cândida mill and the Paraíso mill) from May 1, 2013 to March 31, 2014, and (2) our two original mills (the Vista Alegre mill and the Santa Cândida mill), and excluding Paraíso, from April 1, 2013 to April 30, 2013. Since our financial statements for the fiscal year ended March 31, 2014 include the financial information of Paraíso as set out above, our results of operations for the fiscal year ended March 31, 2014 (which include Paraíso financial information as of May 1, 2013) are not directly comparable with our results of operations for the fiscal year ended March 31, 2013 (which do not include any Paraíso financial information).

The following table sets forth financial information for the fiscal years ended March 31, 2014 and 2013:

	<b>For the Fiscal Year Ended March 31,</b>		<b>% Change</b>	<b>% of Net revenue</b>	
	<b>2014</b>	<b>2013</b>		<b>2014</b>	<b>2013</b>
	<b>(in millions of reais)</b>				
Net revenue .....	804.6	594.1	35.4	100.0	100.0
Cost of goods sold and services rendered.....	(678.8)	(486.6)	39.5	(84.4)	(81.9)
Changes in the fair value of biological assets .....	51.8	47.5	9.0	6.4	8.0
Gross profit .....	177.6	155.0	14.5	22.1	26.1
Sales expenses .....	(53.7)	(36.0)	49.1	(6.7)	(6.1)
General expenses .....	(18.0)	(14.0)	28.2	(2.2)	(2.4)
Administrative expenses.....	(17.2)	(5.2)	228.6	(2.1)	(0.9)
Other operating (expenses) income, net.....	9.2	(0.5)	n.m.	1.1	(0.1)
Financial income (expenses), net .....	(308.3)	(133.8)	130.5	(38.3)	(22.5)
Financial income .....	289.3	79.1	265.5	36.0	13.3
Financial expenses .....	(597.6)	(212.9)	180.7	(74.3)	(35.8)
Current and deferred income and social contribution taxes .....	34.8	19.5	78.4	4.3	3.3

	For the Fiscal Year Ended March 31,		% Change	% of Net revenue	
	2014	2013		2014	2013
	(in millions of reais)				
Net profit (loss) from continuing operations.....	(175.5)	(15.0)	1,074.4	(21.8)	(2.5)
Discontinued operation.....	—	0.7	—	—	0.1
<b>Net profit (loss).....</b>	<b>(175.5)</b>	<b>(14.3)</b>	<b>1,134.7</b>	<b>(21.8)</b>	<b>(2.4)</b>

\* n.m. denotes not meaningful.

#### *Net Revenue*

Net revenue increased 35.4% to R\$804.6 million for the fiscal year ended March 31, 2014 from R\$594.1 million for the fiscal year ended March 31, 2013. The principal components of our net revenue are discussed further below.

#### *Sugar*

Net revenue from sugar sales increased 20.2% to R\$422.9 million for the fiscal year ended March 31, 2014 from R\$351.8 million for the fiscal year ended March 31, 2013. This increase was primarily due to a 31.2% increase in the volume of sugar sold, which increased to approximately 461,232.5 tons of sugar for the fiscal year ended March 31, 2014 from approximately 351,467.4 tons of sugar for the fiscal year ended March 31, 2013. This increase in volume sold was primarily due to an increase in our sugar production (specifically an increase in the volume of sugarcane crushed), as a result of our acquisition of Paraíso, which increased our capacity to produce granulated refined sugar and VHP sugar. This increase was partially offset by a decrease in the price of sugar, which decreased to R\$916.8 per ton for the fiscal year ended March 31, 2014 from R\$1,001.0 per ton for the fiscal year ended March 31, 2013.

#### *Ethanol*

Net revenue from ethanol sales increased 60.9% to R\$354.1 million for the fiscal year ended March 31, 2014 from R\$220.2 million for the fiscal year ended March 31, 2013 for the reasons described below.

#### *Anhydrous*

Net revenue from anhydrous ethanol sales increased 28.5% to R\$242.7 million for the fiscal year ended March 31, 2014 from R\$189.0 million for the fiscal year ended March 31, 2013. This increase was primarily due to a 16.4% increase in the volume of anhydrous ethanol sold to approximately 180,778.7 cubic meters for the fiscal year ended March 31, 2014 from 155,305.3 cubic meters for the fiscal year ended March 31, 2013. This increase was primarily due to an increase in ethanol production during the fiscal year ended March 31, 2014 compared to the same period in 2013 as a result of our strategic decision to increase our production of anhydrous ethanol relative to hydrous ethanol in our product mix, since anhydrous ethanol is more profitable.

#### *Hydrous*

Net revenue from hydrous ethanol sales increased 257.2% to R\$111.4 million for the fiscal year ended March 31, 2014 from R\$31.2 million for the fiscal year ended March 31, 2013. This increase was primarily due to a 249.2% increase in the volume of hydrous ethanol sold to approximately 97,107.2 cubic meters for the fiscal year ended March 31, 2014 from 27,805.1 cubic meters for the fiscal year ended March 31, 2013, as a result of our acquisition of Paraíso, which increased our capacity to produce hydrous ethanol.

#### *Other Revenues, Net*

Other revenues, net increased 24.1% to R\$27.6 million for the fiscal year ended March 31, 2014 from R\$21.9 million for the fiscal year ended March 31, 2013.



#### *Cost of Goods Sold and Services Rendered*

Cost of goods sold and services rendered increased 39.5% to R\$678.8 million for the fiscal year ended March 31, 2014 from R\$486.6 million for the fiscal year ended March 31, 2013. This increase was primarily due to an increase in our sugar production (specifically an increase in the volume of sugarcane crushed). As a percentage of our net revenue, cost of goods sold and services rendered increased to 84.4% for the fiscal year ended March 31, 2014 from 81.9% for the fiscal year ended March 31, 2013.

#### *Changes in the Fair Value of Biological Assets*

Changes in the fair value of biological assets increased 9.0% to R\$51.8 million for the fiscal year ended March 31, 2014 from R\$47.5 million for the fiscal year ended March 31, 2013 as a result of an increase in the productivity of our sugarcane fields due to investments made in previous years.

#### *Sales, General and Administrative Expenses*

Sales, general and administrative expenses (including executive officers' compensation) increased 60.8% to R\$88.9 million for the fiscal year ended March 31, 2014 from R\$55.2 million for the fiscal year ended March 31, 2013. As a percentage of our net revenue, sales, general and administrative expenses increased to 11.0% for the fiscal year ended March 31, 2014 from 9.3% for the fiscal year ended March 31, 2013.

Sales expenses increased 49.1% to R\$53.7 million for the fiscal year ended March 31, 2014 from R\$36.0 million for the fiscal year ended March 31, 2013. This increase was primarily due to an increase in volume of sugar sold. As a percentage of our net revenue, sales expenses increased to 6.7% for the fiscal year ended March 31, 2014 from 6.1% for the fiscal year ended March 31, 2013.

General expenses increased 28.2% to R\$18.0 million for the fiscal year ended March 31, 2014 from R\$14.0 million for the fiscal year ended March 31, 2013. This increase was primarily due to the consolidation of the general expenses of Paraíso in our financial statements for the fiscal year ended March 31, 2014, as a result of our acquisition of Paraíso. As a percentage of our net revenue, general expenses decreased to 2.2% for the fiscal year ended March 31, 2014 from 2.4% for the fiscal year ended March 31, 2013.

Administrative expenses (including executive officers' compensation) increased 228.6% to R\$17.2 million for the fiscal year ended March 31, 2014 from R\$5.2 million for the fiscal year ended March 31, 2013. This increase was primarily due to the consolidation of the administrative expenses of Paraíso in our financial statements for the fiscal year ended March 31, 2014, as a result of our acquisition of Paraíso. As a percentage of our net revenue, administrative expenses increased to 2.1% for the fiscal year ended March 31, 2014 from 0.9% for the fiscal year ended March 31, 2013.

#### *Other Operating (Expenses) Income, Net*

Other operating (expenses) income, net was an income of R\$9.2 million for the fiscal year ended March 31, 2014 compared to an expense of R\$0.5 million for the fiscal year ended March 31, 2013.

#### *Financial Income (Expenses), Net*

Financial income (expenses), net increased 130.5% to an expense of R\$308.3 million for the fiscal year ended March 31, 2014 from an expense of R\$133.8 million for the fiscal year ended March 31, 2013. The increase was primarily due to (1) an increase in the principal amounts of outstanding loans and financings and (2) an increase in the expenses associated with our U.S. dollar denominated indebtedness as a result of the depreciation of the *real* against the U.S. dollar during the fiscal year ended March 31, 2014, compared to the fiscal year ended March 31, 2013.

#### *Current and Deferred Income and Social Contribution Taxes*

Income and social contribution taxes were a credit of R\$34.8 million for the fiscal year ended March 31, 2014 compared to a credit of R\$19.5 million for the fiscal year ended March 31, 2013. This change was primarily due to deferred taxes from assets and liabilities and lower pretax income.

### *Net Profit (Loss)*

As a result of the foregoing, we recorded a net loss of R\$175.5 million for the fiscal year ended March 31, 2014, compared to a net loss of R\$14.3 million for the fiscal year ended March 31, 2013.

### **Liquidity and Capital Resources**

Our financial condition and liquidity are influenced by several factors, including:

- our ability to generate cash flow from our operations;
- the level of our outstanding indebtedness and related accrued interest, which affects our net financial expenses;
- prevailing Brazilian and international interest rates, which affects our debt service requirements;
- our ability to continue to borrow funds from Brazilian and international financial institutions and to obtain pre-export financing from certain of our customers; and
- our capital expenditure requirements, which consist primarily of investments in crop planting, crop care, agricultural and industrial inter-harvest and the purchase of equipment.

Our cash needs have traditionally consisted of working capital requirements, servicing of our indebtedness, capital expenditures related to investments in operations, maintenance and expansion of plant facilities. Our sources of liquidity have traditionally consisted of cash flows from our operations and short- and long-term loans and financings.

For our fiscal years ended March 31, 2015, 2014 and 2013, we used cash flow generated by operations primarily for working capital, capital expenditures and short-term refinancing. As of March 31, 2015, 2014 and 2013, our cash and cash equivalents and investments totaled R\$38.8 million, R\$95.3 million and R\$323.9 million, respectively.

### ***Projected Sources and Uses of Cash***

We anticipate that we will be required to spend approximately R\$140.7 million to meet our short-term contractual obligations and commitments due between March 31, 2015 and March 31, 2016. We expect that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated from financing activities, including through the refinancing of our existing short-term indebtedness as it becomes due.

We anticipate that we will be required to spend approximately R\$294.5 million to meet our long-term contractual obligations and commitments maturing between March 31, 2015 and March 31, 2020. We anticipate that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated from financing activities, including additional debt financings and the refinancing of our indebtedness as it becomes due.

### ***Cash Flows***

The table below sets forth our cash flows for the fiscal years ended March 31, 2015, 2014 and 2013.

	<b>Fiscal Years Ended March 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
	<b>(in millions of reais, except percentages, ratios, tons and liters)</b>		
Cash flows provided by (used in):			
Operating activities .....	290.4	193.7	182.8
Investing activities .....	(416.4)	(432.2)	(214.4)
Financing activities .....	84.8	13.5	308.0
Increase (decrease) in cash and cash equivalents .....	(41.1)	(224.9)	276.4

### *Cash Flows Provided by (Used in) Operating Activities*

Cash flows provided by operating activities increased by R\$96.7 million to R\$290.4 million for the fiscal year ended March 31, 2015 from R\$193.7 million for the fiscal year ended March 31, 2014, primarily due to an increase in advances from clients.

Cash flows provided by operating activities increased by R\$10.9 million to R\$193.7 million for the fiscal year ended March 31, 2014 from R\$182.8 million for the fiscal year ended March 31, 2013, primarily due to an increase in advances from clients.

### *Cash Flows Used in Investing Activities*

Cash flows used in investing activities decreased by R\$15.8 million to R\$416.4 million for the fiscal year ended March 31, 2015 from R\$432.2 million for the fiscal year ended March 31, 2014, primarily due to a decrease in our investments in sugarcane planting.

Cash flows used in investing activities increased by R\$217.7 million to R\$432.2 million for the fiscal year ended March 31, 2014 from R\$214.4 million for the fiscal year ended March 31, 2013, primarily due to an increase in our investments in sugarcane planting and crop care. This increase was also due to our acquisition of Paraíso, for which we made a cash payment of R\$50 million.

### *Cash Flows Provided by (Used in) Financing Activities*

Cash flows provided by (used in) financing activities increased by R\$71.3 million to R\$84.8 million provided by financing activities for the fiscal year ended March 31, 2015 from R\$13.5 million provided by financing activities for the fiscal year ended March 31, 2014, primarily due to net proceeds totaling approximately U.S.\$221.7 million that we received from the issuance by Tonon Luxembourg S.A. of (1) U.S.\$73.0 million in aggregate principal amount of 10.50% senior secured notes due 2024, (2) U.S.\$96.0 million in aggregate principal amount of 10.50% senior secured notes due 2024, (3) U.S.\$32.0 million in aggregate principal amount of 10.50% senior secured notes due 2024 and (4) U.S.\$29.0 million in aggregate principal amount of 10.50% senior secured notes due 2024, collectively, the 2024 notes, the proceeds of which we used to repay some of our indebtedness, and also by a net amount (loans and financing obtained less amortization of principal on loans and financing) of R\$84.8 million provided in financing activities.

Cash flows provided by financing activities decreased by R\$294.5 million to R\$13.5 million provided by financing activities for the fiscal year ended March 31, 2014 from R\$308.0 million provided by financing activities for the fiscal year ended March 31, 2013.

### ***Indebtedness***

The following table sets forth selected information with respect to our principal outstanding indebtedness as of March 31, 2015:

<b>Modality</b>	<b>Index</b>	<b>Currency</b>	<b>Average annual interest rate</b>	<b>Year of maturity (final amortization)</b>	<b>Outstanding balance as of March 31, 2015</b>	<b>Collateral/ Guarantees</b>	<b>Value of Collateral</b>
<b>(in thousands of R\$, unless otherwise specified)</b>							
ACC (Advances on Foreign Exchange Contracts)	Fixed rate + exchange variation	USD	7.26%	2015 and 2017	142,723	—	—
Bonds	Fixed rate	USD	9.77%	2020 and 2024	1,652,830	Lien of property, plant and equipment/ alcohol monitoring/assignment/ financial investment/ rural property mortgage/ cession of credit. rights/ agricultural pledge	231,031
Operating Capital	Pre-fixed rate + CDI	R\$	20.31%	2015	23,837	Financial investment/pledge of sugarcane and ethanol	45,018
Operating Capital	Pre-fixed rate +	USD	9.25%	2015 to 2017	99,541	Financial investment/pledge	—

Modality	Index	Currency	Average annual interest rate	Year of maturity (final amortization)	Outstanding balance as of March 31, 2015	Collateral/ Guarantees	Value of Collateral
					(in thousands of R\$, unless otherwise specified)		
					of sugarcane and ethanol		
Export prepayment (PPE)	exchange variation Pre-fixed rate + CDI/LIBOR + exchange variation IGPM	USD	8.19%	2015 to 2017	195,561	Pledge of sugarcane/ assignment/promissory note	19,586
Pesa	—	R\$	4.56%	2019	475	—	—
<b>Total</b>	—	—	—	—	<b>2,115,013</b>	—	<b>295,635</b>

As of March 31, 2015, our total outstanding indebtedness was R\$2,115.0 million, consisting of R\$303.1 million of short-term indebtedness, including the current portion of long-term indebtedness, or 14.3% of our total indebtedness, and R\$1,811.9 million of long-term indebtedness, or 85.7% of our total indebtedness. As of March 31, 2015, 1.1% of our outstanding indebtedness was denominated in *reais* and the remaining 98.9% was denominated in U.S. dollars.

As of March 31, 2015, 78.1% of our total indebtedness corresponded to our issuance of U.S.\$300.0 million in aggregate principal amount of 9.250% senior notes due 2020 and the issue by Tonon Luxembourg of the 2024 notes, 9.2% to export prepayment agreements, 6.7% to advances on foreign exchange contracts, 5.8% to working capital loans and the remaining 0.2% to agricultural financings.

As of March 31, 2015, R\$802.4 million, or 37.9%, of our total indebtedness was secured by liens on certain of our sugarcane inventories, agricultural and industrial equipment and machinery, our plant facilities and accounts receivables.

Seasonality affects our level of outstanding indebtedness and working capital, as we generally incur more indebtedness and working capital to support our operations during the first six-months of our fiscal year, which increases our financial expenses for this period. Accordingly, our level of indebtedness as of March 31, 2015 is significantly higher than as of the end of the first two financial quarters of our fiscal year.

#### *Short-Term Indebtedness*

Our short-term debt, including the current portion of long-term debt, decreased to R\$303.1 million as of March 31, 2015 from R\$568.9 million as of March 31, 2014.

We have also historically maintained short-term lines of credit with a number of financial institutions in Brazil. Although we currently do not have any committed lines of credit with these financial institutions, we believe that we will continue to be able to obtain sufficient credit to finance our working capital needs based on current market conditions. As of March 31, 2015, the total outstanding balance under our short-term operating capital lines of credit was R\$123.4 million.

#### *Long-Term Indebtedness*

Our long-term debt increased to R\$1,808.7 million as of March 31, 2015 from R\$796.6 million as of March 31, 2014, primarily due to an increase in the expenses associated with our U.S. dollar denominated indebtedness as a result of the depreciation of the *real* against the U.S. dollar during the fiscal year ended March 31, 2015, compared to the fiscal year ended March 31, 2014.

As of March 31, 2015, some of our outstanding indebtedness owed to financial institutions required that we comply with financial covenants. Our definitions of EBITDA, Adjusted EBITDA and net debt in this offering memorandum are not necessarily the same as that we use for purposes of establishing covenant compliance under our financing agreements or under the indenture that will govern the New Notes offered hereby, the most restrictive of which covenants in our financing agreements were the following:

- our ratio of net debt to EBITDA may not exceed 3.00 to 1.00 as of the end of each fiscal quarter beginning in April 30, 2016 for any financial year thereafter;

- our ratio of liquidity must be at least 0.70 as of the end of each fiscal quarter beginning in April 30, 2016 for any financial year thereafter;
- our ratio of EBITDA to net financial expenses must be at least 2.80 to 1.00 as of the end of each fiscal quarter beginning in April 30, 2016 for any financial year thereafter;
- our EBITDA must be at least R\$140.0 million, to be measured based on our financial statements as of the end of each fiscal quarter;
- our ratio of total liabilities to tangible net worth may not exceed 4.5 to 1.00 measured based on our financial statements as of the end of each fiscal quarter;
- our ratio of current assets to current liabilities must be at least 1.00 for any financial year, measured based on our financial statements as of the end of each fiscal quarter; and
- our net debt to crushing ratio may not exceed R\$125/mt, measured based on our financial statements as of the end of each financial year.

As of March 31, 2015, we were in compliance with all our financial covenants other than certain financial covenants relating to financial ratios, for which we have already obtained waivers from the relevant counterparties.

Many of these instruments also contain other covenants that restrict, among other things, our ability to:

- incur additional indebtedness;
- incur additional liens or grant security interest over certain of our assets;
- issue guarantees;
- pay dividends in excess of certain mandatory amounts or make certain other restricted payments;
- consummate certain asset sales;
- enter into certain transactions with affiliates;
- change the current structure of our capital stock, or perform other certain amendments to our corporate documents, including our by-laws;
- change the account treatment, reporting practices or fiscal year or promote the revaluation of our assets, except as permitted by Brazilian GAAP;
- make any modification of certain insurance policies;
- make investments;
- enter into any corporate reorganization;
- change in control of our Company;
- make any material change in the nature of our business; or
- merge, consolidate or amalgamate with any other person or sell or otherwise dispose of all or substantially all of our assets.

In addition, the instruments governing a substantial portion of our indebtedness contain cross-default or cross-acceleration clauses, such that the occurrence of an event of default under one of these instruments could trigger an event of default under other indebtedness or enable the creditors under certain other indebtedness to accelerate that indebtedness.

## **Material Financing Agreements**

### ***Paraíso Merger and Acquisition***

On September 30, 2013, we merged Paraíso with and into Tonon. As a result, Paraíso was extinguished, ceased to exist as legal entity and Tonon succeeded to all its indebtedness, including the indebtedness of Paraíso that is described under these material financing agreements. Pursuant to the terms of Paraíso Acquisition Agreement, we are required to employ our best efforts to substitute the guarantees granted by the Pinheiro Family and Pinhal Administração de Bens Próprios Ltda. of certain credit agreements entered by Paraíso. However, as of the date of this offering memorandum, Paraíso's creditors have not responded to our request. The Pinheiro Family and Pinhal Administração de Bens Próprios Ltda. are entitled to a payment of 1% *per annum* of the guaranteed amount, limited to R\$1 million *per annum*, to compensate them for their guarantees until such time as the substitution of the guarantees is completed. As of the date of this offering memorandum, as far as we are aware, any shareholder guarantees issued by the prior shareholders of Paraíso in respect of Paraíso's indebtedness remain in place.

### ***Adiantamento sobre Contrato de Câmbio***

On June 27, 2014, we entered into an *adiantamento sobre contrato de câmbio*, or ACC, with Banco de Investimentos Credit Suisse (Brasil) S.A. in an aggregate principal amount of US\$15.0 million. The principal amount is due on June 19, 2015, with an option that allows us to extend the ACC for an additional two years. This loan bears interest of 11.5% *per annum*. This loan is secured by a rural agricultural pledge (*penhor rural agrícola*).

On September 30, 2014, we entered into an ACC, guaranteed by Tonon Holding, with Banco do Brasil S.A. in an aggregate principal amount of US\$15.9 million. The principal amount is due on September 25, 2015. This loan bears interest of 4.5% *per annum*. This loan is secured by an assignment of fiduciary credit rights (*cessão fiduciária de direitos creditórios*).

On December 5, 2014, we entered into an ACC, guaranteed by Tonon Holding, with Banco do Brasil S.A. in an aggregate principal amount of US\$6.3 million. The principal amount is due on November 27, 2015. This loan bears interest of 4.5% *per annum*. This loan is secured by an assignment of fiduciary credit rights (*cessão fiduciária de direitos creditórios*).

On December 12, 2014, we entered into an ACC, guaranteed by Tonon Holding, with Banco do Brasil S.A. in an aggregate principal amount of US\$2.7 million. The principal amount is due on December 4, 2015. This loan bears interest of 4.5% *per annum*. This loan is secured by an assignment of fiduciary credit rights (*cessão fiduciária de direitos creditórios*).

On February 6, 2015, we entered into an ACC, guaranteed by Tonon Holding, with Banco Bradesco S.A. in an aggregate principal amount of US\$0.7 million. The principal amount is due on July 29, 2015. This loan bears interest of 6.8% *per annum*.

On March 5, 2015, we entered into an ACC, guaranteed by Tonon Holding, with Banco Pan S.A. in an aggregate principal amount of US\$1.2 million. The principal amount is due on July 1, 2015. This loan bears interest of 7.1% *per annum*.

On March 5, 2015, we entered into an ACC, guaranteed by Tonon Holding, with Banco Pan S.A. in an aggregate principal amount of US\$1.2 million. The principal amount is due on October 1, 2015. This loan bears interest of 7.7% *per annum*.

### ***Export Prepayment Agreements***

On December 18, 2013, we entered into an export prepayment agreement with Banco ABC Brasil S.A., Cayman Islands Branch, and Banco ABC Brasil S.A. in an aggregate principal amount of U.S.\$4.3 million. The principal amount and interest under this loan are due and payable on June 12, 2015. Interest accrues at a rate of 70% of the CDI rate *per annum*.

On December 27, 2013, we entered into an export prepayment agreement, guaranteed by Tonon Holding, with HSBC Bank Brasil S.A – Banco Múltiplo, Grand Cayman Branch and HSBC Bank Brasil S.A – Banco Múltiplo, in an aggregate principal amount of U.S.\$10.0 million. Principal payments under this loan are due annually starting on

December 22, 2014 and continue until December 6, 2017. Interest is payable quarterly at the applicable LIBOR plus 6.3% *per annum*.

On March 17, 2014, we entered into an export prepayment agreement, guaranteed by Tonon Holding, with HSBC Bank Brasil S.A – Banco Múltiplo, Grand Cayman Branch and HSBC Bank Brasil S.A – Banco Múltiplo, in an aggregate principal amount of U.S.\$10.0 million. The principal sum is due in annual installments, commencing on April 30, 2015 and continuing until May 2, 2017. Interest is payable quarterly at the applicable LIBOR plus 6.3% *per annum*.

On June 18, 2014, we entered into an export prepayment finance agreement, guaranteed by Tonon Holding, with Amerria Latin Finance, LLC, Amerria Agri Opportunity Fund, LP, Amerria Agri Multi Strategy Fund, LP, Amerria Agri Advantage Fund, LP and Amerria Capital Management LLC, in an aggregate principal amount of U.S.\$30.0 million. Principal payments under this loan are due in May, June and July of 2015 and May, June, July, August, September, October and November of 2016 and interest is payable quarterly at the applicable LIBOR plus 8% *per annum*. This loan is secured by a fiduciary assignment of agricultural deposit certificates and agricultural warranties, a fiduciary assignment of export receivables, a rural agricultural and commercial pledge, a pledge over the relevant payment account and security over the relevant debt service reserve account.

On December 23, 2014, we entered into an export prepayment finance agreement, guaranteed by Tonon Holding, with Amerria Latin Finance, LLC, Amerria Agri Opportunity Fund, LP, Amerria Agri Multi Strategy Fund, LP, Amerria Agri Advantage Fund, LP and Amerria Capital Management LLC, in an aggregate principal amount of up to U.S.\$10.0 million. Principal payments under this loan are due on November 30, 2015 and November 30, 2016, and interest is payable quarterly at the applicable LIBOR plus 8% *per annum*. This loan is secured by a fiduciary assignment of agricultural deposit certificates and agricultural warranties, a fiduciary assignment of export receivables, a rural agricultural and commercial pledge, a pledge over the relevant payment account and security over the relevant debt service reserve account.

#### *ED&F Man Customer Advance*

On February 10, 2014, we entered into an export prepayment facility agreement, guaranteed by Tonon Holding S.A., with Holco Man Limited, as lender, ED&F Man Capital Markets Limited, as administrative agent, and ED&F Man Brazil S.A., as collateral agent, in an aggregate principal amount of U.S.\$25.0 million as amended on April 29, 2014 and September 4, 2014. The principal sum under this loan is due in installments on July 31, 2015 and on final maturity on November 30, 2015. Interest is payable on a quarterly basis at a rate based on LIBOR plus 8.5% *per annum*. The loan is secured by promissory notes, a pledge of certain receivables, a chattel mortgage over ethanol, a chattel mortgage over sugar and an agricultural pledge and is accounted for on our balance sheet as a customer advance.

On May 26, 2014, we entered into an export prepayment facility agreement, guaranteed by Tonon Holding S.A., with Holco Man Limited, as lender, ED&F Man Capital Markets Limited, as administrative agent, and ED&F Man Brazil S.A., as collateral agent, in an aggregate principal amount of U.S.\$20.0 million. The principal sum under this loan is due in installments on November 30, 2015, December 31, 2015 and on final maturity on January 31, 2016. Interest is payable on a quarterly basis at a rate based on LIBOR plus 8.08% *per annum*. The loan is secured by promissory notes, a pledge of certain receivables, a chattel mortgage over ethanol, a chattel mortgage over sugar and an agricultural pledge and is accounted for on our balance sheet as a customer advance.

#### *Banco BTG Pactual S.A. Cédula de Crédito à Exportação*

On January 28, 2013, we entered into four CCEs, guaranteed by Paraíso Holding and Wilson Helio de Albuquerque Pinheiro Júnior, Flávio de Albuquerque Pinheiro, Renata de Albuquerque Pinheiro, Sílvia de Barros Brisolla and Pinhal Administração de Bens Próprios Ltda with Banco BTG Pactual S.A., in an aggregate principal amount of approximately U.S.\$30.0 million. Principal payments and interest are payable according to a fixed schedule from March 28, 2013 through final maturity on December 28, 2017. Interest accrues at a fixed rate from 9.75% *per annum* to 15.50% *per annum*, depending on certain contractual conditions. This loan is secured by a fiduciary assignment of credit rights (*cessão fiduciária de direitos creditórios*) and financial assets (*cessão fiduciária de ativos financeiros*), a fiduciary assignment of certain real estate (*alienação fiduciária de imóveis*) and a rural agricultural pledge (*penhor rural agrícola*).

### *Notas de Crédito à Exportação*

On September 24, 2013, we entered into a nota de crédito à exportação, or NCE, guaranteed by Tonon Holding, with Banco Safra S.A., in an aggregate principal amount of US\$2.3 million. Principal and interest payments under this loan are due in nine installments in July, August and September of 2014, 2015 and 2016 until maturity in September 2016. This loan accrues interest at 8.55% rate *per annum*.

On September 25, 2013, we entered into an NCE, guaranteed by Tonon Holding, with Banco Safra S.A., in an aggregate principal amount of US\$2.3 million. Principal and interest payments under this loan are due in nine installments on July, August and September of 2014, 2015 and 2016 until maturity in September 2016. This loan accrues interest at 6.55% rate *per annum*.

### *Banco Industrial e Comercial S.A. Cédula de Crédito à Exportação*

On October 27, 2014, we entered into a CCE, guaranteed by Tonon Holding, with Banco Industrial e Comercial S.A., in an aggregate principal amount of R\$17.0 million. Principal under this loan is due on November 3, 2015. This loan bears interest at a rate of CDI plus 8.73% *per annum*, payable on a monthly basis, and is secured by a fiduciary assignment of ethanol and sugar rights.

On December 1, 2014, we entered into a CCE, guaranteed by Tonon Holding, with Banco Industrial e Comercial S.A., in an aggregate principal amount of R\$12.0 million. Principal under this loan is due on July 1, 2015. This loan bears interest at a rate of CDI plus 10.7% *per annum*, payable on a monthly basis, and is secured by a fiduciary assignment of ethanol and credit rights.

### **Off-Balance Sheet Arrangements**

We do not currently have any transactions involving off-balance sheet arrangements.

### **Contractual Commitments and Capital Expenditures**

#### *Contractual Commitments*

The following table summarizes significant contractual obligations and commitments as of March 31, 2015 that have an impact on our liquidity:

As of March 31, 2015					
	Total	Payments due by period			
		Up to 1 year	Between two and three years	Between four and five years	> 5 years
<b>Financial liabilities</b>					
Suppliers .....	117,369	115,300	2,069	—	—
Derivative financial instruments .....	1,218	1,218	—	—	—
Loans and financing .....	2,115,013	303,107	176,727	1,635,179	—
Other accounts payable.....	2,847	2,847	—	—	—
	<b>2,236,447</b>	<b>422,472</b>	<b>178,796</b>	<b>1,635,179</b>	<b>—</b>

#### *Capital Expenditures*

Our capital expenditures of property, plant and equipment and sugarcane planting were R\$416.4 million for the fiscal year ended March 31, 2015, R\$382.2 million for the fiscal year ended March 31, 2014 and R\$214.4 million for the fiscal year ended March 31, 2013. Over the last three fiscal years, we have applied our capital expenditures mainly to:

- maintain our mills;
- maintain and improve our agricultural productivity; and
- modernize our agricultural equipment and processing facilities.



The following table sets forth our principal proposed capital expenditures for the fiscal years ended March 31, 2016, 2017 and 2018.

<b>Fiscal Year</b>	<b>Total Budgeted Amount<sup>(1)</sup></b>
	<b>(in millions of reais)</b>
2016.....	203.0
2017.....	194.5
2018.....	204.0

(1) Not adjusted for inflation.

We intend to fund approximately 30% of our capital expenditures through internal cash generation and the remainder through BNDES and other external financing.

## **Quantitative and Qualitative Disclosures about Market Risk**

### ***Risk Management***

We consider market risk to be the potential loss arising from adverse changes in market rates and prices. We are exposed to a number of market risks arising from our normal business activities. Such market risks principally involve the possibility that changes in commodity prices, interest rates or exchange rates will adversely affect the value of our financial assets and liabilities or future cash flows and earnings. We periodically review our exposure to market risks and determine at the senior management level how to manage and reduce the impact of these risks. We do not use derivative financial instruments to manage market risks neither for hedging fluctuation in commodity prices nor for hedging variations in the U.S. dollar/*real* exchange rate. Despite the fact that a substantial portion of our debt is denominated in U.S. dollars, we believe that our business is naturally hedged against our exposure to foreign exchange variations as a result of a portion of our revenues being linked to the U.S. dollar/*real* exchange rate through VHP sales indexed to the U.S. dollar and certain domestic sale contracts of crystal sugar also indexed to the U.S. dollar.

We do not enter into derivative or other hedging instruments for speculative purposes.

### ***Interest Rate Risk***

We have fixed and floating rate indebtedness, and therefore, we are exposed to market risk as a result of changes in interest rates. We engage in interest rate-related hedging transactions from time to time for reasons other than trading or speculative purposes. As of March 31, 2015, our fixed rate debt comprised 89.6%, or R\$1,895.6 million, of our total debt. Interest rate risk is the effect on our financial results resulting from an increase in interest rates on our variable rate debt indexed to LIBOR, TJLP, Reference Rate (*Taxa Referencial*), or TR, IGP-M, and CDI. Based on the amount of our floating-rate indebtedness as of March 31, 2015, we believe that a hypothetical 10% increase in interest rates would have increased our interest expense by R\$0.5 million for the 12-month period ending on such date.

### ***Foreign Currency Exchange Rate Risk***

A portion of our net operating income is denominated in U.S. dollars. Our net revenue from exports totaled R\$426.6 million in the fiscal year ended March 31, 2015. We use a sensitivity analysis to regularly estimate our exposure to foreign exchange risk in respect of our export positions. Based on our net operating income from exports in the fiscal year ended March 31, 2015, we believe that a hypothetical 10% depreciation of the *real* to the U.S. dollar would have decreased our net operating income by R\$42.6 million for the fiscal year ended March 31, 2015. Furthermore, a portion of our costs are denominated in *reais*, therefore, our operating margins could be negatively affected when there is an appreciation of the *real* relative to the U.S. dollar.

A substantial portion of our debt is also denominated in U.S. dollars, which exposes us to market risk related to exchange movements between the *real* and the U.S. dollar. From time to time, we engage in foreign exchange rate-related financial transactions for reasons other than trading or speculative purposes. As of March 31, 2015, 98.9%, or R\$2,090.7 million, of our debt was denominated in U.S. dollars. We estimate our foreign currency exchange rate risk as the potential devaluation of the *real* on our U.S. dollar-denominated debt and other U.S. dollar-denominated

liabilities. Based on our outstanding U.S. dollar denominated exposure as of March 31, 2015, we believe that a hypothetical 10% devaluation of the *real* would have increased our financial expenses by R\$209.1 million for the fiscal year ended March 31, 2015.

## SUGAR AND ETHANOL INDUSTRIES

### Introduction

The sugar and ethanol industries differ significantly from one another even though both commodities in Brazil are produced from sugarcane. Sugar is a staple consumer product that supplies a highly-developed market that continues to grow largely due to population growth. Ethanol, on the other hand, has been produced in large quantities and has been sold in Brazil since the 1970s, but is a relatively new product in international markets. Ethanol production offers significant growth prospects, particularly in light of recent initiatives in several countries to seek alternative sources of energy as a substitute for petroleum.

### Sugarcane

Sugarcane is the primary raw material used in the production of sugar and ethanol throughout the world. Sugarcane is a tall grass (*gramineae*) that grows best in tropical climates characterized by warm temperatures and high humidity. The climate and topography of the Southeast and Midwest regions of Brazil is ideal for the cultivation of sugarcane. The Southeast and Midwest regions of Brazil account for approximately 91.1% of Brazil's sugarcane production, according to UNICA.

### World Sugar and Ethanol Industry

#### *Sugar*

Sugar is a staple consumer product and essential commodity produced in various parts of the world. Sugar is primarily derived from sugarcane and sugarbeet. Sugar has agricultural and industrial applications and its production is both labor and capital intensive.

#### *Sugar Products*

Sugar can be categorized into three main product categories (raw sugar, white sugar and liquid sugar).

These categories are based on two principal criteria:

- *Polarization*: The sucrose content of sugar is measured as Polarization degrees (°S or °Z). As an illustration, granulated refined sugar, which is more pure than crystal sugar has a reading of more than 99.80°Z compared to 99.70°Z for crystal sugar.
- *Color*: The color of white sugar is measured on the International Commission of Uniform Methods of Sugar Analysis scale, or the ICUMSA scale. This scale measures the purity of the sugar according to the reflection of light through the sugar crystals, with zero being the purest possible for a crystal. The ICUMSA scale ranges from 15 to 1600.

#### Raw Sugar

Raw sugar is a tan to brown colored, coarsely grained solid obtained on the evaporation of clarified sugarcane or sugar beet juice. It is a partially purified sugar, characterized by sucrose crystals covered with a film of molasses. Raw sugar is processed from the cane or the sugar beet at a sugar mill and usually further refined to produce white sugar for consumption. It ranges from 92°Z to 99.6°Z average polarization. Raw sugar is traded in U.S.\$ per pound at the New York's ICE under the contract no. 11. The Sugar No. 11 contract is the world benchmark contract for raw sugar trading.

#### White Sugar

White sugar is a purified sugar whose average polarization ranges from 99.6°Z to 99.9°Z. White sugar may be produced directly from sugarcane or beet; the only difference in the final product produced is in its appearance. White sugar from beet tends to be produced in slightly smaller and more uniform crystals than that from cane due to the higher purity of the beet concentrate; there is no difference in taste between the two. White sugar can also be produced indirectly from raw sugar under a refining process. White sugar can be subdivided into two different products: Crystal sugar and granulated refined sugar.

## Liquid Sugar

Liquid sugar classification includes products that may have only a limited percentage of pure sugar or sucrose content. Liquid sugar is a natural sweetener made from sucrose and is an odorless solution, crystal clear, obtained by dissolving solid sugar in water with subsequent purification and discoloration, which ensures that the product has high transparency and clarity. In general, it has a concentration from 66.7 to 67.3% Brix. This is a product with the same flavor and sweetness profile of common solid sugar, and for these reasons, highly requested by the industries producing carbonated beverages.

## *Sugar End Markets*

### Food

Sugar is the most versatile sweetener available. It is commonly used in a variety of foods because of its unique qualities, which cannot be reproduced by any other ingredient. It can be considered one of the cheapest sources of energy for humans. It is used for baked products, beverages, biscuits, soft drinks, chocolates, confectionary and dairy products.

### Non-Food

The two main non-food applications of sugar are in the pharmaceutical and fermentation industries. In some applications such as fermentation, sugar has been able to partly replace hydrolysates or molasses when price arbitrage is in favor of sugar. This is notably the case in Europe where sugar for industrial uses is not limited by the sugar regime and has become competitive with other substrates.

### Pharmaceuticals

There is a significant use of sugar in the pharmaceutical industry, for example in medicated sweets, blended powders (cold and flu remedies), cough syrups, tablets and pastilles. In addition to adding sweetness to medical products to make them more palatable, sugar also provides desirable functional properties: low toxicity, high purity, ability to act as a natural preservative and ability to control the dissolving of medical products.

### Fermentation

Sugar is also used by several industries as a substrate for bacteria and other living micro-organisms such as yeasts to generate organic acids and other compounds. In this respect, sugar is a starting substrate for the production of penicillin and vaccines or organic acids such as lysine. Sugar is also an alternative to hydrolysates or molasses in the production of fermentation products such as citric acid for use in beverages or detergents or for the production of enzymes.

## *Production and Consumption*

Worldwide sugar production and consumption have totaled approximately 174,308 million tons and 170,600 million tons, respectively, during the 2014/2015 harvest, according to USDA estimates as of May 2015. Consumption has generally outpaced production, reducing world sugar inventories. The following table shows the relation between global production and consumption, as well as the impacts on imports, exports and inventories:

<u>Year</u>	<u>Total Sugar Production</u>	<u>Total Imports</u>	<u>Total Exports</u>	<u>Human Consumption</u>	<u>Ending Stocks</u>	<u>Ratio</u>
(in thousands of tons)						
2005/2006.....	144,303	44,720	49,534	142,941	30,572	21.4%
2006/2007.....	164,458	44,306	51,021	149,393	36,890	24.7%
2007/2008.....	163,536	45,715	50,903	150,855	43,650	28.9%
2008/2009.....	144,014	42,673	45,401	153,389	30,303	19.7%
2009/2010.....	153,403	48,569	48,656	154,081	28,759	18.6%
2010/2011.....	161,923	49,357	54,701	154,794	29,830	19.2%
2011/2012.....	171,931	48,791	55,702	158,145	35,987	22.7%
2012/2013.....	176,033	52,328	56,561	163,673	43,162	26.2%
2013/2014.....	174,826	52,545	58,678	167,640	43,379	25.7%

Year	Total Sugar Production	Total Imports	Total Exports	Human Consumption	Ending Stocks	Ratio
(in thousands of tons)						
2014/2015* .....	174,308	51,551	54,155	170,600	44,281	26.1%

Source: USDA, FAS, Foreign Agricultural Service's Production, Supply and Distribution online.

\* USDA Estimates as of May 2015.

The world's five largest sugar producing countries accounted for approximately 60.4% of the global sugar output during the 2013/2014 harvest according to the USDA. Brazil is the largest sugar producer and exporter with an approximate 21.5% share of total world sugar production. The next largest producers are India and the European Union, with approximate 15.2% and 9.1% shares, respectively. The following charts show the largest producers and exporters of sugar during the harvests indicated.

The following table shows the leading global producers of sugar:

Leading Sugar Producers	2011/2012	2012/2013	2013/2014	2014/2015*
(in thousands of tons)				
1. Brazil .....	36,150	38,600	37,800	35,850
2. India .....	28,620	27,200	26,605	29,483
3. European Union .....	18,320	16,591	16,020	16,750
4. China .....	12,341	14,000	14,263	11,000
5. Thailand .....	10,235	10,000	11,333	10,970
6. United States .....	7,700	8,144	7,676	7,735
7. Mexico .....	5,351	7,393	6,382	6,360
8. Pakistan .....	4,520	4,780	5,630	5,230
9. Russia .....	5,545	5,000	4,400	4,350
10. Australia .....	3,683	4,250	4,380	4,700
11. Others .....	39,466	40,075	40,312	41,880
World .....	171,931	176,033	175,563	174,308

Sources: USDA, UNICA, ISO and Agroconsult.

\* USDA Estimates as of May 2015.

The following table shows the leading global exporters of sugar:

Leading Sugar Exporters	2011/2012	2012/2013	2013/2014	2014/2015*
(in thousands of tons)				
1. Brazil .....	24,650	27,650	26,200	24,550
2. Thailand .....	7,898	7,000	7,200	8,000
3. Australia .....	2,800	3,100	3,242	3,561
4. Mexico .....	985	2,090	2,661	1,596
5. India .....	3,764	1,240	2,801	1,500
6. Guatemala .....	1,619	1,950	2,100	2,200
7. European Union .....	2,343	1,500	1,552	1,500
8. Cuba .....	830	750	1,053	1,050
9. United Arab Emirates .....	935	564	739	565
10. Colombia .....	876	600	800	810
11. Others .....	9,002	10,117	9,181	8,823
World .....	55,702	56,561	57,529	54,155

Sources: USDA, SECEX, ISO and Agroconsult.

\* USDA Estimates as of May 2015

The main importers of sugar are:

Leading Sugar Importers	2011/2012	2012/2013	2013/2014	2014/2015*
	(in thousands of tons)			
1. Indonesia.....	3,027	3,570	3,570	3,050
2. European Union.....	3,552	3,900	3,263	3,000
3. United States .....	3,294	2,925	3,395	3,143
4. China.....	4,430	3,800	4,330	4,800
5. United Arab Emirates .....	2,154	2,583	2,108	2,400
6. Algeria .....	1,594	1,940	1,854	1,760
7. Malaysia.....	1,720	1,966	2,031	2,075
8. South Korea.....	1,668	1,806	1,909	1,870
9. Iran .....	1,079	1,700	1,629	1,400
10. India .....	188	1,800	1,050	1,000
11. Bangladesh.....	1,700	1,547	2,085	2,075
12. Nigeria.....	1,399	1,450	1,470	1,465
13. Others .....	23,166	23,341	22,607	23,513
World .....	48,971	52,328	51,301	51,551

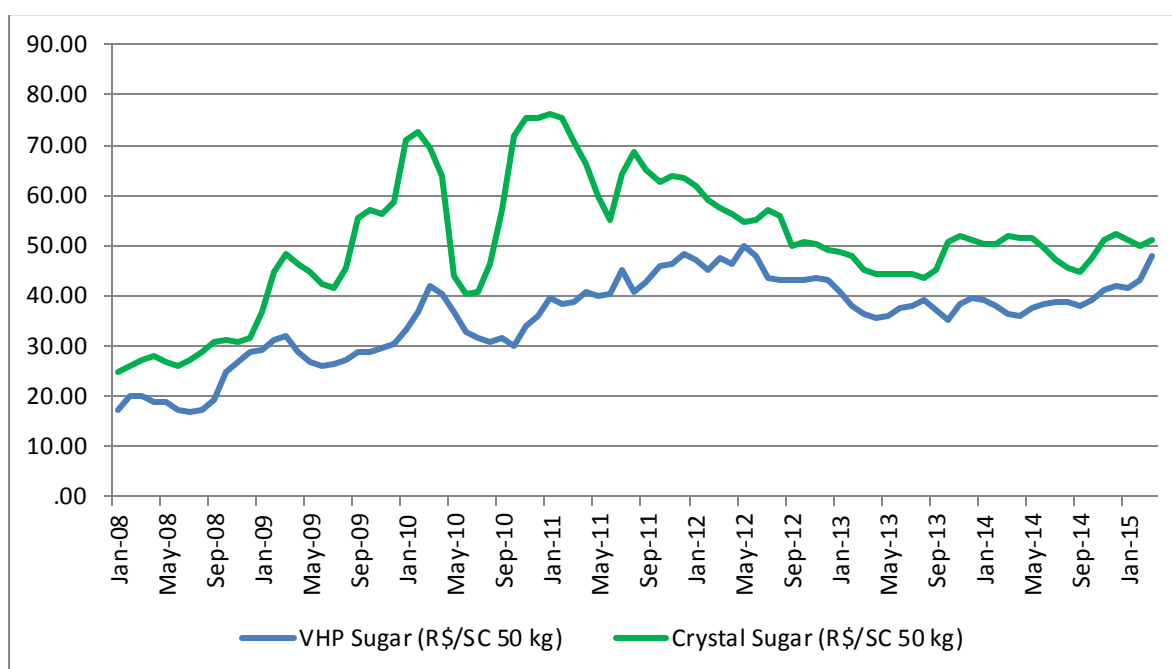
Sources: USDA, SECEX, ISO and Agroconsult.

\* USDA Estimates as of May 2015.

### Sugar Prices

Most sugar-producing countries, including the United States and countries of the European Union, protect their domestic sugar markets from foreign competition through policies, regulations and other measures, including import and export restrictions, quotas, duty taxes and subsidies. As a result of these regulatory measures, domestic sugar prices fluctuate from one country to another. The unregulated international prices of raw sugar follow the rates established by the NY11 contract. The London No. 5 White Sugar Futures Contract, or Lon 5 rate is based on the price of crystal sugar traded on LIFFE. In Brazil, domestic sugar prices are established according to free market principles. The main rate adopted in Brazil is established by ESALQ. In Brazil, domestic sugar prices generally follow international sugar prices.

The following chart shows the market prices of raw sugar in the NY11 and crystal sugar (ESALQ tax free):



The impact of fluctuations in international sugar prices on sugar production is mitigated by two factors. Many sugar producers operate in regulated markets, are protected from price fluctuations and accordingly do not tend to modify production significantly. In addition, sugarcane, the main raw material used for global sugar production, is semi-perennial, with two- to seven-year plant cycles. In Brazil, the world's largest sugar producer, the average plant cycle is five years.

Over the last few years, international sugar prices have generally increased as a result of a reduction in global sugar inventories and certain production problems faced by sugar producers in China, India and Thailand, mainly related to unfavorable climate conditions and the reduction of government subsidies for the planting of sugarcane in the European Economic Area. Brazil, as the world's largest sugar producer, accounting for approximately 45.3% of global exports during the 2014/2015 harvest, plays a key role in the establishment of world sugar prices.

### *Trade Restrictions*

USDA estimates that approximately 95% of the sugar produced in the world during the 2013/2014 harvest was consumed domestically by sugar-producing countries. The world sugar production increased from approximately 130.9 million tons during the 1998/1999 harvest to 175.6 million tons during the 2013/2014 harvest. Despite this significant growth, the sugar industry remains highly regulated and protected in several countries through quotas, subsidies and import restrictions.

The following chart shows the volume of global sugar exports for the harvest periods indicated:



Source: USDA.

\* USDA Estimates as of May 2015.

On August 29, 2003, the WTO established an arbitration panel upon requests made by Australia, Brazil and Thailand, which alleged that the European Union had breached rules governing the establishment of export subsidies in violation of international agreements and other rules in connection with the European Union sugar regime, causing a distortion in world sugar prices. These countries allege that if these subsidies had not been granted, global sugar prices would rise by approximately 20.0%, and Brazilian sugar producers would have earned additional net income ranging from U.S.\$500.0 million to U.S.\$700.0 million per year from exports. In August 2004, the WTO issued a preliminary ruling in favor of these countries after concluding that the European Union's sugar subsidies

give its farmers an unfair advantage in global export markets. The European Union's appeal of this decision was rejected in April 2005 and, as a result, the European Union was forced to reduce sugar exports by 4.0 to 4.6 million tons of granulated refined sugar per year, allowing more competitive sugar-producing countries to absorb a larger share of the world sugar market.

In July 2006, following almost 40 years during which the European Union sugar subsidies system remained largely unchanged, the European Union enacted reforms seeking to enhance the competitiveness and market orientation of European sugar exports, to guarantee the long-term sustainable future for European sugar production and to strengthen the European Union's negotiating position in the international sugar market.

Among the measures adopted was a cut in prices paid to sugar producers by approximately 36% over a period of four years in the following manner: 20% in the first year, 27.5% in the second year, 35% in the third year and, finally, 36% in the fourth year. In addition, sugar producers that renounced their quota in the European sugar market received €730 as compensation per renounced ton of sugar during the first two years. The 2006-2009 scheme for the restructuring of the European sugar industry resulted in the renunciation of 5.8 million tons of quota, slightly below the six million tons initial goal set by the European Union Commission, and decreased the guaranteed minimum sugar price from €631.9/ton in the 2006/2007 harvest to €404.4/ton in the 2011/2012 harvest.

### ***Artificial Sweeteners***

The world market for artificial sweeteners, or high-intensity sweeteners, was dominated by saccharin until 1981. In 1981, aspartame, launched by GD Searle, revolutionized the artificial sweetener market because of its improved taste and lack of side effects. In 2003, aspartame had the largest share of the artificial sweetener market and was sold under various brand names, including Equal, Candarel, Spoonfuls and NutraSweet.

In recent years, sucralose, a third-generation sweetener commercialized under the Splenda brand, has emerged as a competitor to aspartame. Sucralose (trichlorogalactosucrose), a sugar by-product, was first discovered in 1975 when it was found that by modifying the sucrose (sugar) molecule it was possible to make a much sweeter alternative substance (600 times that of sugar) while retaining the natural taste of sugar. Unlike aspartame, sucralose is heat-resistant and thus able to broaden the end-user market to include the canned and baked food industries, among others.

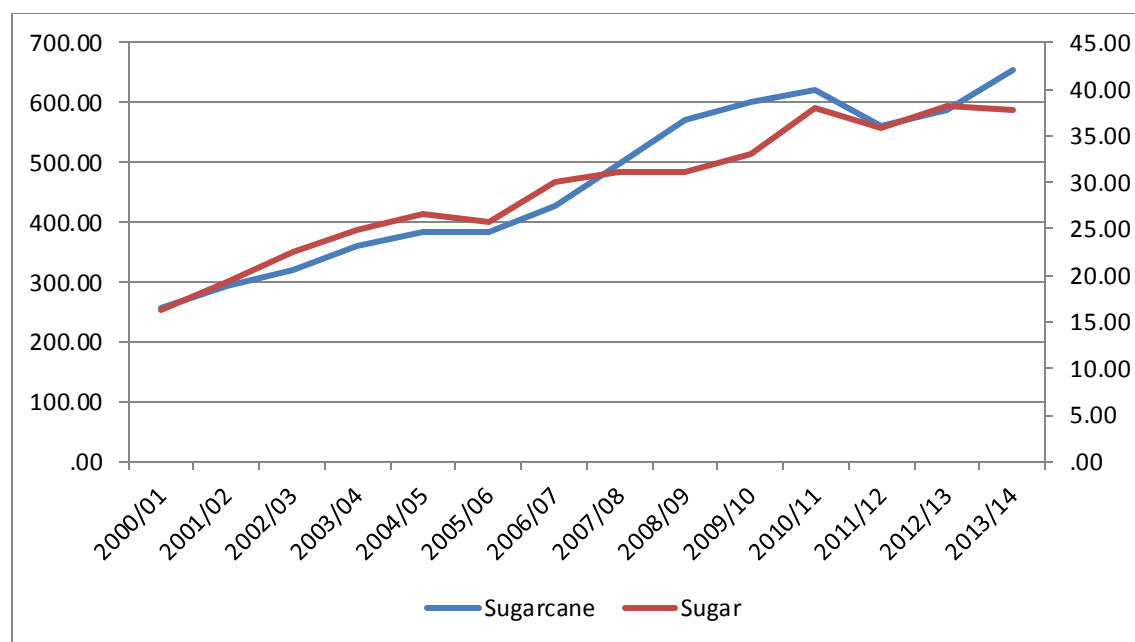
The most visible evidence of the success of sucralose is in its growing level of acceptance in the retail market. Since its launch in mid-2000, Splenda has rapidly replaced other low-calorie sweeteners to become consumers' preferred artificial sweetener.

### ***Brazilian Sugar Industry***

Brazil is the world's largest producer of sugarcane for the production of ethanol and sugar. Brazil produced 37.7 million tons of sugar during the 2013/14 harvest and 27.5 million cubic meters of ethanol estimated for the 2013/2014 harvest, according to data published by UNICA.

The following chart shows the evolution of Brazilian sugarcane production and sugar production between 2000/2001 and 2013/2014 according to UNICA:





Source: UNICA

### **Ethanol**

The increase in oil prices over the last few years and increasing concerns with the environment have created favorable conditions for the use of renewable resources of energy such as ethanol. Despite an increase of 32.8% over the last five years in global ethanol production, from approximately 66.8 million cubic meters in 2009 to approximately 88.7 million cubic meters 2014, the ethanol market is in its stages of development.

Ethanol is a fuel that can be produced from sugarcane, corn and/or sugarbeet. It is a clean and biodegradable fuel and its manufacturing and burning are not believed to increase the greenhouse effect. Ethanol's high oxygen content reduces carbon monoxide emission levels emitted from the burning of gasoline, according to the United States Environmental Protection Agency. Ethanol blends also reduce emissions of hydrocarbons, a major contributor to the depletion of the ozone layer. Environmental concerns and initiatives are raising awareness of the need to reduce world consumption of fossil-based fuels and adopt cleaner fuels, such as ethanol. One example is the Kyoto Protocol, an agreement on global warming reached in 1997 by the United Nations Conference on Climate Change in Kyoto, Japan that became effective on February 16, 2005. Under the Kyoto Protocol, major industrial nations have pledged to reduce their emissions of carbon dioxide and five other greenhouse gases between 2008 and 2012. Currently, a total of 191 countries and one regional economic integration organization have ratified the Kyoto Protocol agreement. Global initiatives like the Kyoto Protocol are expected to increase the demand for ethanol over the next years.

#### **Production, Exports and Consumption**

Currently, the United States and Brazil are the principal producers and consumers of ethanol, producing 56.8% and 26.7% of the ethanol in the world in 2014/2015, respectively, according to the USDA. Most ethanol produced in the United States is made from corn, while in Brazil it is produced from sugarcane. The following charts illustrate the world's main ethanol producers during the 2014/2015 harvest period and the growth of ethanol production.

The following table shows the market share of the largest ethanol-producing countries:

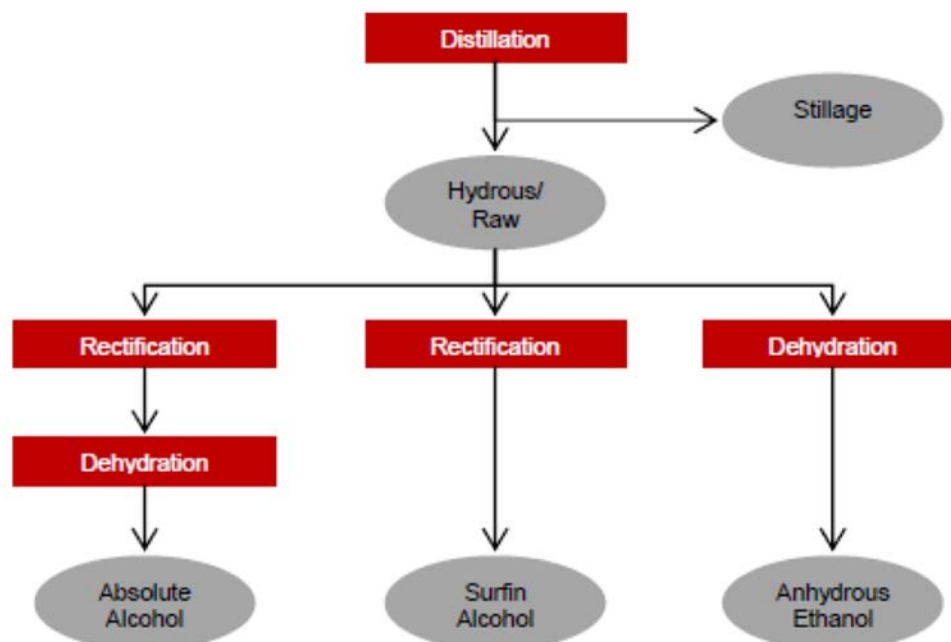
Main Ethanol-Producing Countries	2014/2015
United States .....	56.8%
Brazil .....	26.7%
European Union .....	5.9%
China .....	3.0%

Main Ethanol-Producing Countries	2014/2015
India.....	2.2%
Others.....	5.4%

Source: RFA, USDA.

### Ethanol Products

The flowchart below shows how the four different grades of alcohols (hydrous/raw ethanol, anhydrous ethanol, surfin alcohol and absolute alcohol) are obtained:



Hydrous/raw ethanol and anhydrous ethanol are two different fuel grades of ethanol (or biofuel).

**Hydrous/Raw Ethanol.** Hydrous or raw ethanol is produced from the distillation of centrifuged wine obtained from the fermentation of sugar juice and molasses. In Brazil, hydrous ethanol has a minimum alcoholic content of 92.6%, as determined by the Brazilian National Institute of Weights and Measures, or INPM. Hydrous ethanol is colorless and is sold directly to hydrous ethanol distributors and sent to gas stations for direct use in vehicles.

**Anhydrous Ethanol.** When hydrous or raw ethanol is dehydrated to reach a higher concentration of ethyl alcohol content, it is called anhydrous ethanol. In Brazil, anhydrous ethanol has a minimum alcoholic content of 99.3%, as determined by INPM. Anhydrous ethanol is sold in bulk in tanks that are specially designed for the transportation of flammable products and is used as a gasoline additive and later sent to gas stations. Such ethanol is the only fuel-grade ethanol that can be used by car vehicles in Europe, because of the specifications of engines sold to European customers.

**Biofuel.** Biofuel is defined as fuel derived from biological materials or from the metabolic by-products of living organisms. These include wood, vegetable oils, animal fats and animal manure. By contrast, fossil fuels, such as coal and petroleum, are derived from long-dead biological materials that have been transformed by geological processes. The use of biofuels is expanding, as they offer several advantages over fossil fuels. For example, many biofuels are nontoxic, biodegradable and renewable. The use of biofuels also reduces dependence on oil and enhances energy security.

## *Ethanol Prices*

### International Trade

A world ethanol market does not exist yet in the way that it does for other energy commodities. There is no liquid futures contract, worldwide or even domestically. Moreover, international trade accounts for only about 8% of world production, since it is a result of the trade of local surpluses.

### Brazilian Domestic Market

In Brazil, approximately 7% to 8% of the total ethanol production is usually exported. This makes ethanol prices less dependent on international prices (usually oil-correlated prices) and more related to domestic sugar prices. Domestic prices for hydrous, anhydrous and industrial ethanol are collected, analyzed and released on a daily, weekly and monthly basis by ESALQ, creating a valuable index which allows contracts, indexation and spot deals.

A future contract was launched on May 17, 2010 by the BM&FBOVESPA, relating to hydrous ethanol, priced in *reais* per cubic meter, based in the city of Paulínia, state of São Paulo, allowing financial liquidation, instead of physical delivery. This is not the first movement attempting to settle a futures contract and provide a more predictable market, while allowing a hedging tool for producers and offtakers.

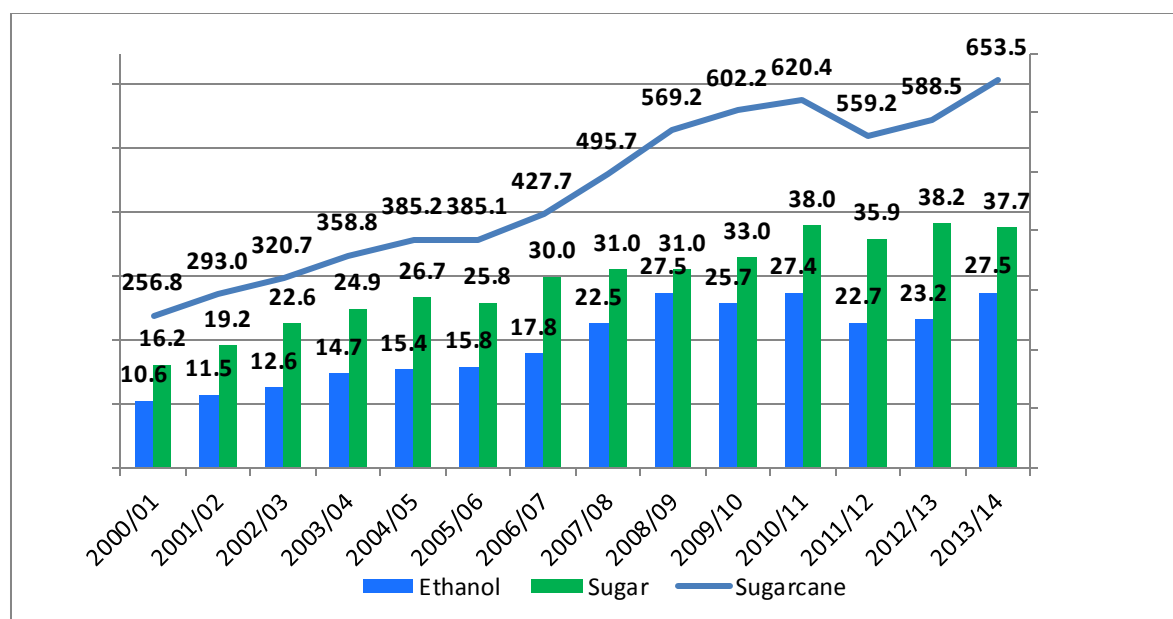
### *Global Industry*

Despite an increase of 32.8% over the last five years in global ethanol production, from approximately 66.8 million cubic meters in 2009 to 88.7 million cubic meters in 2014, the ethanol market is in its early stages of development. The increase in oil prices over the last years and the increasing concerns with the environment have created favorable conditions for the use of renewable resources of energy such as ethanol. Sugar- and ethanol-producing countries still give priority to supplying their domestic markets.

### **Brazilian Sugar and Ethanol Industry**

Brazil is the largest producer of sugar and raw materials for the production of ethanol and sugar, the largest exporter of ethanol and the second largest ethanol producer in the world. In 2013, agribusiness accounted for approximately 22.5% of Brazil's GDP. During the 2013/2014 harvest, Brazil crushed 653.5 million tons of sugarcane and produced 37.7 million tons of sugar and 27.5 million cubic meters of ethanol. During the same harvest, Brazil exported a total of 26.2 million tons of sugar, according to USDA, representing approximately 45.5% of the world's sugar exports.

The following chart illustrates the growth of Brazilian sugarcane, sugar and ethanol production:



Source: USDA.

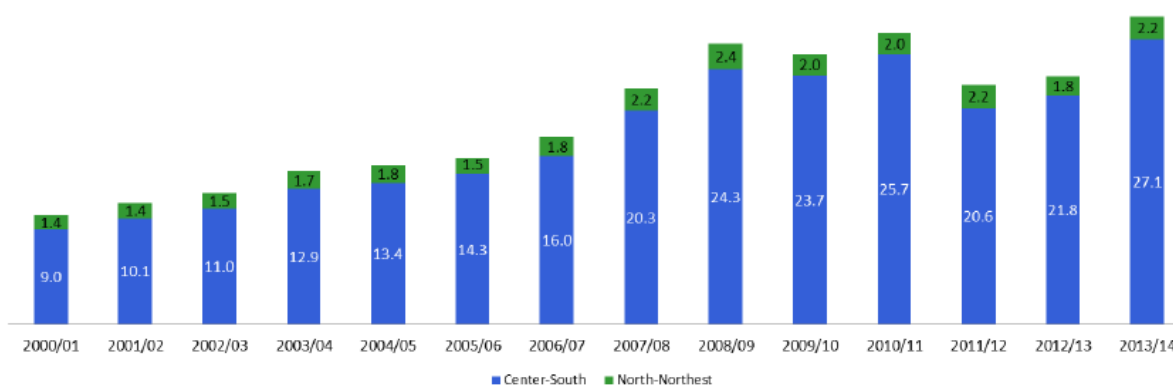
### *History of Sugar and Ethanol Production in Brazil*

Sugarcane is cultivated in two main regions of Brazil: the Southeast and Midwest regions, including the South, Southeast and Midwest regions, encompassing the states of Paraná, São Paulo, Minas Gerais, Rio de Janeiro, Espírito Santo, Mato Grosso do Sul and Goiás; and the North and Northeast regions, encompassing the states of Alagoas, Pernambuco, Paraíba, Sergipe, Rio Grande do Norte and Bahia.

There are two harvesting periods in Brazil, one in each region, and the land on which sugarcane is cultivated accounts for 1.0% of Brazil's total fertile land, or approximately 8.8 million hectares during the 2013/2014 harvest, according to CONAB. In the Southeast, Midwest and North regions, the harvesting period runs from April to December, whereas in the Northeast region, it runs from August to March.

The Southeast and Midwest regions accounted for approximately 90.6%, 92.2% and 93.0% of the 2011/2012, 2012/2013 and 2013/14 total ethanol production in Brazil, respectively.

The chart below presents the ethanol production in Brazil by region for the harvest periods indicated (in billions of liters):



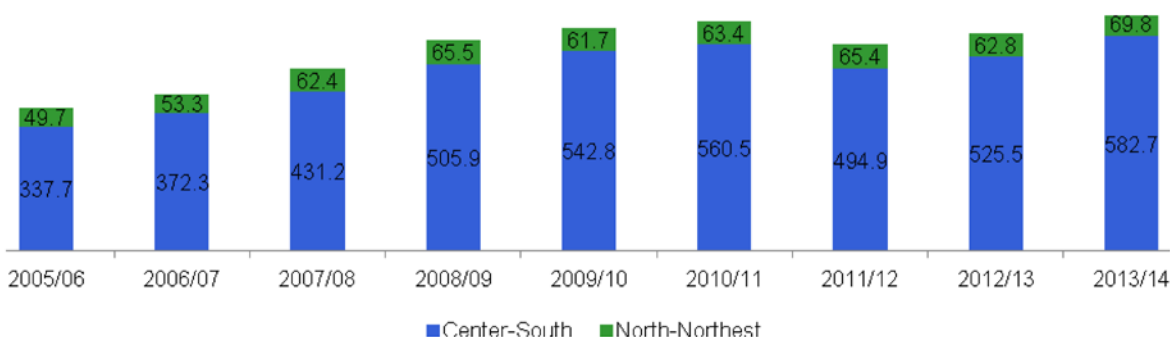
Source: SECEX

Brazil is the world's largest producer of sugarcane, followed by India and China, having produced 653.5 million tons during the 2013/2014 harvest. The planting and harvesting of sugarcane is significantly less costly than planting and harvesting sugar beet, which has one annual crop, needs to be re-planted every year and requires crop rotations every three to five years. In addition, Brazilian sugarcane mills are also powered by bagasse and leaves, sugarcane's by-products, which when burned in boilers generate steam and electric energy. A large portion of Brazilian mills are energy self-sufficient. As a result, Brazilian ethanol has some of the lowest production costs in the world.

### ***Brazilian Sugar Production***

Brazil is one of the lowest-cost producers of sugar in the world due to its favorable climate and its development of agricultural and industrial technology related to the production of sugarcane, sugar and ethanol over the last 30 years. Brazil's technological developments have resulted in longer harvesting cycles, higher sugarcane production per hectare, higher sucrose contents from the crushed sugarcane and lower losses during production of sugar and ethanol, which has yielded larger sugar outputs.

The following chart shows the total Brazilian sugarcane crushed by region from the 2005/2006 harvest period to the 2013/2014 harvest period:



Source: Agroconsult.

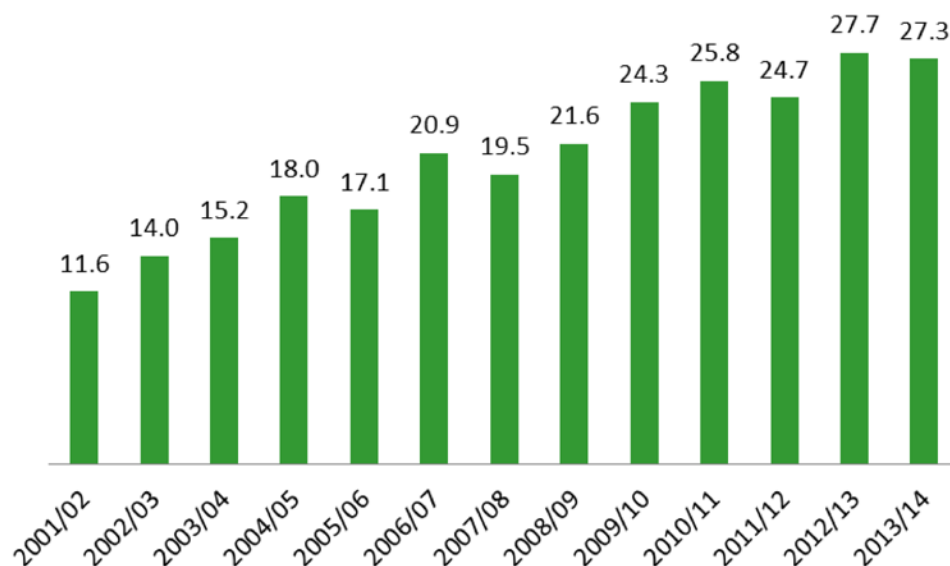
### ***Brazilian Sugar Consumption***

Brazil is one of the world's largest consumers of sugar, having consumed approximately 11.3 million tons during the 2013/2014 harvest. The consumption of sugar in Brazil continues to grow principally as a result of an increase in processed products made from sugar. Food manufacturers, especially manufacturers of soft drinks, chocolate and ice cream, account for approximately 40% of domestic sugar consumption.

### ***Leading Sugar Exporter***

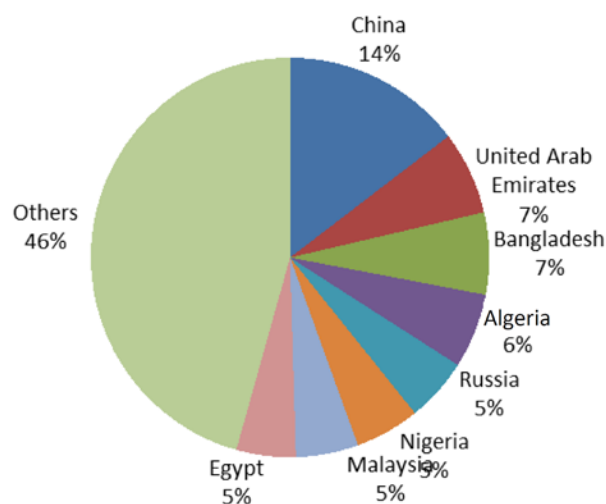
Brazil is the world's largest exporter of sugar, exporting 26.2 million tons (Raw Value) during the 2013/2014 harvest. Brazilian sugar exports consist primarily of raw sugar and refined white sugar. Raw sugar is mainly handled and shipped in bulk and reprocessed in refineries.

The following chart shows the total Brazilian sugar exports during the harvest periods indicated:



Source: USDA.

Brazil accounted for approximately 45.5% of the world's total sugar exports during the 2014/2015 harvest. In 2014, China, the United Arab Emirates, Bangladesh and Algeria were the main importers of Brazilian sugar, as shown in the following chart:



Source: Unica.

### ***Ethanol in Brazil***

According to UNICA, Brazil produced 27.5 billion liters of ethanol in 2014/2015, representing over 26.7% of the world's total ethanol production. Over 90% of Brazil's ethanol production is sold domestically.

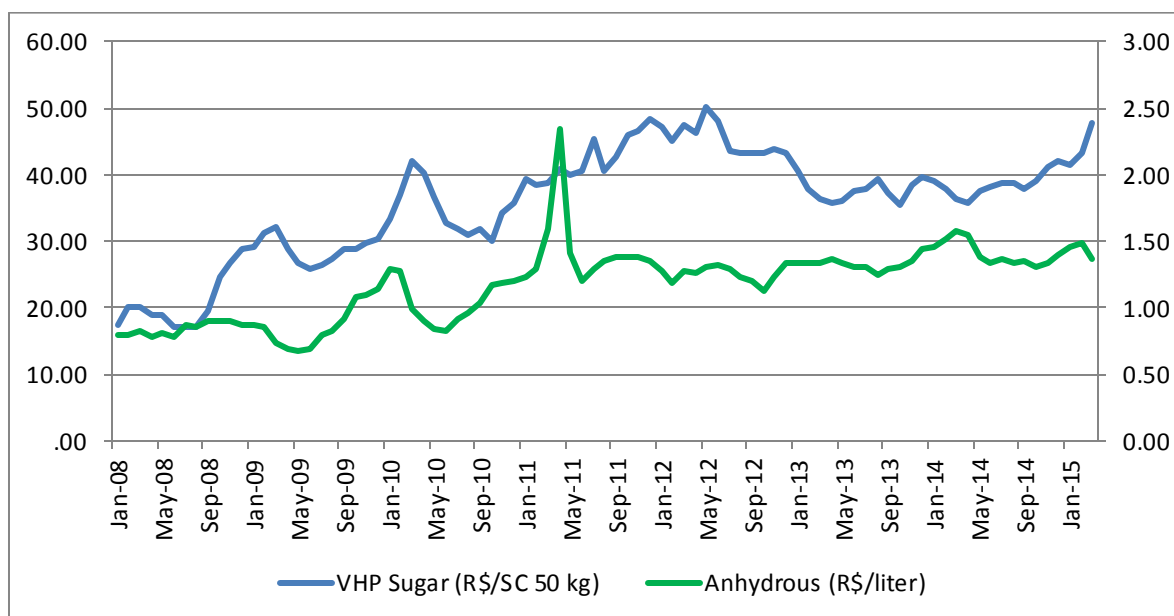
The following table shows the top producer states and regions in Brazil.

Ethanol Production States	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014
---------------------------	---------------	---------------	---------------	---------------

Ethanol Production States	2010/ 2011	2011/ 2012	2012/ 2013	2013/ 2014
(in thousands of cubic meters (1000m3))				
São Paulo .....	15,489	11,704	11,830	13,944
Goiás .....	2,947	2,773	3,130	3,879
Minas Gerais .....	2,617	2,028	1,994	2,657
Mato Grosso do Sul.....	1,850	1,596	1,917	2,231
Paraná.....	1,640	1,439	1,299	1,488
Mato Grosso.....	861	852	975	1,104
Alagoas.....	671	699	543	511
Paraíba .....	277	317	306	339
Pernambuco .....	393	340	275	317
Espírito Santo .....	189	227	178	182
Others.....	767	882	779	891
Brazil.....	27,701	22,857	23,226	27,543
Total Southeast and Midwest regions .....	25,681	20,702	21,362	25,575

Source: UNICA

The following chart shows the evolution of sugar and ethanol prices in Brazil during the periods indicated:



Source: CEPEA-ESALQ.

### ***Ethanol Consumption in Brazil***

During the 1990s, the government promoted the use of anhydrous ethanol as an additive to gasoline. The introduction of flex-fuel vehicles in Brazil in March 2003 increased demand for hydrous ethanol significantly. Flex-fuel vehicles are designed to operate on gasoline, hydrous ethanol or a mixture of both.

According to ANFAVEA, sales of flex-fuel vehicles accounted for approximately 2.8 million vehicles in 2011, while, during 2014, such number totaled approximately 2.9 million, representing approximately 88.2% of overall new car sales in Brazil.

The following table sets forth the number of flex-fuel and pure ethanol vehicles registered in Brazil for the years indicated:

Year	Pure ethanol vehicles	Flex-fuel vehicles
2004.....	50,950	328,379

<b>Year</b>	<b>Pure ethanol vehicles</b>	<b>Flex-fuel vehicles</b>
2005.....	32,357	812,104
2006.....	1,863	1,430,334
2007.....	107	2,003,090
2008.....	84	2,329,247
2009.....	70	2,652,298
2010.....	50	2,876,173
2011.....	51	2,848,071
2012.....	0	3,162,874
2013.....	0	3,169,144
2014.....	0	2,940,508

Source: ANFAVEA.

### ***Leading Ethanol Exporter***

The volume of ethanol exports from Brazil has always been significantly lower than domestic consumption of ethanol. However, as a result of increasing awareness of environmental concerns related to greenhouse gases, such as global warming, and consequently of the need to reduce dependence on petroleum derivatives, Brazilian ethanol and production-related technology have attracted global attention. After reaching a maximum of 4.7 billion liters during the 2008/2009 harvest, Brazilian ethanol exports decreased to 1.9 billion cubic meters in the 2010/2011 harvest, to 3.5 billion cubic meters in the 2011/2012 harvest, to 2.5 billion cubic meters in the 2012/2013 harvest and to 2.6 billion cubic meters in the 2013/2014 harvest.

The following table shows ethanol export volumes (in billions of liters).

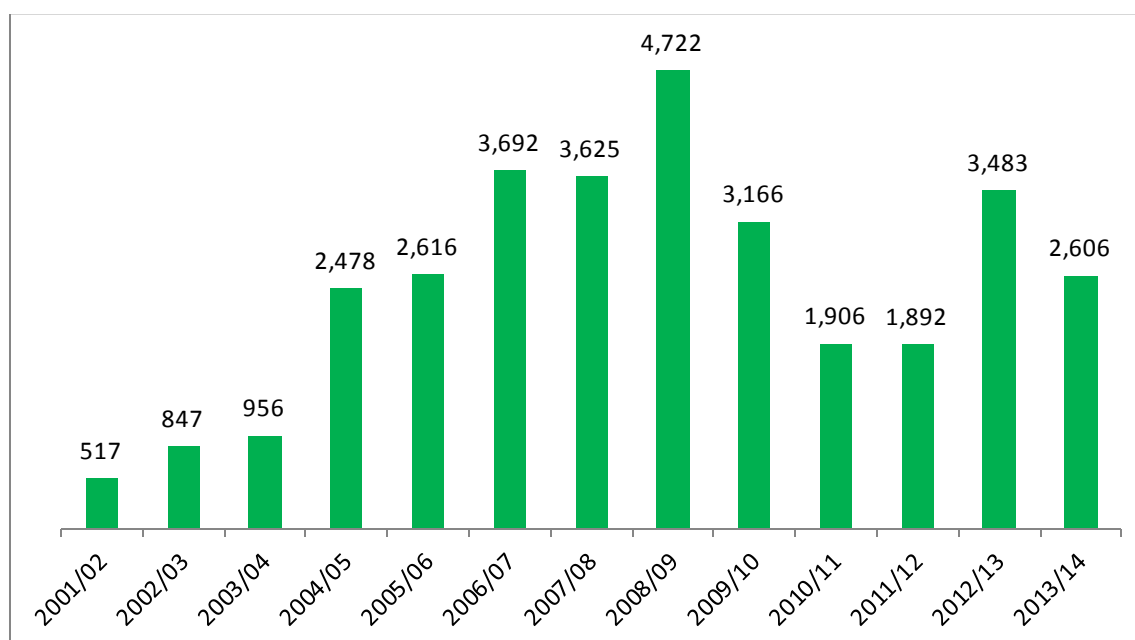
<b>Harvest Period</b>	<b>Export Volume</b> <b>(in billions of liters)</b>
2005/2006.....	2,615.6
2006/2007.....	3,691.6
2007/2008.....	3,624.8
2008/2009.....	4,726.9
2009/2010.....	3,165.6
2010/2011.....	1,905.6
2011/2012.....	1,892.0
2012/2013.....	3,482.8
2013/2014.....	2,605.6

Source: UNICA.

The following chart shows Brazilian ethanol exports for the harvest periods indicated:



### Brazilian Ethanol Exports



Source: UNICA.

In 2013/2014, the following countries were the main destinations for Brazilian ethanol exports (in thousands of cubic meters):

Country	Volume (in thousands of cubic meters)	% of Total Exports
United States .....	1,446.1	55.5%
South Korea .....	442.7	17.0%
Netherlands .....	123.8	4.7%
Japan.....	120.2	4.6%
Nigeria .....	79.8	3.1%
Philippines.....	68.5	2.6%
Others.....	324.6	12.5%
Total.....	2,605.6	100.0%

Source: UNICA.

### Regulatory Aspects

Many countries are attempting to reduce their dependence on oil by raising the regulatory required percentage of ethanol in the composition of gasoline. This trend is also influenced by the pressure on governments to take actions to reduce global warming. Regulatory policies have influenced biofuel demand through targets and blending quotas. Mandates for blending biofuels into vehicle fuels had been enacted in at least 23 countries at a national level and within 26 states and provinces as of 2011, according to Renewables Global Status Report (REN21, 2012). Most mandates require blending 5-10% ethanol with gasoline.

Brazil has been a leader in mandating ethanol blending for 30 years, since the inception of its Pro-Ethanol program. The blending composition is adjusted occasionally, but may fluctuate between 18% and 25%, according to ANP. Since the beginning of May 2013, the required blending composition has been 25%. All gas stations in Brazil are required to sell both gasohol (E25), a mixture of gasoline and anhydrous ethanol, and pure ethanol (E100). The

blending mandate has been accompanied by a host of supporting policies, including retail distribution requirements and preferential tax treatment for certain vehicles.

## BUSINESS

### Overview

We are a sugar, ethanol and energy producer with operations in the Southeast and Midwest regions of Brazil. We cultivate, harvest, purchase and process sugarcane, from which we produce very high polarization sugar, or VHP sugar, granulated refined sugar, anhydrous ethanol and hydrous ethanol to sell domestically and internationally. We also provide sugarcane bagasse by-products in exchange for electricity to power our industrial operations through co-generation. We currently conduct our sugar and ethanol operations through three mills: (1) Santa Cândida, in Bocaina, in the state of São Paulo; (2) Vista Alegre, in Maracaju, in the state of Mato Grosso do Sul; and (3) Paraíso, in Brotas, in the state of São Paulo.

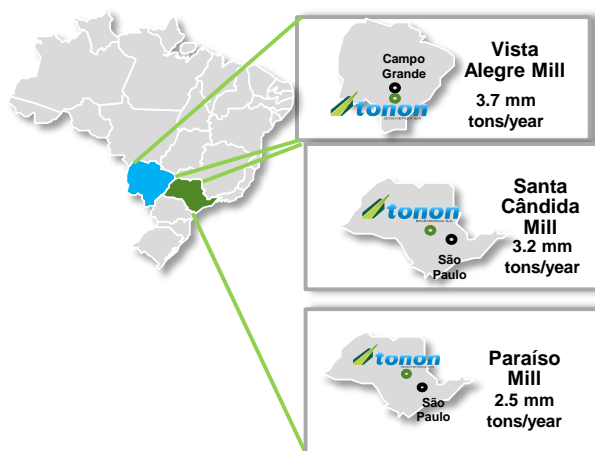
As of the date of this offering memorandum, our three mills had a combined sugarcane crushing capacity of 9.4 million tons per harvest period. The Southeast and Midwest regions of Brazil in which our mills are located provide excellent climate conditions and soil for harvesting sugarcane. As of March 31, 2015, 89.5% of our harvest at our Santa Cândida mill, 100.0% of our harvest at our Vista Alegre mill and 92.0% of our harvest at our Paraíso mill was mechanized.

Our Santa Cândida mill has a sugarcane crushing capacity of 3.2 million tons per harvest period. It is located in the state of São Paulo, in the Southeast region of Brazil, and benefits from higher sugarcane yield than other regions of Brazil. It is also close to Paulínia, the main fuel distribution center in the state of São Paulo, and to the port of Santos, the main port for Brazilian sugarexports.

Our Vista Alegre mill has a sugarcane crushing capacity of 2.5 million tons per harvest period. It is located in Mato Grosso do Sul, in the Midwest region of Brazil and benefits from low cost land leases and flat harvesting land, which enables the complete mechanization of the harvesting process, as well as providing an expansive plantable area for cultivation.

Our Paraíso mill has a sugarcane crushing capacity of 2.5 million tons per harvest period. Our Paraíso mill, which is located less than 40 kilometers (24.9 miles) away from our Santa Cândida mill, underwent a complete industrial retrofit in 2012 and is, in our view, a state-of-the-art facility. As a result of our acquisition of Paraíso on May 3, 2013, we not only increased our total sugarcane crushing capacity at the time by approximately 44% but also expanded our portfolio of sugar products, as Paraíso also produces granulated refined sugar.

The following map shows the locations of our Santa Cândida, Vista Alegre and Paraíso mills in Brazil.



Our Santa Cândida, Vista Alegre and Paraíso mills crushed approximately 6.7 million tons of sugarcane for the fiscal year ended March 31, 2015. For the fiscal year ended March 31, 2015, approximately 52.0% of the sugarcane our mills crushed was used to produce sugar, while the remaining sugarcane was used to produce ethanol. For the fiscal year ended March 31, 2015, our Santa Cândida, Vista Alegre and Paraíso mills produced approximately 412,011 tons of sugar and 247,799 cubic meters of ethanol and reported net revenue of R\$731.9 million and Adjusted EBITDA of R\$321.9 million.

We primarily produce sugarcane, which in Brazil has low production costs and high energy efficiency ratio relative to other energy sources, such as corn and sugarbeet. We currently cultivate and harvest sugarcane on 101,690 hectares, which we lease from third parties. Once harvested, sugarcane is transported to our mills using trucks and trailers. The average distance from the land on which our sugarcane is harvested to our Santa Cândida mill is approximately 27.2 kilometers (17.0 miles), approximately 24.1 kilometers (15.1 miles) to our Vista Alegre mill and approximately 29.9 kilometers (18.7 miles) to our Paraíso mill. The proximity of our mills to the locations where our sugarcane is harvested reduces transportation costs and enables us to process the sugarcane promptly after harvesting, thereby minimizing the loss of sucrose concentration in the sugarcane. We also purchase sugarcane from third-party suppliers, which represented approximately 1.8 million tons, or 26.5%, of the total sugarcane our Santa Cândida, Vista Alegre and Paraíso mills crushed for the fiscal year ended March 31, 2015.

Each of our three mills also have thermoelectric power plants located on the premises. We entered into a strategic partnership with Grupo Energisa S.A., or Energisa, an energy company in Brazil, with respect to our Santa Cândida and Vista Alegre mills. In connection with this partnership, we sold co-generation assets to Energisa and, in relation to our Santa Cândida and Vista Alegre mills, agreed to exchange bagasse for energy and steam produced at the power plants that we continue to operate at those mills. The sale occurred in December 2011, when we executed four share purchase and sale agreements with Energisa pursuant to which we agreed to sell shares of four Special Purpose Entities, or SPEs: (1) Energisa Bioeletricidade Santa Cândida I S.A., or USC I, into which we transferred all of our co-generation assets at our Santa Cândida mill; (2) Energisa Bioeletricidade Santa Cândida II S.A., or USC II, into which we transferred all of our construction and operation rights in case of expansion of our Santa Cândida co-generation plant; (3) Energisa Bioeletricidade Vista Alegre I S.A., or UVA I, into which we transferred all of our co-generation assets at our Vista Alegre mill; and (4) Energisa Bioeletricidade Vista Alegre II S.A., or UVA II, into which we transferred all of our construction and operation rights in case of expansion of our Vista Alegre co-generation plant. In August 2012, pursuant to such share purchase and sale agreements, Energisa acquired: (1) 85% of the capital stock of USC I; (2) 85% of the capital stock of UVA I; (iii) 100% of the capital stock of USC II; and (iv) 100% of the capital stock of UVA II from us for an aggregate amount of approximately R\$150.0 million. On September 29, 2014, Energisa acquired the remaining 15% of the capital stock in each of USC I and UVA I from us for an aggregate amount of approximately R\$23.0 million. Pursuant to the terms of the agreements, in approximately 20 years Energisa will sell back the assets owned by each of USC I, USC II, UVA I and UVA II to us. Energisa publicly announced its plans to increase the installed capacity of the co-generation power plants to 170 MW from the current 60 MW within the next year, including by undertaking to build and operate two additional power plants near the existing assets. In addition, Energisa publicly announced its plans to invest approximately R\$350 million to expand these power plants in order to have the capacity to sell approximately 710 GWh per year on the free market (*Ambiente de Contratação Livre*) by 2016.

## **Our Main Products**

Our Santa Cândida and Vista Alegre mills produce VHP sugar and anhydrous and hydrous ethanol. Our Paraíso mill produces granulated refined sugar, VHP sugar and hydrous ethanol, in addition to selling sugarcane juice to Amyris. Our Santa Cândida and Vista Alegre mills are able to adjust their production between hydrous ethanol, anhydrous ethanol and VHP sugar, which provides them with the flexibility to respond to changes in both customer demand and market prices. Similarly, our Paraíso mill is able to adjust its production mix between hydrous ethanol, granulated refined sugar and VHP sugar. We market and sell the sugar, ethanol and sugarcane by-products that we produce both domestically and internationally.

### ***Sugar***

Sugar is a staple consumer product and essential commodity produced in various parts of the world. Sugar is primarily derived from sugarcane and sugarbeet. Brazil accounted for approximately 22% of the world's total sugar production in the 2014/2015 harvest according to the USDA.

Historically, our main sugar product has been VHP sugar (which sugar product our Santa Cândida and Vista Alegre mills produce exclusively). VHP sugar has a higher sucrose content than raw sugar (96.0% polarization), low moisture and is handled in bulk. As a result, VHP sugar is easily transportable allowing for export in port terminals. VHP sugar is traded based on the NY11 price, and, as of March 31, 2015, commanded a premium of 4.05% over the raw sugar price negotiated based on the NY11 price as a result of its higher sucrose content. We sell our VHP sugar exclusively for export through large trading companies. The average price of raw sugar on the New York Mercantile Exchange decreased to U.S.\$0.15695 per pound in the fiscal year ended March 31, 2015, compared to U.S.\$0.17118

per pound in the fiscal year ended March 31, 2014. The Paraíso mill also produces granulated refined sugar. Granulated refined sugar is obtained from either crystal sugar or VHP sugar and is processed in order to obtain defined crystals of uniform grain size.

For the fiscal year ended March 31, 2015, we sold approximately 315,155.9 tons of VHP sugar and recorded net revenue of R\$280.2 million, or 38.3% of our net revenue for that period, from the sale of VHP sugar. For the fiscal year ended March 31, 2014, we sold approximately 355,426.3 tons of VHP sugar and recorded net revenue of R\$304.1 million, or 37.8% of our net revenue for that period, from the sale of VHP sugar.

For the fiscal year ended March 31, 2015, we sold approximately 96,500.2 tons of granulated refined sugar and recorded net revenue of R\$97.5 million, or 13.3% of our net revenue for that period, from the sale of granulated refined sugar. For the fiscal year ended March 31, 2014, we sold approximately 105,806.3 tons of granulated refined sugar and recorded net revenue of R\$118.7 million.

After its production at our Santa Cândida and Vista Alegre mills, we export VHP sugar to the Bunge Group, ADM, ED&F Man and Sucden, among others. Our Paraíso mill exports VHP sugar and granulated refined sugar to Cargill, among others. For more information, see “Business—Our Main Products—Sugar.”

### ***Ethanol***

We produce two types of ethanol, anhydrous and hydrous. Anhydrous ethanol can be used as a gasoline additive, which improves engine performance and reduces pollution levels, or for industrial purposes in applications such as reactive solvents. Hydrous ethanol is primarily used as fuel for flex-fueled vehicles. Although our Santa Cândida and Vista Alegre mills have the flexibility to produce both hydrous and anhydrous ethanol, we have increasingly prioritized our anhydrous ethanol production during recent harvests in order to benefit from the premium it commands over hydrous ethanol. Our Paraíso mill produces only hydrous ethanol.

For the fiscal year ended March 31, 2015, we produced approximately 247,799.3 cubic meters of ethanol, of which approximately 129,076.6 cubic meters were anhydrous ethanol and approximately 118,722.7 cubic meters were hydrous ethanol. For the fiscal year ended March 31, 2014, we produced approximately 272,845.0 cubic meters of ethanol, of which approximately 170,061.2 cubic meters were anhydrous ethanol and approximately 102,783.8 cubic meters were hydrous ethanol.

The average price of anhydrous ethanol in Brazil was R\$1.3860 per liter for the fiscal year ended March 31, 2015, compared to R\$1.3736 per liter for the fiscal year ended March 31, 2014, according to ESALQ.

For the fiscal year ended March 31, 2015, we sold in the domestic market approximately 100,430.7 cubic meters of anhydrous ethanol and recorded net revenue of R\$144.0 million, or 19.7% of our net revenue, from the domestic sale of anhydrous ethanol. For the fiscal year ended March 31, 2015, we exported approximately 30,699.5 cubic meters of anhydrous ethanol and recorded net revenue of R\$37.3 million, or 5.1% of our net revenue for that period, from the export sale of anhydrous ethanol.

We sell anhydrous ethanol in Brazil to customers such as BR Distribuidora and Raízen, and export anhydrous ethanol from the Port of Santos to Greenergy Brasil Trading S.A., or Greenergy, a subsidiary of the leading United Kingdom provider of road fuel with significant infrastructure and service capability. We also sell hydrous ethanol to customers such as Raízen and Copersucar, among others. For more information, see “Business—Our Main Products—Ethanol.”

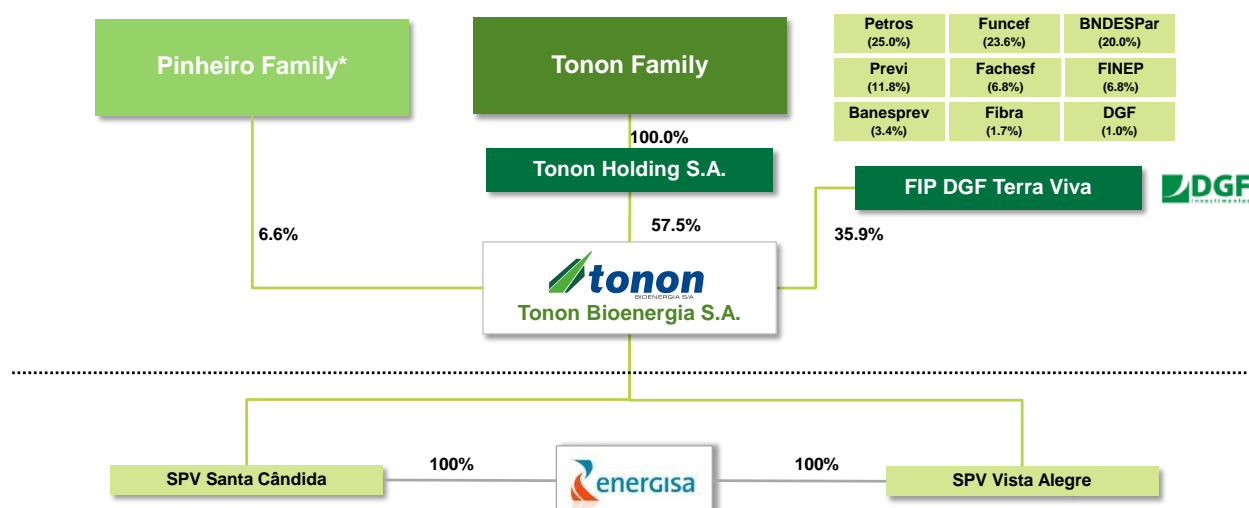
### ***Sugarcane by-products***

Sugarcane bagasse is a by-product of both sugar and ethanol. It is a viable renewable source of energy that can help meet some of Brazil's growing demand for electricity. Our Santa Cândida and Vista Alegre mills provide sugarcane bagasse by-products to USC I and UVA I in exchange for steam and energy to generate electricity, which enables these mills to meet their energy requirements. We sold 100% of our interest in our co-generation activities to Energisa as well as the rights to build and operate two additional power plants near the existing assets. On March 31, 2015, Energisa sold 100% of its interest in the co-generation activities and the two additional power plants that are currently under construction to Brookfield Renewable Energy Partners. We expect to benefit from Brookfield Renewable Energy Partners' investments in the expansion of these power plants as a result of increased energy and steam available to us.

Our Paraíso mill also provides sugarcane bagasse by-products to Rhodia in exchange for electricity, which enables the Paraíso mill to meet its energy requirements. As a result of the partnership, we reached an agreement with Rhodia, through our Paraíso mill, whereby Rhodia agreed to upgrade and operate its co-generation facility in exchange for our Paraíso mill's biomass to produce electricity. In addition, our Paraíso mill supplies sugarcane juice to Amyris to produce farnesene, a long-chain branched hydrocarbon, at Amyris's Brotas facility, which is located next to the mill.

For more information, see "Business—Our Main Products—Bagasse and Co-Generation of Electricity."

## Our Corporate Structure



\* Pinheiro Family: Wilson Hélio de Albuquerque Pinheiro Junior, Flávio de Albuquerque Pinheiro, Renata de Albuquerque Pinheiro and Silvia de Barros Brisolla.

## Operations

Sugarcane is the main raw material used in the production of sugar and ethanol. It is a tropical grass that grows most successfully in locations with stable, warm temperatures and high humidity, although dry periods are an important factor for the sucrose concentration of sugarcane. The soil, topography, climate and availability of land in the Southeast and Midwest regions of Brazil are ideal for the growth of sugarcane. Our mills are located in the Southeast and Midwest regions of Brazil, which accounted for approximately 91.4% of Brazil's sugarcane production in the 2013/2014 harvest, according to CONAB.

As of March 31, 2015, we cultivated and harvested sugarcane over 101,690 hectares of land, all of which we lease and use through land lease agreements or agricultural partnerships (some of those entered into with members of the Tonon Family with respect to our Santa Cândida and Vista Alegre mills, and members of the Pinheiro Family, with respect to our Paraíso mill). As of March 31, 2015, we did not own any land, and held all of the land we cultivate and harvest sugarcane through land lease agreements or agricultural partnerships. For the fiscal year ended March 31, 2015, the sugarcane we harvested from the land we leased and used represented 73.5% of the total sugarcane that we crushed during that period, while we purchased the remaining 26.5% from third parties.

Out of the total 101,690.0 hectares we cultivated and harvested, we leased and used approximately 8,261.3 hectares, or approximately 8.1% of the total area, from the Tonon Family primarily through agricultural partnership agreements (*parceria*), and approximately 2,413.7 hectares, or approximately 2.4% of the total area, from the Pinheiro Family primarily through agricultural lease agreements (*arrendamento*). As of March 31, 2015, (1) 13.0% of the land on which we cultivate and harvest sugarcane at our Santa Cândida mill was held through land lease agreements and 87.0% through agricultural partnership agreements (*parceria*), (2) 0.2% of the land on which we cultivate and harvest sugarcane at our Vista Alegre mill was held through land leases and 99.8% through agricultural partnership agreements (*parceria*), and 29.4% of the land on which we cultivate and harvest sugarcane at our Paraíso mill was held through land leases and 70.6% through agricultural partnership agreements (*parceria*).

We cultivated and harvested sugarcane over 89,435.8 hectares of land through long-term agricultural partnership agreements (*parceria*) as of March 31, 2015. Under these partnership contracts, we cultivate sugarcane on land owned by third parties and, in return, make monthly or annual payments to our partners based upon a fixed amount of sugarcane per hectare. Each monthly or annual payment, as the case may be, is based on the price of sugarcane established by CONSECANA and a fixed amount of total ATR. For payments made on a monthly basis, an additional amount is paid following each harvest to reflect subsequent price fluctuations of the monthly price indicators during the harvest according to a final report published by CONSECANA. We cultivated and harvested sugarcane over 12,254.2 hectares of land through long-term lease agreements. Most of these lease agreements include a right of first refusal in case of a sale of the land where the sugarcane is grown or renewal of the relevant agreement, in both cases under the same terms as the offer presented by third parties.

We also purchase sugarcane directly from third-party sugarcane suppliers, which represented 26.5%, 24.2% and 23.3% of the total sugarcane that we crushed for the fiscal years ended March 31, 2015, 2014 and 2013, respectively. We have longstanding relationships with third-party growers, which have historically produced sufficient sugarcane to fulfill our demand. We provide the majority of our third-party growers with services for cutting, loading and transporting the sugarcane, and deduct any amounts we spent on these services provided from the purchase price of the sugarcane. For sugarcane purchased through long-term contracts, we pay a price based on fixed tons of sugarcane per hectare *multiplied* by the ATR per ton of sugarcane *multiplied* by the price published by CONSECANA. At the end of each harvest, CONSECANA publishes the price for the preceding harvest, which is used to adjust the amount already advanced to the suppliers upon delivery of the sugarcane to our mills.

We intend to maintain the percentage of the sugarcane we harvest ourselves from leased lands and partnership agreements at approximately 80% of our total sugarcane and continue to purchase approximately 20% from third parties. We believe the percentage of sugarcane we harvest from leased lands and partnership agreements is significantly higher than that of our competitors based on the information disclosed by publicly listed companies in the sector.

### ***Sugarcane Harvesting Cycle***

The annual sugarcane harvesting cycle in the Southeast and Midwest regions of Brazil begins in April and ends in December. During the harvest cycle, we plant several species of sugarcane, with the species used in a particular area depending on the most adequate species for the particular soil quality and rain levels, among other factors.

Sugarcane is ready for harvest when the crop's sucrose content reaches its peak, generally following a one-year cycle. There is an exception for the initial harvest of sugarcane, which may require up to 18 months before it can be harvested for the first time, depending on the type of sugarcane. With each subsequent harvest, agricultural yields decrease in terms of tons per hectare, and the harvests must be carefully managed in order to continue attaining yields similar to the newly-planted crop. The current optimum economic cycle is five or six consecutive harvests, after which the sugarcane must be re-planted. The average age of the sugarcane fields we use under lease and agricultural partnership agreements is 3.2 years. We replanted approximately 14.9% of our sugarcane during the 2014/2015 harvest. We believe the average age of our sugarcane fields is lower than that of publicly listed companies in the sector based on information they disclosed.

In accordance with our expansion strategy, over the last two harvests we have focused on expansion of the areas on which we cultivate and harvest sugarcane by entering into additional land lease agreements or agricultural partnership agreements (*parceria*).

Harvesting is performed either manually or mechanically. Leaves that remain after sugarcane has been harvested mechanically form a protective cover over the crop, reducing evaporation and aiding in pest and disease control. This protective cover of leaves decomposes into organic material over time, increasing the fertility of the soil. Furthermore, mechanical harvesting is time efficient and has relatively lower overall production costs when compared to manual harvesting. In the fiscal year ended March 31, 2015, we mechanically harvested approximately 89.5%, 100.0% and 92.0% of the sugarcane that we cultivated in our Santa Cândida, Vista Alegre and Paraíso mills, respectively. We expect to improve the mechanization level of our Santa Cândida mill within the next few years. Our Santa Cândida and Paraíso mills currently comply with all requirements of the protocol executed between mills in the state of São Paulo, the state of São Paulo's environmental agency (*Companhia Ambiental do Estado de São Paulo*), or CETESB, and the public attorney's office. Harvesting at our Vista Alegre mill has been 100%

mechanized since we began its crushing operations in the 2009/2010 harvest and it is not subject to the protocol mentioned above.

Sugarcane yield, which is measured in tons of sugarcane per hectare and kilograms of ATR per ton of sugarcane, is an important productivity measure for harvesting operations. Geographical factors such as land composition, topography and climate, agricultural techniques and sugarcane varieties used affect sugarcane yield.

The average agricultural yield from our mills for the fiscal year ended March 31, 2015 was 68.4 tons per hectare, compared to 77.7 tons per hectare for the fiscal year ended March 31, 2014 and 78.0 tons of sugarcane per hectare for the fiscal year ended March 31, 2013. The average agricultural yield in the Southeast and Midwest regions of Brazil for the fiscal year ended March 31, 2015 was 76.6 tons of sugarcane per hectare.

The following chart shows our agricultural yield in tons of sugarcane per hectare during the last three harvests, compared to the average productivity in the Southeast and Midwest regions:

	<b>Average Agricultural Yield per Harvest</b>		
	<b>For the Fiscal Year Ended March 31,</b>		
	<b>2015 (2014/2015 Harvest)</b>	<b>2014 (2013/2014 Harvest)</b>	<b>2013 (2012/2013 Harvest)</b>
	<b>(tons of sugarcane per hectare)</b>		
<b>Our mills:</b>			
Santa Cândida mill.....	66.8	84.6	79.0
Vista Alegre mill.....	73.4	71.3	77.3
Paraíso mill .....	63.9	79.5	79.0
<b>Total</b>	<b>68.4</b>	<b>77.7</b>	<b>79.0</b>
<b>Brazil: Southeast and Midwest regions (average)(1)</b>	<b>76.6</b>	<b>79.8</b>	<b>72.1</b>

Source: ATR – CONSECANA/ÚNICA. Productivity – CONAB.

Our agricultural yields, especially at our Santa Cândida mill and particularly for the fiscal year ended March 31, 2015, were lower than our historical average due to the adverse effects of the severe drought in the São Paulo region on the agricultural yield for the 2014/2015 harvest period.

The following chart shows the average sugar extraction yield in kilograms of ATR per ton of sugarcane for our mills during the last three harvests compared to average productivity in the Southeast and Midwest regions of Brazil:

	<b>Average Sugar Extraction Yield per Harvest</b>		
	<b>For the Fiscal Year Ended March 31,</b>		
	<b>2015 (2014/2015 Harvest)</b>	<b>2014 (2013/2014 Harvest)</b>	<b>2013 (2012/2013 Harvest)</b>
	<b>(kilograms of ATR per ton of sugarcane)</b>		
<b>Our mills:</b>			
Santa Cândida mill.....	130.4	131.9	134.6
Vista Alegre mill.....	123.6	117.4	136.1
Paraíso mill .....	126.6	128.2	135.5
<b>Brazil: Southeast and Midwest regions (average)(1) .....</b>	<b>136.6</b>	<b>133.4</b>	<b>135.4</b>

Source: UNICA.

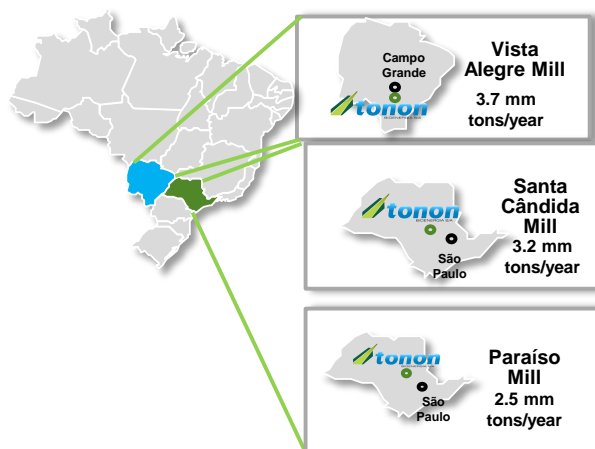
Once harvested, the sugarcane is loaded onto trucks and transported to our Santa Cândida, Vista Alegre and Paraíso mills for inspection and weighing. Our Santa Cândida mill is an average distance of approximately 27.2 kilometers (17.0 miles) from the land on which our sugarcane is harvested, our Vista Alegre mill is an average distance of approximately 24.1 kilometers (15.1 miles) from the land on which our sugarcane is harvested and our Paraíso mill is an average distance of approximately 29.9 kilometers (18.7 miles) from the land on which our sugarcane is harvested. The proximity of our milling facilities to the land on which we or third parties cultivate the sugarcane we crush reduces our transportation costs and also enables us to maximize sucrose recovery, as sucrose concentration in sugarcane begins to decrease from the time it is harvested, resulting in more efficient processing.



## Our Mills

We have a total crushing capacity of 8.2 million tons of sugarcane per harvest period, including 3.2 million tons at our Santa Cândida mill, 2.5 million tons at our Vista Alegre mill and 2.5 million tons at our Paraíso mill. We face competition in accessing new land to cultivate sugarcane from other sugarcane mills located near our mills. However, we believe that we can continue to increase production volumes by increasing the productivity of sugarcane cultivation on current lands (measured by ATR per hectare) as well as expanding our harvest areas by entering into additional land lease and agricultural partnership agreements.

The following map shows the location of our Santa Cândida, Vista Alegre and Paraíso mills:



We are able to adjust our production mix, within certain capacity limits, between anhydrous and hydrous ethanol and granulated refined sugar and VHP sugar, providing us with flexibility to respond to changes in customer demand and market prices. For the fiscal year ended March 31, 2015, we produced a total of approximately 315,523.4 tons of VHP sugar, 96,488.1 tons of granulated refined sugar, 129,076.6 cubic meters of anhydrous ethanol and 118,722.7 cubic meters of hydrous ethanol.

The following table sets forth, for each of our mills, the breakdown of sugarcane crushed, the volumes of products we produced, and the harvest period length for the periods indicated.

Name	Operational data	For the Fiscal Year Ended March 31,		
		2015	2014	2013
<b>Santa Cândida mill (SP)</b>				
	<b>Sugarcane crushed(1)</b> .....	<b>2,667.5</b>	<b>3,038.2</b>	<b>2,834.4</b>
	Own sugarcane(1).....	1,611.8	2,041.1	1,840.1
	Own sugarcane (%) .....	60.4%	67.2%	64.9%
	Third-party purchased sugarcane(1).....	1,055.7	997.1	994.3
	Third-party purchased sugarcane (%).....	39.6%	32.8%	35.1%
	<b>Products produced</b>			
	VHP sugar(1).....	182.0	202.7	187.6
	Hydrous ethanol(2).....	20.2	8.1	19.7
	Anhydrous ethanol(2).....	72.2	99.2	84.3
	<b>Number of days in harvest</b> .....	<b>231</b>	<b>296</b>	<b>275</b>
<b>Vista Alegre mill (MS)</b>				
	<b>Sugarcane crushed(1)</b> .....	<b>2,018.7</b>	<b>2,274.6</b>	<b>2,234.0</b>
	Own sugarcane(1).....	1,971.9	2,246.6	2,194.9
	Own sugarcane (%) .....	97.7%	98.8%	98.3%
	Third-party purchased sugarcane(1).....	46.8	28.0	39.1
	Third-party purchased sugarcane (%).....	2.3%	1.2%	1.70%
	<b>Products produced</b>			
	VHP sugar(1).....	130.6	143.8	176.1
	Hydrous ethanol(2).....	13.6	1.0	6.2
	Anhydrous ethanol(2).....	56.9	70.9	64.8
	<b>Number of days in harvest</b> .....	<b>264</b>	<b>293</b>	<b>260</b>
<b>Paraíso mill (SP)</b>				
	<b>Sugarcane crushed(1)</b> .....	<b>2,011.1</b>	<b>2,262.5</b>	<b>1,932.6</b>
	Own sugarcane(2).....	1,338.2	1,453.0	1,132.1
	Own sugarcane (%) .....	50.2%	47.8%	58.6%
	Third-party purchased sugarcane(2).....	672.9	809.5	800.5

Name	Operational data	For the Fiscal Year Ended March 31,		
		2015	2014	2013
	Third-party purchased sugarcane (%).....	25.2%	26.6%	41.4%
	<b>Products produced</b>			
	VHP sugar(2).....	96.5	112.8	83.6
	Granulated refined sugar.....	2.9	7.2	47.6
	Hydrous ethanol(2).....	84.9	93.7	80.4
	Anhydrous ethanol(2).....	—	—	—
	<b>Number of days in harvest</b> .....	<b>228</b>	<b>264</b>	<b>260</b>

(1) In thousands of tons.

(2) In thousands of cubic meters.

The following table sets forth our storage capacity by product at our mills as of March 31, 2015.

	Sugar	Ethanol
	(thousands of tons)	(thousands of cubic meters)
Santa Cândida Mill .....	12.5	56.0
Vista Alegre Mill .....	15.0	30.0
Paraíso Mill.....	39.5	30.0
<b>Total</b> .....	<b>67.0</b>	<b>116.0</b>

## Our Main Products

The following tables set forth a breakdown of our domestic and export sales volumes and net revenues for our mills by product for the periods indicated.

### *Santa Cândida Mill*

Santa Cândida Mill – For the Fiscal Year Ended March 31,									
	2015			2014			2013		
	Volume Sold(1)	Net Revenues		Volume Sold(1)	Net Revenues		Volume Sold(1)	Net Revenues	
		(millions of reais)	(%)		(millions of reais)	(%)		(millions of reais)	(%)
<b>Domestic net sales:</b>									
VHP sugar.....	1.2	1.0	0.4%	3.8	2.9	0.8%	10.6	8.8	2.7%
Anhydrous ethanol.....	39.8	53.6	18.9%	72.9	97.5	27.9%	57.7	69.2	21.1%
Hydrous ethanol.....	21.1	25.5	9.0%	7.0	8.9	2.5%	20.4	22.3	6.8%
Other revenues(2).....	—	3.8	1.3%	—	3.1	0.9%	—	5.8	1.8%
<b>Total domestic net sales</b> .....	<b>—</b>	<b>83.9</b>	<b>29.6%</b>	<b>—</b>	<b>112.3</b>	<b>32.1%</b>	<b>—</b>	<b>106.1</b>	<b>32.4%</b>
<b>Export net sales:</b>									
VHP sugar.....	179.1	162.6	57.3%	204.3	175.1	50.1%	168.4	172.0	52.6%
Anhydrous ethanol.....	30.7	37.3	13.1%	48.7	62.3	17.8%	41.5	48.8	14.9%
Yeast.....	—	—	—	—	—	—	—	0.2	0.1%
<b>Total export net sales</b> .....	<b>—</b>	<b>199.9</b>	<b>70.4%</b>	<b>—</b>	<b>237.4</b>	<b>67.9%</b>	<b>—</b>	<b>221.0</b>	<b>67.6%</b>
<b>Total net revenues</b> .....	<b>—</b>	<b>283.8</b>	<b>100.0%</b>	<b>—</b>	<b>349.7</b>	<b>100.0%</b>	<b>—</b>	<b>327.1</b>	<b>100.0%</b>

(1) Sugar volumes are measured in thousands of tons and ethanol volumes are measured in thousands of cubic meters.

(2) Includes revenues from the sale of bagasse and yeast.

### *Vista Alegre Mill*

Vista Alegre Mill – For the Fiscal Year Ended March 31,									
	2015			2014			2013		
	Volume Sold(1)	Net Revenues		Volume Sold(1)	Net Revenues		Volume Sold(1)	Net Revenues	
		(millions of reais)	(%)		(millions of reais)	(%)		(millions of reais)	(%)

**Vista Alegre Mill – For the Fiscal Year Ended March 31,**

	2015			2014			2013		
	Volume Sold(1)	Net Revenues		Volume Sold(1)	Net Revenues		Volume Sold(1)	Net Revenues	
<b>Domestic net sales:</b>									
VHP sugar.....	—	—	—	—	—	—	5.0	5.2	1.9%
Anhydrous ethanol.....	60.7	90.4	39.7%	52.1	74.1	35.5%	46.8	60.0	22.5%
Hydrous ethanol.....	13.9	18.7	8.2%	0.4	0.6	0.3%	7.4	8.9	3.3%
Other revenues(2).....	—	4.0	1.8%	—	1.3	0.6%	—	3.8	1.4%
<b>Total domestic net sales.....</b>	<b>—</b>	<b>113.1</b>	<b>49.7%</b>	<b>—</b>	<b>76.0</b>	<b>36.5%</b>	<b>—</b>	<b>77.9</b>	<b>29.1%</b>
<b>Export net sales:</b>									
VHP sugar.....	132.1	114.4	50.3%	144.2	123.5	59.3%	167.4	165.9	62.1%
Anhydrous ethanol.....	—	—	—	7.1	8.9	4.3%	9.3	11.0	4.1%
Other revenues(2).....	—	—	—	—	—	—	—	12.1	4.7%
<b>Total export net sales.....</b>	<b>—</b>	<b>114.4</b>	<b>50.3%</b>	<b>—</b>	<b>132.4</b>	<b>63.5%</b>	<b>—</b>	<b>189.0</b>	<b>70.9%</b>
<b>Total net revenues.....</b>	<b>—</b>	<b>227.5</b>	<b>100.0%</b>	<b>—</b>	<b>208.5</b>	<b>100.0%</b>	<b>—</b>	<b>266.9</b>	<b>100.0%</b>

(1) Sugar volumes are measured in thousands of tons and ethanol volumes are measured in thousands of cubic meters.

(2) Includes revenues from the sale of bagasse and yeast.

**Paraíso Mill**

**Paraíso Mill – For the Fiscal Year Ended March 31,**

	2015			2014			2013		
	Volume Sold(1)(2)	Net Revenues		Volume Sold(1)	Net Revenues(3)		Volume Sold(1)	Net Revenues	
	(millions of reais)	(%)		(millions of reais)	(%)		(millions of reais)	(%)	
<b>Domestic net sales:</b>									
Granulated refined sugar	1.4	1.4	0.6%	1.9	3.6	1.5%	2.8	2.5	1.1%
VHP sugar	—	—	—	—	—	—	—	—	—
Hydrous ethanol	84.3	100.2	45.4%	86.3	97.6	39.6%	78.1	81.6	34.3%
Other revenues(4)	—	20.6	9.3%	—	23.2	9.4%	—	16.6	7.0%
<b>Total domestic net sales</b>	<b>—</b>	<b>122.2</b>	<b>55.4%</b>	<b>—</b>	<b>124.4</b>	<b>50.5%</b>	<b>—</b>	<b>100.7</b>	<b>42.4%</b>
<b>Export net sales:</b>									
Granulated refined sugar	97.8	96.2	43.6%	103.9	115.1	46.7%	81.7	91.7	38.5%
VHP sugar	2.8	2.2	1.0%	3.1	2.6	1.1%	48.0	45.5	19.1%
Hydrous ethanol	—	—	—	3.4	4.2	1.7%	—	—	—
<b>Total export net sales</b>	<b>—</b>	<b>98.4</b>	<b>44.6%</b>	<b>—</b>	<b>121.9</b>	<b>49.5%</b>	<b>—</b>	<b>137.2</b>	<b>57.6%</b>
<b>Total net revenues</b>	<b>—</b>	<b>220.6</b>	<b>100.0%</b>	<b>—</b>	<b>246.4</b>	<b>100.0%</b>	<b>—</b>	<b>237.9</b>	<b>100.0%</b>

(1) Sugar volumes are measured in thousands of tons and ethanol volumes are measured in thousands of cubic meters.

(2) Volumes sold comprise Paraíso's volumes of sales during the full period from April 1, 2013 to March 31, 2014, which includes volumes from the period before we acquired Paraíso on May 3, 2013.

(3) Net Revenues for Paraíso comprises net revenues during the period from May 1, 2013 to March 31, 2014 only.

(4) Includes revenues from the sale of bagasse and yeast.

**Sugar**

Our Santa Cândida and Vista Alegre mills produce VHP sugar and our Paraíso mill produces both VHP sugar and granulated refined sugar. VHP sugar has a higher sucrose content than raw sugar (96.0% polarization), low moisture and is handled in bulk. As a result, VHP sugar is easily transportable allowing for export in port terminals. Granulated refined sugar is higher quality sugar than VHP sugar, having a color of ICUMSA 45 and a minimum polarization of 99.8%.

The current annual sugar production capacity of our Santa Cândida, Vista Alegre and Paraíso mills is approximately 220,000 tons, 254,375 tons and 171,066 tons, respectively. For the fiscal year ended March 31, 2015, our Santa Cândida, Vista Alegre and Paraíso mills produced approximately 182,026.62 tons, 130,589.42 tons and 2,907.3 tons of VHP sugar, respectively, and our Paraíso mill produced approximately 96,488.1 tons of granulated refined sugar. Sugar sales represented 51.6% of our net revenue for the fiscal year ended March 31, 2015.

## Customers

We primarily export the sugar we produce. We export VHP sugar from our Santa Cândida mill through the Port of Santos, which is approximately 380 kilometers from our Santa Cândida mill. We export our VHP sugar from our Vista Alegre mill through the Port of Paranaguá, which is approximately 1,000 kilometers from our Vista Alegre mill. We export VHP sugar and granulated refined sugar from our Paraíso mill through the Port of Santos, which is approximately 328 kilometers from our Paraíso mill.

We export VHP sugar to trading companies, including Bunge, ADM, Sucden and ED&F Man. We export substantially all the granulated refined sugar we produce to Cargill.

The following table sets forth the percentage volume of our sugar sales to our main customers, as well as the total sugar volume sold for the periods indicated.

Customer	% of Volume Sold		
	2014/2015 Harvest	2013/2014 Harvest	2012/2013 Harvest
Bunge .....	24.6%	12.7%	42.3%
ED&F Man .....	42.3%	37.9%	43.9%
Other .....	33.1%	49.5%	13.8%

## Sales and Distribution

For the fiscal year ended March 31, 2015, we sold approximately 315,155.9 tons of VHP sugar, recording net revenue from sugar of R\$280.2 million, and sold approximately 96,500.2 tons of granulated refined sugar, recording net revenue from granulated refined sugar of R\$97.5 million.

We primarily export the sugar we produce. We export VHP sugar in bulk to be refined at its final destination, and refined granulated sugar is usually exported in bags of 50 kgs in containers or break bulk vessels. We primarily route our exports through the ports of Santos, in the state of São Paulo, and Paranaguá, in the state of Paraná. We engage third parties to transport our product from the warehouses at our mills to these ports and, in the case of bagged sugar, we engage port terminals to fill containers or to load the break bulk vessels.

The following tables set forth our net export revenue and export sales volumes of sugar for the periods indicated from our mills:

Santa Cândida mill (VHP sugar)	For the Fiscal Year Ended March 31,		
	2015	2014	2013
Net export revenue (in millions of R\$) .....	162.6	175.1	172.0
% of total net revenue from sales of VHP sugar .....	99.4%	98.4%	94.1%
Export sales volume (in thousands of tons) .....	179.1	204.3	168.4
% of total VHP sugar sales volume .....	99.3%	98.2%	95.2%

Vista Alegre mill (VHP sugar)	For the Fiscal Year Ended March 31,		
	2015	2014	2013
Net export revenue (in millions of R\$) .....	114.4	123.5	165.9
% of total net revenue from sales of VHP sugar .....	100.0%	100.0%	97.0%
Export sales volume (in thousands of tons) .....	132.1	144.2	167.4
% of total VHP Sugar sales volume .....	100.0%	100.0%	97.1%

Paraíso mill (VHP sugar and granulated refined sugar)	For the Fiscal Year Ended March 31,		
	2015	2014	2013
Net export revenue (in millions of R\$) .....	98.4	117.7	45.5
% of total net revenue from sales of VHP sugar and granulated refined sugar .....	98.6%	97.0%	100.0%
Export sales volume (in thousands of tons) .....	100.6	107.0	48.0

Paraíso mill (VHP sugar and granulated refined sugar)	For the Fiscal Year Ended March 31,		
	2015	2014	2013
% of total VHP sugar and granulated refined sugar sales volume.....	98.6%	98.2%	100.0%

### *Prices*

The price for VHP sugar is based on the NY11 price, which, as of March 31, 2015, commanded a premium of 4.05% over the raw sugar NY11 based price as a result of VHP sugar's higher sucrose content. The average price of raw sugar on the New York Mercantile Exchange was U.S.\$0.15695 per pound for the fiscal year ended March 31, 2015, compared to U.S.\$0.17118 per pound for the fiscal year ended March 31, 2014 and U.S.\$0.2228 per pound for the fiscal year ended March 31, 2013.

The following table sets forth our average sales price per ton for VHP sugar and granulated refined sugar exports in *reais* for the periods indicated:

Tonon	For the Fiscal Year Ended March 31,		
	2015	2014	2013
		(R\$/ton)	
Average VHP sugar sales price.....	889.1	855.7	1,001.0
Average granulated refined sugar sales price.....	1,010.7	1,122.2	1,115.3

### *Ethanol*

Although our Santa Cândida and Vista Alegre mills have the flexibility to produce both hydrous and anhydrous ethanol, we have produced increasingly lower amounts of hydrous ethanol during recent harvests, and intend to continue decreasing our production of hydrous ethanol for as long as anhydrous ethanol commands a premium over hydrous ethanol (after taking into consideration the additional processing required for anhydrous ethanol). Anhydrous ethanol is used for industrial purposes or as a gasoline additive, which improves performance while reducing pollution levels, while hydrous ethanol is used as fuel for flex-fuelled vehicles. Our Paraíso mill produces exclusively hydrous ethanol.

The Brazilian government currently requires anhydrous ethanol to be used as a gasoline additive. Since 1997, CIMA has set a percentage of anhydrous ethanol required to be added to gasoline (which percentage may fluctuate between 18% and 25%). In November 2006, the required ethanol content for gasoline was set at 25% and, as of October 1, 2011, it was reduced to 20%. In March 2013, the required ethanol content for gasoline increased from 20% to 25% by volume, effective as of May 1, 2013.

Our current annual ethanol production capacity at our Santa Cândida, Vista Alegre and Paraíso mills is approximately 147,418 cubic meters, 169,556 cubic meters and 119,625 cubic meters, respectively. For the fiscal year ended March 31, 2015, our Santa Cândida mill produced approximately 92,427.6 cubic meters of ethanol, of which approximately 72,181.2 cubic meters were anhydrous ethanol and approximately 20,246.4 cubic meters were hydrous ethanol, respectively. For those same periods, our Vista Alegre mill produced approximately 70,445.9 cubic meters of ethanol, of which approximately 56,895.5 cubic meters were anhydrous ethanol and approximately 13,550.4 cubic meters were hydrous ethanol, respectively, and our Paraíso mill produced approximately 84,925.8 cubic meters of hydrous ethanol. Ethanol sales represented 44.5% of our net revenue for the fiscal year ended March 31, 2015.

### *Customers*

In Brazil, we sell ethanol to large fuel distributors, such as Raízen, and to medium and small distributors of gasoline. We also export a portion of the ethanol we produce to Greenergy.

We have agreements with some of our major customers, such as Raízen, for the sale of ethanol. These agreements generally have terms varying from one to three years. For the fiscal year ended March 31, 2015, we sold approximately 250,406.3 cubic meters of ethanol to various customers, respectively.

### *Sales and Distribution*

For the fiscal year ended March 31, 2015, we sold in Brazil (to be used as a gasoline additive) approximately 100,430.7 cubic meters of anhydrous ethanol, and exported approximately 30,699.5 cubic meters of anhydrous ethanol.

Under our domestic ethanol sales agreements, the buyer typically collects the predetermined ethanol volumes directly at our mills. Sale prices under these agreements are based on the ESALQ index and payment generally occurs within ten days of delivery. For sales on the spot market, pricing is also based on the ESALQ index and payment generally occurs on or prior to delivery.

Our export sales agreements generally set out the volume to be delivered, quality of sugar, delivery and supply schedule, delivery costs and payment conditions. We primarily route our exports through the ports of Santos, in the state of São Paulo, and Paranaguá, in the state of Paraná. We use third parties to transport our products from our warehouses at our mills to these ports.

We believe that the domestic ethanol market has a strong potential to expand. In addition, the global trend is shifting towards adoption of cleaner-burning fuel and renewable energy sources and alternative fuels, which is reducing reliance on oil and increasing the use of flex-fuel cars and therefore demand for ethanol. We also believe broader international acceptance of ethanol as a fuel or fuel additive will expand the market for our ethanol exports.

### *Prices*

The sale price of our ethanol is set according to market pricing, based on the ethanol indices published by ESALQ. Due to the relatively low number of mills which are capable of producing anhydrous ethanol as compared to hydrous ethanol, and the fact that anhydrous ethanol requires more processing, the price of anhydrous ethanol is usually higher than that of hydrous ethanol.

The following table sets forth the average sales prices for ethanol produced at our mills for the periods indicated:

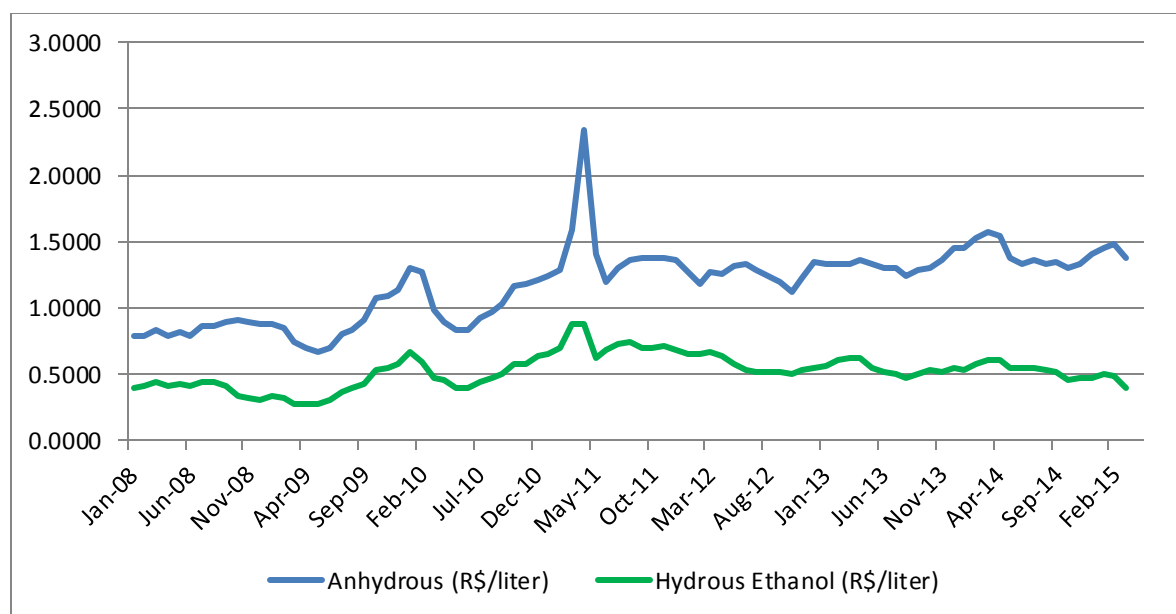
	For the Fiscal Year Ended March 31,		
	2015	2014	2013
	(R\$/liter)		
<b>Santa Cândida mill:</b>			
Average hydrous ethanol sales price (domestic).	1,206	1,276	1,091
Average anhydrous ethanol sales price (domestic)	1,348	1,336	1,199
Average anhydrous ethanol sales price (export)..	1,214	1,280	1,174
<b>Vista Alegre mill:</b>			
Average hydrous ethanol sales price (domestic).	1,350	1,438	1,205
Average anhydrous ethanol sales price (domestic)	1,490	1,421	1,282
Average anhydrous ethanol sales price (export)..	—	1,264	1,183
<b>Paraíso mill:</b>			
Average hydrous ethanol sales price (domestic).	1,189	1,131	1,044

The table below shows the market prices for hydrous and anhydrous ethanol in the Brazilian market for the periods indicated:

	For the Fiscal Year Ended March 31,		
	2015	2014	2013
	(R\$/liter)		
<b>Brazil</b>			
Average hydrous ethanol selling price .....	1,2475	1,2142	1,1164
Average anhydrous ethanol selling price .....	1,3860	1,3736	1,2792

Source: CEPEA-ESALQ.

The following chart sets forth hydrous and anhydrous ethanol market prices in *reais* per liter during the period from January 2008 to March 2015:



Source: CEPEA/ESALQ/USP.

#### Bagasse and Co-Generation of Electricity

Sugarcane is composed of water, fibers, sucrose and other sugars and minerals. In the milling process, we separate water, sugar and minerals from the fibers, or bagasse. Sugarcane bagasse is an important sugarcane by-product and is used to fuel the boilers in our mills. Sugarcane bagasse is burned and heats the water in the boilers to high temperatures.

We use the resulting steam in our production of sugar and ethanol. Part of the steam is also used to produce electricity we use to power our mills by a turbo-generator at the USC I and UVA I co-generation plants, in the case of our Santa Cândida and Vista Alegre mills, and the Rhodia co-generation plant, in the case of our Paraíso mill. Currently, all of the energy requirements of our Santa Cândida mill and Vista Alegre mill is supplied by USC I and USC II, and all of the energy requirements of our Paraíso mill is supplied by Rhodia. Each of USC I and USC II and Rhodia are companies with which we exchange bagasse for steam and energy that we use to produce our sugar and ethanol during the harvest. Electricity generated by burning sugarcane bagasse is advantageous because it is a renewable energy and it complements hydroelectric energy (the primary source of Brazilian energy) because it is generated during the harvest periods when water-reservoir levels are typically lower.

Each of our three mills also have thermoelectric power plants located on the premises. We entered into a strategic partnership with Grupo Energisa S.A., or Energisa, an energy company in Brazil, with respect to our Santa Cândida and Vista Alegre mills. In connection with this partnership, we sold co-generation assets to Energisa and, in relation to our Santa Cândida and Vista Alegre mills, agreed to exchange bagasse for energy and steam produced at the power plants that we continue to operate at those mills. The sale occurred in December 2011, when we executed four share purchase and sale agreements with Energisa pursuant to which we agreed to sell shares of four Special Purpose Entities, or SPEs: (1) Energisa Bioeletridade Santa Cândida I S.A., or USC I, into which we transferred all of our co-generation assets at our Santa Cândida mill; (2) Energisa Bioeletridade Santa Cândida II S.A., or USC II, into which we transferred all of our construction and operation rights in case of expansion of our Santa Cândida co-generation plant; (3) Energisa Bioeletridade Vista Alegre I S.A., or UVA I, into which we transferred all of our co-generation assets at our Vista Alegre mill; and (4) Energisa Bioeletridade Vista Alegre II S.A., or UVA II, into which we transferred all of our construction and operation rights in case of expansion of our Vista Alegre co-generation plant. In August 2012, pursuant to such share purchase and sale agreements, Energisa acquired: (1) 85% of the capital stock of USC I; (2) 85% of the capital stock of UVA I; (iii) 100% of the capital stock of USC II; and

(iv) 100% of the capital stock of UVA II from us for an aggregate amount of approximately R\$150.0 million. On September 29, 2014, Energisa acquired the remaining 15% of the capital stock in each of USC I and UVA I from us for an aggregate amount of approximately R\$23.0 million. Pursuant to the terms of the agreements, in approximately 20 years Energisa will sell back the assets owned by each of USC I, USC II, UVA I and UVA II to us. Energisa publicly announced its plans to increase the installed capacity of the co-generation power plants to 170 MW from the current 60 MW within the next year, including by undertaking to build and operate two additional power plants near the existing assets. In addition, Energisa publicly announced its plans to invest approximately R\$350 million to expand these power plants in order to have the capacity to sell approximately 710 GWh per year on the free market (*Ambiente de Contratação Livre*) by 2016.

In addition, in September 2010, Paraíso entered into a partnership with Rhodia, a world leader in the development and production of specialty chemicals, whereby Rhodia agreed to upgrade and operate a co-generation facility in exchange for Paraíso's bagasse. Most of the electricity generated by this co-generation facility is sold to the Brazilian electricity grid, while simultaneously supplying our Paraíso with all the electricity and steam it needs to meet its demand. The upgraded facility has a capacity of 70 MW and commenced operations during the 2012/2013 harvest.

## **Material Agreements**

### ***Sale and Purchase Agreements for Sugar and Ethanol***

We have entered into several agreements with subsidiaries of the Bunge Group (Bunge Alimentos S.A., Bunge International Commerce Ltd., Bunge London Limited, Ceval International Ltd. (currently Bunge London Limited)). These agreements provide for our sale and delivery of sugar and ethanol from the 2011/2012 harvest through to the 2016/2017 harvest. We have also entered into several agreements with Agrograin Ltd. Sucursal Uruguay for the sale of sugar and ethanol between the 2012/2013, 2013/2014 harvest and 2017/2018 harvest. In addition, we have also entered into certain sale agreements for sugar and/or ethanol with ED&F Man Sugar Ltd., MM Original Distribuidora de Petróleo Ltda and Oil Petro Brasileira de Petróleo Ltda., Taurus Distribuidora de Petróleo Ltda., Energy Comercial Importadora e Exportadora, Bauche-Energy Brasil Comercial Importadora e Exportadora Ltda. (and Bauche-Energy Brasil Trading S.A.), Greenenergy Brasil Trading S.A., Cana Brava Transp. e Comércio Ltda., Petrobrás Distribuidora S.A., Realcool Distribuidora de Petróleo Ltda., Ruff CJ Distribuidora de Petróleo Ltda., Porto Real Agribusiness e Eventos Ltda., Real Sugar Comércio e Exportação Ltda. and Sucres ET Denrees, from the 2011/2012 harvest through to the 2016/2017 harvest.

Through our Paraíso mill, we have entered into three agreements with Cargill Agrícola S.A. Turks and Caicos for the sale and delivery of refined granulated sugar cane for the period from October 1, 2011 through July 31, 2016. The obligations of Paraíso under certain agreements with Cargill are secured by pledges over sugar. In addition, our Paraíso mill entered into one agreement with Amyris for the sale of sugar syrup derived from sugarcane juice or, in start-up periods, derived from VHP sugar or other high sucrose content components, for a 15-year term commencing March 18, 2011.

## **Competition**

The sugar and ethanol industry in Brazil began to change in 1990 when the Brazilian government relaxed restrictions on sugar exports, and, in 1999, the Brazilian government deregulated sugar and ethanol prices. During the last several years, the Brazilian sugar industry has become increasingly consolidated through mergers and acquisitions. Most of this activity has involved companies and facilities located in the Southeast and Midwest regions of Brazil, one of the most productive sugar-producing regions in the world.

The sugar and ethanol industries are highly competitive, particularly with respect to the supply of sugarcane and availability of suitable areas for planting and harvesting sugarcane. We compete with numerous domestic sugar and ethanol producers. As a result of their distance and high logistical costs, we face little competition from sugarcane, sugar and ethanol producers in the North-Northeast regions of Brazil. Our main competition is concentrated in the Southeast and Midwest regions of Brazil. Certain competitors may have lower costs or benefit from greater financial, technological or other resources, as well as being more able to readily adapt to new or technological developments in the industry or customer demands.



## **Tax Incentives**

We benefit from a tax incentive in the state of Mato Grosso do Sul in the form of deferred payments of ICMS. This benefit is conditioned on our fulfillment of all of the following conditions: (1) receipt of the annual authorization issued by the Mato Grosso do Sul State Treasury as required by law; (2) the fulfillment of the principal and ancillary tax obligations; and (3) use of a tax stamp or issuance of an electronic invoice. Under this tax incentive agreement, our tax benefit is calculated based on the use of a presumed ICMS credit of 9.3% based on calculation of ICMS on shipments of hydrated ethyl or ethanol fuel from Mato Grosso do Sul to another Brazilian state, or shipments of anhydrous ethanol to fuel distributors, petroleum refineries or distilleries situated in another Brazilian state until December 31, 2028, as established in the agreement with the state of Mato Grosso do Sul.

The benefits we receive from this tax incentive agreement are recorded in our statement of income as a deduction within the sales taxes line item. For the fiscal years ended March 31, 2015, 2014 and 2013, we received tax incentive benefits under this agreement totaling R\$19.6 million, R\$22.1 million and R\$4.2 million, respectively.

In addition, since December 22, 2005, the state of Mato Grosso do Sul has granted us the following tax benefits under the state law No. 93/2001: (1) a 67% discount over the ICMS balance due from operations with sugar until July 20, 2018; (2) deferred ICMS payments related to the importation of equipment for industrial production, for an indefinite term; (3) deferred ICMS payments related to equipment acquisitions from other states, also for an indefinite term; and (4) deferred ICMS payments due for the transfer or acquisition of industrial or energy production equipment, from other states, until November 30, 2016. Among other conditions, to maintain these benefits we must incorporate the corresponding value benefited during the fiscal year to our capital by the 30th day after our balance sheet closing date.

These benefits are already in effect and are conditioned on our fulfillment of several terms, including the payment of a monthly contribution to a state fund (*Fundo Estadual de Apoio à Industrialização*), which is equal to 2% of the tax incentives received under the terms of this agreement.

Moreover, the state of São Paulo has granted us a tax benefit allowing us to defer ICMS payments, which would be due upon the entry of sugarcane in our Santa Cândida mill and Paraíso mill located in the state of São Paulo. This tax benefit is already in effect for an indefinite term. However, the benefit will be immediately terminated if we (1) do not communicate any changes related to our shareholders' composition to the Brazilian tax authorities; or (2) default under any payment owed to the national, state or municipal treasury, except if any such debt is secured by an administrative or judicial deposit or attachment.

## **Technology, Research and Development**

### ***Intellectual Property***

We have filed 16 trademarks for registration with the Brazilian Patent and Trademark Office (*Instituto Nacional da Propriedade Industrial*), or INPI. As of the date of this offering memorandum, nine trademarks have been registered by INPI. Six trademark applications have been granted (and the fees for the respective registrations have been paid), but we are still awaiting registration. One trademark application is still under examination by the INPI. Our main trademark, "Tonon Bioenergia S.A." has had its registration granted in several classes, which means that we have exclusivity to use this trademark in a variety of markets in which we operate. In addition to our main trademark, we have filed the following trademarks for registration: "Tonon Biogás", "Tonon Bioeletricidade" and "Tonon Eletricidade" in their nominative form. Furthermore, we have 34 internet domains duly registered with the Brazilian Internet Domains Registry (*Registro de Domínios para a Internet no Brasil*), or Registro.br, among which are *tononbioenergia.com.br*, *tononsa.com.br*, *tononbiogas.com.br*, *usnavistaalegre.com.br* and *vistaalegrems.com.br*, which are in force until at least the end of 2015.

Also, with our acquisition and merger of Paraíso, we have acquired rights over the two "Paraíso Bioenergia" trademarks filed with the INPI. As of the date of this offering memorandum, one of such trademarks (used in connection with ethanol as fuel) has been granted registration and the other one (used in connection with sugar) has had its application denied and the INPI is reviewing the appeal. Furthermore, we have duly registered the internet domain *paraisobioenergia.com.br* with Registro.br, which is in force until at least the end of 2015.

### ***Research and Development***

We are members of the CTC, a private institution focused on research, development and improvement of technologies for agricultural activities, logistics, and industry, as well as creating new varieties of sugarcane. The CTC has already developed biological methods for controlling pests, biodegradable plastic, co-generation technology and VHP sugar that requires less energy to be processed.

We also analyze our best possible use of new varieties of sugarcane in light of the different soil and climate conditions in the areas where we harvest sugarcane.

### ***Information Technology***

We have made investments in our technological platform in order to improve the management and supervision of all phases of our production process, ensure the quality of our products, achieve higher operating efficiency and improve the analysis and management of our production costs.

### ***Governmental Regulations***

The sugar and ethanol industries were heavily regulated by the Brazilian government until 1999. Prices of sugarcane, ethanol and sugar were established in accordance with federal law, and their production was controlled through centralized harvest plans established by the Brazilian government. In 1975, the Brazilian government implemented the Pro-Ethanol program, which created incentives for the production of ethanol-fueled vehicles and established ethanol prices.

The deregulation of the sugar and ethanol industries began with the promulgation of Brazil's Federal Constitution in 1988. In 1989, producers were authorized to directly export sugarcane under governmental supervision. In 1990, the Brazilian government dissolved the Sugar and Ethanol Institute, an agency that controlled several aspects of sugar production and sales, including the preparation of harvest plans and the establishment of prices. In 1996, the government's harvest plans ceased to be compulsory and were used only for indicative purposes. From 1995 to 1999, government control of the prices of sugar and ethanol was gradually relaxed and sugar was permitted to be exported freely. The full deregulation of sugarcane prices occurred on February 1, 1999.

Since August 1997, the Brazilian government has required that all gasoline sold must be mixed with between 18% to 25% anhydrous ethanol (currently 25%, effective since May 1, 2013).

In 2011, Law No. 12,490 changed the classification of ethanol from an agricultural product to a biofuel. This change brought the production, import, export, storage, transport, transfer, distribution and marketing of ethanol under the ANP's regulation and supervision, increasing the ANP's role in the regulation of ethanol by applying various regulations to ethanol that were previously only applicable to petroleum and its derivatives, natural gas and condensate.

Brazilian Law No. 12,490/11 also set forth that the exploitation of biofuels activities (including ethanol activities) is subject to ANP's prior authorization, which will only be issued for companies (1) incorporated or organized under Brazilian law, (2) that are in good standing with the Brazilian tax authorities and the ANP, (3) which present a basic plan for implementation in accordance with the technical legislation applicable, (4) which possess an environmental license or another equivalent government authorization, (5) which present a project which ensures adequate safety of the facilities, and (6) which have paid-in capital or other financing sources sufficient to develop the project.

ANP's Resolution No. 7, dated February 9, 2011, and Resolution No. 26, dated August 30, 2012, provide technical specifications for the production and marketing of ethanol. As per Resolution No. 26, companies may be authorized by ANP to produce ethanol provided that they comply with these technical specifications. However, an ANP authorization will not be granted (1) to a company which is or whose officers, managers or shareholders, either as individuals or legal entities, as applicable, are delinquent with their debt owed to governmental entities and are enrolled in the Brazilian Government's Registry of Unpaid Debts (*Cadastro Informativo de Créditos não Quitados do Setor Público Federal*), or CADIN; or (2) if in the last five years the company has had its authorization to conduct its activities revoked by the ANP due to noncompliance with the applicable provisions.

The imposition of price controls, any reduction in the mandatory percentage of ethanol required to be added to gasoline or any other change in the Brazilian government policy towards ethanol use could have a material adverse effect on our business. See “Risk Factors—Risks Relating to Our Business and the Ethanol and Sugar Industries—Government policies and regulations affecting the agricultural and ethanol sectors and related industries could materially adversely affect us.”

## **Environmental Rules and Regulations**

Article 225 of the Brazilian Federal Constitution classifies the environment as a common usage asset, essential to a good quality of life, and imposes on public authorities and on the community the duty to protect and defend it for present and future generations. The Brazilian Federal Constitution grants the Brazilian government, state governments and municipalities the power to enact environmental protection laws and issue regulations under such laws. Most of the environmental regulations in Brazil are thus at the state and local level rather than at the federal level, with environmental standards established in the operating permits issued to each plant rather than through regulations of general applicability. Operating permits must be renewed from time to time.

We are subject to Brazilian federal, state and local laws and regulations governing the discharge of effluents and gas emissions into the environment, the handling and disposal of industrial waste, the preservation of wildlife in protected areas, and the use of natural resources or otherwise relating to the protection of the environment.

### ***Environmental Liability***

The Brazilian Federal Constitution has followed the guidelines established by the National Environmental Policy (*Política Nacional do Meio Ambiente*), outlined in Federal Law No. 6,938/1981, which is considered one of the main Brazilian environmental legal statutes. As a general rule, Brazilian law requires that any individual or legal entity that causes damage to the environment may be subject to civil, criminal and administrative liability.

The Brazilian National Environmental Policy regulates civil liability for damages caused to the environment irrespective of fault. Demonstration of the cause and effect relationship suffices to trigger the obligation to repair environmental damage. The fact that the wrongdoer’s operations are in accordance with environmental licenses does not exclude such liability.

The Brazilian National Environmental Policy further expanded the list of persons liable for environmental damages and established joint liability among polluting agents. In the case of environmental damage to an industrial area or potentially polluting activity, it may be difficult to identify the source of the environmental damage and the intensity. The aggrieved party is not compelled to sue all of the polluting parties in one proceeding. Instead, the aggrieved party may choose the polluting party (given joint liability) that meets the necessary requirements to appear as a defendant. A polluting party that is sued has the right to be indemnified by the polluting party directly responsible for the damages.

Another important liability issue concerns acquisition operations. An acquirer of a property that pursues or pursued an activity potentially damaging to the environment automatically undertakes the obligation to repair any environmental damage or correct adverse impacts left by the property seller, regardless of the means of acquisition. For example, should a property owner’s soil become contaminated by hazardous materials, the Brazilian environmental authority may issue a violation notice requiring the owner to remediate the land, which may require significant expenditures by the owner. However, if the acquirer of a property becomes liable for environmental damage, the acquirer may pursue its right of recourse against the original property owner if the acquirer can prove that the liability existed before the acquisition, provided that this liability was not disclosed during negotiations or is set forth in the underlying acquisition documents.

The Public Attorneys’ Office, foundations, state agencies, state-owned companies and associations established for environmental protection are authorized by law to take action in order to protect the environment.

Furthermore, although not provided for in an express legal provision, mainstream doctrine advocates that a claimant seeking compensation for environmental damages is not barred by any statute of limitations.

Under the Environmental Crimes Act (Federal Law No. 9,605/98), individuals and legal entities, including officers, controllers, directors, managers, auditors, nominees (quotaholders or not) and employees of such legal entities, may also incur criminal liability when acting with negligence or imprudence in violating environmental

legislation. The Environmental Crimes Act was the first law to create criminal liability for legal entities in the Brazilian legal system. A civil or administrative judicial settlement will not prevent prosecution for criminal liability in the case of an environmental crime.

The criminal penalties that can be imposed upon legal entities include, *inter alia*: (1) the obligation to render services to the community; (2) the requirement to fund environmental programs and projects; (3) payment for the restoration of damaged areas; (4) financial contribution to public entities whose purpose is to protect the environment; and (4) payment of fines. In principle, there is a presumption of negligence on the part of the legal entity.

The criminal penalties that may be imposed upon an individual include, among other penalties, imprisonment ranging from one month to ten years and/or the payment of a fine. The most severe penalties are related to pollution crimes, which are most commonly committed by legal entities and their managers. Penalties in this respect include possible imprisonment of up to five years, which can be doubled if the pollution results in a death. If the violator is sentenced to confinement or imprisonment, such penalty may be replaced by community service.

Administrative penalties under the Environmental Crimes Act are established by Federal Decree No. 6,514/08. Under this decree, every action or omission that violates a law regarding environment usage, enjoyment, support, protection or restoration is considered an environmental administrative violation and may be subject to single or daily fines, embargoes, full or partial suspension of activities, right-restrictive penalties and compensatory damages, among other. Fines are assessed based on the unit, hectare, cubic meter, kilogram or other applicable unit of measure, depending on the damaged asset, and may range from R\$50.00 to R\$50.0 million. Generally, the maximum fine will only be imposed when the violation creates a high environmental risk or may cause serious environmental damages. The goals of the aforementioned legal statutes are environmental protection and restoration of environmental degradation. Therefore, enforceability of fines contemplated by the Federal Decree No. 6,514/08 may be suspended upon signing of a commitment statement, approved by the appropriate environmental authority, whereby the violator undertakes specific steps to repair the environmental damage within a certain period of time.

### ***Environmental Licensing***

The Brazilian National Environmental Policy sets forth that the environmental licensing process is necessary to authorize the construction, installation, expansion or operation of facilities or activities that uses natural resources, and are deemed actually or potentially polluting, as well as those capable of causing any kind of environmental degradation. This license will establish conditions, restrictions and inspection procedures for the project.

Generally, the environmental licensing process in Brazil is composed of three stages, represented by the issuance of three different licenses: (1) preliminary license (*Licença Prévia*), which is granted during the preliminary stage of planning the enterprise or activity and approves its location and concept, after the analysis by the competent environmental agencies of the environmental assessments presented, which can be a simplified report or a full Environmental Impact Report and correspondent Environmental Impact Assessment (*Estudo de Impacto Ambiental e respectivo Relatório de Impacto ao Meio Ambiente*), or EIA/RIMA; (2) installation license (*Licença de Instalação*), which authorizes the setting up of the enterprise, according to the specifications of the approved plans, programs and designs; and (3) operation license (*Licença de Operação*), which authorizes the operation of the activity or enterprise, after effective compliance with the previous licenses and with the environmental control measures and conditions determined for the operation. The environmental licensing process is contingent on the preparation of technical environmental studies and, in some cases, on the payment of environmental compensation fees.

We seek to obtain all the necessary environmental licenses, permits and authorizations required by law or the competent environmental agencies in order to operate our facilities. On February 2, 2012, we received pre-authorization, valid for five years (while the final approval is pending), from CETESB for the expansion of the crushing capacity of our Santa Cândida mill from 2.5 million tons of sugarcane per harvest period to 3.5 million tons of sugarcane per harvest period. The lack of an environmental license to construct, implement, operate, expand or enlarge a facility which may have a significant environmental impact, as well as non-compliance with requirements environmental licenses, such as total production capacity, exposes the wrongdoer to criminal and administrative penalties, including fines ranging from R\$500.00 to R\$10.0 million, amongst other sanctions that can be applied, such as suspension of activities and shutdown orders. Generally, shutdown orders are only applied when a noncompliant operation triggers a high environmental risk or causes serious environmental damage.

### ***Solid Waste***

Final disposal of waste directly affects both the environment and the public health. Brazilian legislation, specifically the Solid Waste National Policy, set out in Federal Law No. 12,305/2010, requires that transportation, management and final disposal of waste neither cause any damage to the environment, nor any harm to the public health and welfare. Brazilian legislation regulates the segregation, collection, storage, transportation, treatment and final disposal of wastes and also imposes joint and several liability upon entities that outsource such activities to third parties. Specific kinds of waste, such as industrial by-products, must be disposed of in specified locations. The improper disposal of waste may subject the wrongdoer to civil, criminal and administrative liability.

With respect to subcontractor liability, environmental liability in Brazil involves strict joint and several liability, meaning: (1) such liability does not depend on direct fault of the agent; and (2) such liability affects all those directly or indirectly involved. Thus, we may be held liable for the irregular conduct of our subcontractors, such as the irregular disposal of waste. A single violation of waste disposal administrative rules may subject the entrepreneur to fines ranging from R\$5,000 to R\$50,000,000.

We seek to ensure that third parties we hire to dispose of waste are compliant with applicable rules and legislation.

### ***Registration before IBAMA***

We are required to register with the Federal Technical Registry (*Cadastro Técnico Federal*), or CTF, of the Brazilian Renewable Natural Resources and Environmental Agency (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*), or IBAMA, in order to operate sugar mills. We are also required to make quarterly payments of the Environmental Control and Inspection Fee (*Taxa de Controle e Fiscalização Ambiental*), or TCFA, pursuant to Federal Law No. 6,938 and Regulations No. 31/2009 and 6/2013. The lack of registration is subject to fines of up to R\$9,000. As per the certification we received on April 10, 2014 (certificate No. 1572627), we are in compliance with the IBAMA registration requirements and TCFA quarterly payments as of the date of this offering memorandum.

### ***Permanent Preservation Areas***

The Brazilian Forestry Code (Federal Law No. 12,651/2012) sets forth that some areas are protected against certain land use, including areas bordering streams and rivers and hill tops. Activities may only be undertaken in these Permanent Preservation Areas (*Áreas de Preservação Permanente*), or APP, if such human interference is permitted in case of public need and social interest. In these cases, prior authorization is required on the part of the relevant environmental authority, provided that measures to mitigate and compensate the environmental impacts in the existing APP are adopted by the entrepreneur.

Pursuant to Federal Decree No. 6,514/08, illegal interference with or damage to any kind of vegetation in an APP may subject the wrongdoer to fines ranging from R\$5,000 to R\$50,000 for each hectare or fraction thereof. Additionally, the removal of trees in an APP may also subject the wrongdoer to fines ranging from R\$5,000 to R\$20,000 per hectare or fraction thereof. Regardless of administrative sanctions, damages to an APP trigger the obligation to repair such damages. Since environmental liability imposes a strict joint and several liability, any company involved, directly or indirectly, with damage to an APP is automatically required to repair any environmental damages or to correct any adverse impacts, regardless of the causes of such degradation. Nevertheless, should such liability be caused by the land owner, the company sued may have a right of indemnification against the person or entity that caused the environmental damage.

In the event of noncompliance with APP requirements we and landowners of the property on which we cultivate and harvest sugarcane, are jointly and severally liable for environmental liability. As of the date of this offering memorandum, we believe that we and most landowners of the properties we lease are in compliance with the APP requirements.

### ***Legal Forestry Reserve***

The Brazilian Forestry Code sets forth the necessity to preserve minimum areas of rural properties with native forests. The percentage varies depending on the location of the property and is, as a general rule, 20%. However, the percentage differs for areas located in the Amazon region, which encompasses seven states in the Amazon Basin

(Acre, Amapá, Amazonas, Pará, Rondônia, Roraima and Tocantins) and part of the States of Mato Grosso and Maranhão. This percentage is 35% for areas located in the Cerrado Biome and 80% for areas located in the Amazon rainforest.

The new forestry rules of the Brazilian government require enrollment in the CAR for all rural properties in Brazil. The CAR contemplates the geo-coordinate references, which indicates the exact location of the rural property. Registry with the CAR exempts the registrant from registration with the Real Estate Registry Office for legal reserve areas. Court decisions tend to require registration of the Legal Forestry Reserve with the Real Estate Registry Office until the CAR is implemented.

Decree No. 6,514/08 provides that any failure to register the legal reserve shall subject the land owner to the payment of a daily fine, which value ranges from R\$50 to R\$500 per hectare or fraction thereof. Release of registration with the real estate entry, and consequent obligation of registration at the CAR, will require the Brazilian Government to update the penalties described herein. Finally, as per Brazilian law, the suppression of vegetation inside a legal reserve area may subject the violator to criminal and administrative liabilities, including a fine of R\$5,000 per hectare.

As the scope of our lease agreements is restricted to cultivated areas and does not encompass legal reserve areas, the respective landowners are responsible for such areas and its preservation in accordance with the Brazilian Forestry Code. However, in the case of our Fazenda Paraíso cultivation area, before it was transferred to its current owners (who currently lease it to us), Paraíso agreed with CETESB to preserve 20% of the cultivation area as a legal reserve until September 11, 2014. Santa Cândida agreed with CETESB to preserve 20% of the cultivation area as legal reserve until May 20, 2014 and has requested an extension of the deadline for compliance. Vista Alegre agreed with IMASUL to comply with the Legal Forestry Reserve requirements and an agreement was executed on August 14, 2008.

We incentivize the compliance with preservation of legal reserve areas in accordance with Brazilian legislation. In the event of noncompliance with the legal reserve requirements by the landowners of the property on which we cultivate and harvest sugarcane, we believe our risk of environmental joint and several liability is low because we only lease cultivated areas. As of the date of this offering memorandum, we believe that most owners of the land we lease are in compliance with the legal forestry reserve requirements. See “Risk Factors—Risks Relating to Our Business and the Ethanol and Sugar Industries—We are subject to extensive environmental and labor regulations and may be exposed to liabilities and potential costs for environmental and labor compliance.”

Finally, as per Brazilian law, the suppression of vegetation inside a legal reserve area may subject the violator to criminal and administrative liabilities, including a fine of R\$5,000 per hectare.

### ***Conservation Units***

Brazilian Federal Law No. 9,985/2000 establishes that the federal, state and municipal governments may establish conservation units (*Unidades de Conservação*), or UCs. According to this law, UCs may be of integral protection (*unidade de proteção integral*), in which no human interference is allowed, or sustainable use (*unidade de uso sustentável*), in which only sustainable use of natural resources is authorized.

Federal Decree No. 6,514/08 and Brazilian Law No. 9,605/98 provide that non-compliance with rules concerning the use of UCs, as well as generally causing damage to the UCs, may subject the violator to several administrative and criminal sanctions, such as fines up to R\$100,000.

Also, Brazilian law requires, for the implementation of activities with significant environmental impact as considered by the Environmental Impact Assessment and correspondent Environmental Impact Report (*Estudo de Impacto Ambiental e Respectivo Relatório de Impacto ao Meio Ambiente – EIA/RIMA*), that the land owner support the implementation and maintenance of UCs as a compensatory measure. The environmental compensation corresponds to up to 0.5% of the value of the enterprise or project, depending on the impacts to be generated by the activity.

As our activities do not involve a significant EIA/RIMA environmental impact, our licensing processes do not require payment of environmental compensation for implementing and maintaining UCs, except that we have been assessed, and paid a license fee in March 2013 for expansion of the crushing capacity of Santa Cândida. Although the scope of our lease agreements are restricted to cultivated areas, we incentivize the compliance by the landowners

of rural properties we lease to the Brazilian legislation relating to the UCs, in situations in which the rural properties have any overlap in these areas. In the event of non-compliance with the UC requirements by the landowners of the property on which we cultivate and harvest sugarcane, we believe our risk of environmental joint and several liability is low because we only lease cultivated areas. As of the date of this offering memorandum, we believe that most landowners of the properties we lease are in compliance with the UC requirements.

### ***Cultural Heritage***

Article 216 of the Brazilian Federal Constitution defines cultural heritage as including artistic and technological creations as well as general cultural, historical and archeological sites, documents, and other tangible and intangible assets. Furthermore, the Brazilian Federal Constitution establishes that the Brazilian government and civil society are responsible for the protection of Brazilian cultural heritage. Accordingly, any interferences in culturally and historically relevant areas requires authorization from the National Historical and Artistic Heritage Institute (*Instituto do Patrimônio Histórico e Artístico Nacional*), or IPHAN.

Any unauthorized interference in cultural, historical or archeological areas is considered an administrative infraction, subjecting the violator to penalties such as embargos or fines, which may range from R\$10,000 to R\$100,000.

As of the date of this offering memorandum, we believe we are in compliance with our obligations relating to cultural heritage.

### **Property, Plant and Equipment**

Our headquarters and principal executive office is located in the city of Bocaina (where our Santa Cândida mill is located), in the state of São Paulo. Our properties consist primarily of sugarcane, sugar and ethanol production facilities in which we process sugarcane.

We cultivate sugarcane on land we lease and land we use pursuant to agricultural partnership agreements.

We believe that all of our production facilities are in good operating condition. As of March 31, 2015, the total net book value of our property, plant and equipment was R\$614.5 million and 37.9% of our indebtedness was secured by certain of our sugarcane inventories, Paraíso mill, agricultural and industrial equipment and machinery and accounts receivables.

### **Employees**

As of March 31, 2015, we had 2,108 employees. As of March 31, 2015, all of our employees were represented by unions. We deduct a mandatory union contribution from all of our employees' compensation. We believe that we have good relations with our employees and the unions that represent them, and we have never experienced strikes or other labor slowdowns. We are a party to certain collective bargaining agreements with the following unions: Union of Workers in the industries of manufacturing of Alcohol, Chemicals, Pharmaceuticals, Plastics, Paints and Varnishes of the City of Bauru and Region, State of São Paulo (*Sindicato dos Trabalhadores nas Indústrias da Fabricação do Alcool, Químicas, Farmacêuticas, Plásticas, Tintas e Vernizes de Bauru e Região*); Union of the Road Transport Workers of the City of Jaú and Region (*Sindicato dos Trabalhadores em Transporte Rodoviário de Jau e Região*); Union of the Rural Workers of the City of Bocaina, State of São Paulo (*Sindicato dos Trabalhadores Rurais de Bocaina, Estado de São Paulo*); Union of the Rural Workers of the City of Dois Córregos, State of São Paulo (*Sindicato dos Trabalhadores Rurais de Dois Córregos, Estado de São Paulo*); Union of the Rural Workers of the City of Dourados, State of São Paulo (*Sindicato dos Trabalhadores Rurais de Dourados, Estado de São Paulo*); Union of the Rural Workers of the City of Torrinha, State of São Paulo (*Sindicato dos Trabalhadores Rurais de Torrinha, Estado de São Paulo*); Union of the Rural Workers of the City of Brotas, State of São Paulo (*Sindicato dos Trabalhadores Rurais de Brotas, Estado de São Paulo*); Union of the Workers of the Chemical and Pharmaceutical Industries of the City of Botucatu and Region (*Sindicato dos Trabalhadores nas Indústrias Químicas e Farmacêuticas de Botucatu e Região*); Union of the Workers of the Food and related products Industries of the City of Jaú and Region (*Sindicato dos Trabalhadores nas Indústrias de Alimentação e afins de Jau e Região*); Union of the Workers of the industries of manufacture of Sugar and Alcohol of the City of Rio Brilhante, State of Mato Grosso do Sul (*Sindicato dos Trabalhadores nas Indústrias de Fabricação de Açúcar e Alcool de Rio Brilhante, Estado do Mato Grosso do Sul*); Union of the Workers of the industries and Metallurgical and Mechanical Workshop, Electrical Equipment, Shipbuilding, Automobiles Mechanics, machinery and related of the

City of Jaú and Region (*Sindicato dos Trabalhadores nas Indústrias e Oficinas Metalúrgicas Mecânicas, Material Elétrico, Construção Naval, Mecânica de Autos, Máquinas e afins de Jaú*); and the Union of the Rural Workers of the City of Maracaju, State of Mato Grosso do Sul (*Sindicato dos Trabalhadores Rurais de Maracaju, Estado do Mato Grosso do Sul*), which have one-year terms. These agreements are subject to annual renewal pursuant to the terms to be agreed with the respective union and are subject to changes in Brazilian law. We apply the terms of these collective bargaining agreements entered into with the unions equally to all of our employees.

Our payroll expenses totaled R\$20.8 million for the fiscal year ended March 31, 2015, which includes provisions for vacations, bonuses, taxes and social contributions.

### ***Benefits***

We offer our employees, including our executive officers, various benefits in compliance with collective labor agreements and Brazilian labor laws. Benefits include medical and dental assistance, meals, transportation and life insurance. We continue to improve and develop new training programs for our employees, as well as programs to minimize workforce accidents. We are also committed to constantly improving the working conditions of our workforce.

### ***Social Programs***

We are currently involved in 57 social, cultural and environmental initiatives through our Life in Action (*Vida em Ação*) program. Our initiatives include collection and waste management components designed to reduce the amount of waste dumped into landfills and programs to provide environmental education in communities surrounding our mills.

We are the sponsors of a child development center for approximately 70 infants and children in Brotas called Centro de Educação Infantil Zilda Francini Pinheiro. This center's focus is to shelter and care for infants from birth until they start school, as this is when their experiences will have a powerful impact in their future.

### ***Profit Sharing Program***

In compliance with the collective labor agreements entered into with the labor unions representing our employees, we implemented a profit sharing program for employees, based on operating and financial targets previously established and based on our budget plan.

The operating and financial indicators agreed between us and our employees, through the labor unions that represent them, are related to the following aspects: (1) agro-industrial operating indexes; (2) budget index; (3) health, safety and environmental statistic indexes; (4) efficiency gains; and (5) our financial performance.

Measurement of these indicators is segregated among our respective departments, which include, for purposes of this program, the agricultural, industrial and administrative departments.

For the fiscal years ending March 31, 2015 and 2014, our expenses for profit sharing totaled R\$7.4 million and R\$9.4 million, respectively, which we recorded in "operating costs and expenses."

### ***Insurance***

As of March 31, 2015, we carried insurance policies covering our facilities and their contents, including furniture, equipment, machinery, raw materials and inventory stored therein. These insurance policies cover damages from fire, electrical damage, natural disasters and industrial accidents and have coverage limits of up to R\$720.1 million. As of June 30, 2013, we no longer carry significant lost profits insurance.

We do not anticipate having any difficulties renewing any of our insurance policies and believe that our insurance coverage is reasonable in amount and consistent with industry standards applicable to similarly situated sugar and ethanol companies operating in Brazil.



## **Legal and Administrative Proceedings**

We are engaged in several legal proceedings, including tax, social contribution, labor, civil and environmental proceedings. We established provisions in an aggregate amount of R\$7.5 million as of March 31, 2015 in relation to legal proceedings. However, there are certain legal proceedings currently pending in which we are involved for which we have not established provisions. If any of these proceedings is decided adversely to us, our results of operations or financial condition could be materially adversely affected.

As of March 31, 2015, we were involved in a conduct adjustment agreement (*Termo de Ajustamento de Conduta*), or TAC, and two commitment agreements (*Termos de Compromisso*) with the labor office's prosecutor of the state of São Paulo, in order to bring into compliance and maintain certain labor practices related to the labor conditions of our rural workers.

We entered into the TAC in 2003, pursuant to which we committed to (1) use our employees exclusively for the planting and harvesting of sugarcane; and (2) monitor the compliance of companies we hired for outsourcing rural activities, with respect to labor rules related to employees registration, payment of salaries, the provision of free transport to work and health and safety conditions at work. In the event of any non-compliance with these obligations, the TAC establishes that we would be subject to a daily fine of R\$200,000 per worker in non-compliance.

We entered into two commitment agreements with the São Paulo labor office's prosecutor in April 2008 and March 2010, respectively. Pursuant to the first commitment agreement, signed in April 2008, we agreed to abolish the working regime of five days worked for each day off, and to comply with the Regulatory Norm No. 31, of the Brazilian Labor Ministry (*Ministério do Trabalho*). In case of any non-compliance with these obligations, a fine of R\$1,000 will be imposed per obligation breached, without prejudice to our obligations established under the TAC. In the second commitment agreement, which we entered into in March 2010, we agreed to comply with twelve obligations related to improving work conditions of our rural workers. In the event of any non-compliance with these obligations, we would be subject to a R\$5,000 fine per obligation breached, plus a R\$500 daily fine during the period of non-compliance.

We are also the subject of two legal investigations by the Labor Public Prosecutor Office (*Ministério Público do Trabalho*) of the state of Mato Grosso do Sul and two legal investigations by the Labor Public Prosecutor Office of the state of São Paulo. All of these investigations focus on the existence of irregularities regarding our employees' working conditions. We have already presented all the information and documents requested and are waiting for a response from the Labor Public Prosecutor Office. Depending on their response, each legal investigation may result in either a Public Civil Action or a new TAC.

We are also subject to three legal investigations by the state of Mato Grosso do Sul Public Prosecutor's Office, which focus (1) on the construction of a dish in APP without the competent authorization at São Pedro, which we expect shall be archived soon; (2) potential environmental damages resulting from the erosive proceeding of sugarcane plantation at Pontal, which we expect shall be archived soon; and (3) irregular management of vinasse in soil at Vista Alegre neighborhood which is under analysis of the Public Prosecutor's Office and will likely be archived.

## **Tax and Social Contribution Proceedings**

As of March 31, 2015, we were involved as defendants in approximately 88 tax and social contribution administrative and judicial proceedings. The aggregate amount in dispute in these proceedings totals approximately R\$50.2 million. The majority of these proceedings relate to debts in respect of COFINS, PIS, Tax on Manufactured Products (*Imposto sobre Produtos Industrializados*), or IPI, and ICMS taxes. As of March 31, 2015, we recorded provisions in connection with these proceedings amounting to approximately R\$1.0 million. In addition, amounts in dispute in some of the judicial proceedings are secured by certain of our assets.

Our primary contingency is related to several proceedings regarding IPI tax credits, amounting to approximately R\$5.9 million in dispute as of March 31, 2015. Some of these proceedings are in regards to the disallowance of presumed IPI credits for the acquisition of goods from individuals. Our external counsel assessed the likelihood of loss in connection with these proceedings as possible or remote, and we have not established any provisions relating to these claims. Other IPI proceedings relate to the disallowance of IPI tax credits for intermediate products or tax

exempt products. In these cases, our external counsel has assessed the likelihood of loss as possible, and we have not established any provisions relating to these claims.

Moreover, we are party to several other proceedings related to the disallowance of PIS and COFINS tax credits derived from expenses related to, for example, (1) the acquisition of lubricants, (2) the rental of machinery and equipment, and (3) the maintenance of machinery and industrial equipment. The total amount in dispute of these claims as of March 31, 2015 is approximately R\$24.1 million. Our external counsel assessed the likelihood of loss as possible, and we have not established any provisions relating to these claims. In addition, the National Treasury Attorney's Office (Procuradoria Geral da Fazenda Nacional), or PGFN, filed for a tax foreclosure as we off-set overpaid PIS debts. The total amount involved in this claim was R\$3.1 million as of March 31, 2015 and our external counsel have assessed the likelihood of loss as remote.

In addition, the State Treasury of São Paulo filed a tax foreclosure seeking the collection of ICMS as a result of (1) an incorrect assessment of the calculation basis for sugar operations; (2) undue ICMS credits relating to transportation services provided by companies with irregular state registration; and (3) undue ICMS credits relating to transportation services provided by companies that adopt the simplified tax system (*Simples Nacional*). The total amount in dispute is approximately R\$5.8 million as of March 31, 2015. Our external counsel assessed the likelihood of loss as possible and we have not established any provision relating to this claim.

In July 2011, the National Social Security Institute (INSS) filed a tax assessment seeking to collect social security contribution over exports revenues of Paraíso through trading companies. The total amount in dispute is approximately R\$5.8 million as of March 31, 2015. Our external counsel assessed the likelihood of loss as possible and we have not established any provision relating to this claim.

### ***Labor Proceedings***

As of March 31, 2015, we were a party to approximately 1,143 judicial labor proceedings and three public civil actions. The total amount in dispute totaled approximately R\$40.0 million as of March 31, 2015.

The majority of these labor proceedings relate to claims for the payment of overtime, indemnification for moral and actual damages related to occupational illnesses or labor accidents and discrepancies related to severance payments. Among the labor proceedings that we were party to, three involve labor unions, two of which are related to the legitimacy of such unions representing our employees, and one of which is related to the payment of commuting hours as overtime to the employees located in the city of Maracajú, state of Mato Grosso do Sul.

In addition, we are party to four public civil actions, instituted by the Labor Prosecutor Office. One of them is related to health and safety conditions of our employees during the manual harvest of sugarcane. Another public civil action is related to our compliance with the Social Assistance Plan (*Plano de Assistência Social*), or PAS, which is given to employees in the sugarcane industry. The third public civil action is related to the compliance of the labor legislation regarding health and safety conditions, resting periods and working hours. The fourth civil action is related to the outsourcing of certain of our activities. The amount in dispute for these proceeding was R\$2.9 million as of March 31, 2015.

As of March 31, 2015, we established provisions in connection with labor proceedings totaling R\$5.6 million.

### ***Civil and Environmental Proceedings***

As of March 31, 2015, we were party to 62 civil proceedings, for which the historic aggregate amount in dispute totaled R\$27.2 million, including lawsuits that we filed against third parties and lawsuits in which we were named as defendant. The majority of these proceedings relate to contractual claims. The historic aggregate amount in dispute for the claims filed by us totaled approximately R\$19.2 million as of March 31, 2015. The historic aggregate amount in dispute for the actions filed against us totaled approximately R\$7.9 million as of March 31, 2015. As of March 31, 2015, we established provisions in connection with these civil proceedings totaling R\$0.9 million.

We initiated a confidential arbitration proceeding seeking compensation for damages arising from a certain investment agreement. The historical amount claimed is equivalent to R\$40 million. There is a counterclaim, in the historical amount of R\$40 million, and currently the proceeding is at the stage of expert evidence. The likelihood of our success, according to the counsel responsible for conducting the arbitration proceeding, is classified as possible.

As of March 31, 2015, we were a party to at least nine environmental administrative proceedings and three tax enforcements, for which the aggregate amount in dispute totaled R\$1.8 million. Moreover, there are at least nine judicial proceedings/enforcements discussing previous environmental administrative proceedings, in the total amount R\$0.8 million.

Also, we are a party to one civil class action, relating to the remediation of environmental damage caused at an APP and the pending registration of a Legal Reserve with the relevant Real Estate Registry Office, in the amount of R\$50,000, and to three legal investigations by the state of Mato Grosso do Sul Public Prosecutor's Office, relating to (1) the construction of a dish in APP without the competent authorization at São Pedro; (2) potential environmental damages resulting from the erosive proceeding of sugarcane plantation at Pontal; and (3) irregular management of vinasse in soil at Vista Alegre neighborhood.

In addition, if we are unable to evidence compliance with environmental regulations, we may be subject to fines, which could materially adversely affect us or the renewal of our environmental licenses.

### **Tax Credits**

Based on interpretations and understandings of our external legal counsel, we recognize certain tax credits related to PIS and COFINS. The RFB has started questioning some of these PIS and COFINS credits, which are under discussion in administrative proceedings mentioned above. In these cases the external lawyers assessed the likelihood of loss as possible, and we recorded no provision in relation to these PIS and COFINS credits. These tax credits are being questioned as there is a discussion about which expenses are considered as inputs by the RFB.

As of March 31, 2015, the total amount in dispute relating to these tax credits was R\$19.1 million.

We also recognize tax credits of ICMS, IPI and INSS related to certain inputs and the acquisitions of goods and services for which we also have not recorded any provision.

## MANAGEMENT

### Board of Directors (*Conselho de Administração*)

Our board of directors sets the general guidelines and policies for our business and supervises the implementation of these guidelines by our executive officers. It currently has nine members and may be comprised of up to nine members, which are to be appointed proportionately based on the equity interest held by each of the shareholders in Tonon, provided that pursuant to the shareholders' agreement, FIP DGF Terra Viva shall be entitled to appoint at least two members. The members of our board of directors are elected for one-year terms at our annual general shareholders' meetings.

Name	Appointed by	Member Since	End of Term(1)
Antonio Tonon .....	Tonon Holding	April 7, 2011	April 14, 2016
Abelmir Bortolo Tonon .....	Tonon Holding	July 1, 2014	April 14, 2016
Claudia Maria Tonon .....	Tonon Holding	April 7, 2011	April 14, 2016
Francisco Tonon Neto.....	Tonon Holding	April 7, 2011	April 14, 2016
Rafael Tonon (Chairman).....	Tonon Holding	April 7, 2011	April 14, 2016
Renato José Tonon Filho .....	Tonon Holding	April 7, 2011	April 14, 2016
Vitor Antonio Picini .....	FIP DGF Terra Viva	April 14, 2015	April 14, 2016
Rufino Bernardes Leira.....	FIP DGF Terra Viva	April 14, 2015	April 14, 2016

- (1) The term of our board of directors will end at the annual shareholders' meeting at which our financial statements for the fiscal year ended March 31, 2016 are approved, which meeting has not yet been scheduled. According to our bylaws, until new members are elected (or the current members are reelected) at our annual shareholders' meeting, the current members remain in their respective positions.

The following is a summary of the business experience of the members of our board of directors:

*Antonio Tonon.* Mr. Tonon. He holds a bachelor's degree in industrial engineering from Centro Universitário da Faculdade de Engenharia Industrial (FEI). He has also completed a director training course (*Curso de Formação de Conselheiros*) at the Fundação Dom Cabral.

*Abelmir Bortolo Tonon.* Mr. Tonon has over 20 years of experience in the sugarcane industry. He has completed high school.

*Claudia Maria Tonon.* Ms. Tonon has over 20 years of experience in the sugarcane industry. She served as an executive officer, with a focus on finance, management and business operations at Tonon. She holds a bachelor's degree in business administration from Universidade de Marília and a bachelor's degree in law from Faculdade Integrada. She also holds a post-graduate degree in foreign trade and business from the University of Ohio and a post-graduate degree in business management from FGV. She has also completed a director training course (*Curso de Formação de Conselheiros*) at the Fundação Dom Cabral.

*Francisco Tonon Neto.* Mr. Tonon has over 20 years of experience in the sugarcane industry. He served as the executive officer of operations. He holds a bachelor's degree in agronomy from Faculdade Manoel Carlos Gonçalves with a specialization in business management from FGV. He has also completed a director training course (*Curso de Formação de Conselheiros*) at the Fundação Dom Cabral.

*Rafael Tonon.* Mr. Tonon worked in the finance and supply sectors of Tonon. He holds a bachelor's degree in business administration from Universidade Presbiteriana Mackenzie and specialized in agribusiness management at FGV. He has also completed the director training course (*Curso de Formação de Conselheiros*) through the Fundação Dom Cabral.

*Renato José Tonon Filho.* Mr. Tonon Filho served as laboratory manager and project engineer at Nesita Energy LLC. He is currently the chairman of the operational management committee at Tonon. He holds a bachelor's degree in physical engineering with a specialization in chemical engineering from Universidade Federal de São Carlos. He has also completed a director training course (*Curso de Formação de Conselheiros*) at the Fundação Dom Cabral.

*Vitor Antonio Picini.* Mr. Picini has over 10 years of experience in the sugarcane industry. He has worked at Louis Dreyfus, EBBA (Maguary/Dafruta) and Infinity Bio-Energy. He holds a bachelor's degree in economics from USP, a postgraduate degree in industrial management from Universidade de São Paulo (USP) and an MBA in accounting from Fipecafi-USP.

*Rufino Bernardes Leira.* Mr. Leira has over 30 years experience in the sugarcane industry. He worked at plant Cresciumal / Louis Dreyfuss, Companhia Energetica Santa Elisa / Santelisa Vale / CNAA (National Company of Sugar and Alcohol and Sermatec. He holds a bachelor's degree in Agronomic Engineering with specialization and Food Technology USP. - Escola Superior de Agricultura Luiz de Queiroz (1977).

#### **Board of Executive Officers (Diretoria)**

Our board of executive officers is responsible for our internal organization, day-to-day operations and decision-making and the implementation of the general policies and guidelines established by our shareholders and by our board of directors from time to time. The members of our board of executive officers are elected by our board of directors for one-year terms and are eligible for reelection, provided that FIP DGF Terra Viva is entitled to appoint our chief financial officer. Our executive officers may be removed from office at any time with or without cause by our board of directors. In accordance with the Brazilian Corporation Law, executive officers must be residents of Brazil.

Our board of executive officers is currently composed of three members, a chief executive officer, a chief financial officer and a chief agricultural officer. The terms of these executive officers are set to expire on April 14, 2016. Until new members are elected (or the current members are reelected), pursuant to resolutions decided at the annual shareholders' meeting, these current members remain in their respective positions.

Our board of executive officers meets weekly with all our managers to discuss past-week and next-week matters, such as production, operational data, among others. To be at the forefront of accident prevention in our business, and to develop a strong safety culture that effectively prevents accidents, we begin these meetings with an update from our Safety and Health department.

<b>Name</b>	<b>Position</b>	<b>Member Since</b>	<b>End of Term(1)</b>
Rodrigo Caldas de Toledo Aguiar .....	Chief Executive Officer ( <i>Diretor Superintendente</i> )	April 2, 2012	April 14, 2016
Vitor Antonio Picini .....	Chief Financial Officer	February 1, 2013	April 14, 2016
Nelson Reis de Assumpção .....	Chief Industrial Officer	December 10, 2014	April 14, 2016

- (1) The term of our board of officers will end at the annual shareholders' meeting at which the financial statements for the fiscal year ended March 31, 2016 are approved, which meeting has not yet been scheduled. According to our bylaws, until new members are elected (or the current members are reelected) at our annual shareholders' meeting, the current members remain in their respective positions.

The following is a summary of the business experience of the members of our board of executive officers:

*Rodrigo Caldas de Toledo Aguiar.* Mr. Aguiar has over 28 years of experience in corporate finance and investment banking. He was a member of the board of directors of Paraíso. He has also served as CFO of Infinity Bio-Energy; head of energy, roads, mining and pulp and paper sectors at Banco do Espírito Santo; head of the energy sector at Unibanco (currently Itaú BBA). He has also worked for Safra, Sudameris and for PricewaterhouseCoopers. He holds a bachelor's degree in economics from Pontifícia Universidade Católica (PUC/SP), specialized in finance at the University of California (Berkeley) and holds an MBA in finance from IBMEC-SP (currently Insper).

*Vitor Antonio Picini.* Mr. Picini has over 10 years of experience in the sugarcane industry. He has worked at Louis Dreyfus, EBBA (Maguary/Dafruta) and Infinity Bio-Energy. He holds a bachelor's degree in economics from USP, a postgraduate degree in industrial management from Universidade de São Paulo (USP) and an MBA in accounting from Fipecafi-USP.

*Nelson Reis de Assumpção.* Mr. Assumpção has extensive experience in the sugarcane industry. He has worked at Agricultural Society Santa Mercedes and Santa Mercedes Plant. He has been the owner and director of the Baoba

Sugarcane Agricultural Society since 2008. He holds a bachelor's degree in agronomic engineering from ESALQ/UDOP and a post-graduate degree in sugarcane sector management from ESALQ/USP and an MBA in Business Management from FGV- RJ, Business Institute, Campinas -SP.

### **Fiscal Council**

Under Brazilian Corporate Law, a fiscal council is a separate body, independent of management and the independent auditors. Our bylaws establish a non-permanent fiscal council, which as of the date of this offering memorandum has not been installed, but which may be installed at the request of our shareholders.

### **Other Committees**

We maintain a controlling and finance committee, an operations committee and a human resources and sustainability committee. These committees are composed of four, five and six members, respectively, held mainly by members of our board of directors. Their purpose is to perform in-depth analyses on the matters under their responsibility and assist our board of directors in making strategic decisions.

To be at the forefront of risk assessment and management, we hired Capitânia S.A., an independent asset manager and advisory services company, to provide our management with the tools necessary to better understand and mitigate the risks related to our activities.

### **Compensation**

For the fiscal years ended March 31, 2015, 2014 and 2013, the aggregate amount approved as compensation for the members of our board of directors and board of executive officers was approximately R\$5.1 million, R\$3.6 million and R\$4.4 million, respectively, which include the value of all benefits for our directors and executive officers during those periods.

We do not currently have a stock option plan for our directors, officers or employees.

## PRINCIPAL SHAREHOLDERS

### Tonon

The following table sets forth information concerning the ownership of our capital stock, which consists of common and preferred voting shares, as of the date of this offering memorandum:

Shareholders	Pre-acquisition			Post-acquisition			Fully diluted(3)(4)		
	Number of Common Shares	Number of Preferred Voting Shares	% of Total Capital Stock	Number of Common Shares	Number of Preferred Voting Shares	% of Total Capital Stock	Number of Common Shares	Number of Preferred Voting Shares	% of Total Capital Stock
Tonon Holding S.A.(1).....	55,200,009	—	69.6%	55,200,009	—	62.5%	55,545,498	—	57.5%
FIP DGF Terra Viva(2).....	—	24,110,349	30.4%	—	33,064,744	37.5%	—	34,707,534	35.9%
Pinheiro Family.....	—	—	—	—	—	—	6,326,073	—	6.6%
Total.....	55,200,009	24,110,349	100.0%	55,200,009	33,064,744	100.0%	61,871,571	34,707,534	100.0%

- (1) The capital stock of Tonon Holding S.A. is owned as follows: ALT Participações Ltda. (22.0%), JAT Participações Ltda. (18.0%), RJT Participações Ltda. (17.0%), CAJRT Participações Ltda. (17.0%), ABT Participações Ltda. (15.0%) and ANT Participações Ltda. (11.0%).
- (2) The capital stock of FIP DGF Terra Viva is owned as follows: Petros (25.0%), Funcef (23.6%), BNDESPar (20.0%), Previ (11.8%), Fachesf (6.8%), FINEP (6.8%), Banesprev (3.4%), Fibra (1.7%) and DGF Investimentos (1.0%).
- (3) Fully diluted: pursuant to the Paraíso Acquisition Agreement, within two years from the closing date (May 3, 2013) the Pinheiro Family may, as elected by Tonon, receive 6,874,399 common shares in Tonon in consideration for the outstanding sum of R\$50 million due to them under the agreement. Alternatively, Tonon (as determined by Tonon Holding and FIP DGF Terra Viva) may elect to satisfy the outstanding amount by paying the Pinheiro Family in cash (subject to adjustment by the IPCA, as from May 3, 2014). Amounts due under the Paraíso Acquisition Agreement are subject to certain post-closing adjustments and share re-allocations.
- (4) After the adjustments between the parties, the payment for the Pinheiro Family in consideration for the outstanding sum of R\$50 million due to them under the Paraíso Acquisition Agreement is being carried out as follows: Common Shares: Tonon Holding S.A. - 34,707,534 and Pinheiro Family - 6,326,073. Preferred Voting Shares: FIP DGF Terra Viva - 34,707,534.

### Tonon Holding S.A.

Tonon Holding S.A., our controlling shareholder, is controlled by members of the Tonon Family through ALT Participações Ltda. (99.9986% owned by Alfredo Tonon and 0.0014% owned by Claudia Maria Tonon), JAT Participações Ltda. (99.9976% owned by José Antonio Tonon, 0.0008% owned by Francisco Tonon Neto, 0.0008% owned by Mônica Tonon Danieletto and 0.0008% owned by Andrea Tonon), RJT Participações Ltda. (99.9986% owned by Renato José Tonon and 0.0014% owned by Renato José Tonon Filho), CAJRT Participações Ltda. (99.9979% owned by Celso Roberto Tonon, 0.0007% owned by André Roberto Tonon, 0.0007% owned by Juliano Tonon and 0.0007% owned by Rafael Tonon), ABT Participações Ltda. (99.9979% owned by Abelnir Bartolo Tonon, 0.00105% owned by Fernando José Bartelotti Tonon and 0.00105% owned by Carlos Eduardo Bartelotti Tonon) and ANT Participações Ltda. (99.997% owned by Antonio Tonon, 0.0015% owned by Marina Tonon Rossi and 0.0015% owned by Antonio Tonon Junior).

### FIP DGF Terra Viva

FIP DGF Terra Viva is an investment fund managed by DGF Investimentos, a pioneer and highly regarded private equity firm in Brazil. The quotaholders of FIP DGF Terra Viva are Petros, Funcef, BNDESPar, Previ, Fachesf, FINEP, Banesprev, Fibra and DGF Investimentos. Founded in 2001, DGF Investimentos was ranked 1st among Private Equity and Venture Capital focused companies in the TOP ASSET ranking of Investidor Institucional magazine in February and August 2010.

Subject to the terms and conditions set forth in the shareholders' agreement (as defined below), FIP DGF Terra Viva has the right, at its sole discretion, to sell its shares to Tonon Holding and to the Tonon Family Holding Companies, from January 28, 2017 onwards. Pursuant to the shareholders' agreement, the exercise price of the put option corresponds to (i) the sum of the investments made by FIP DGF Terra Viva in our Company, comprising: (i) approximately R\$86.0 million made in January 2010, (ii) approximately R\$44.0 million made in September 2012, (iii) approximately R\$1.9 million made in August 2012, and (iv) approximately R\$70.0 million made in May 2013, in each case adjusted by the IPCA rate plus 12.0% *per annum* from the date of the respective investment; less (2) the

aggregate amount of any dividends and interest on shareholders' equity distributed during the corresponding period, in each case as adjusted by the IPCA rate plus 12.0% *per annum* from the date of the respective distribution.

On March 20, 2013 we entered into, the Paraíso Acquisition Agreement, as amended on May 3, 2013 and April 29, 2014, with the individual shareholders of Paraíso prior to the acquisition of Paraíso, namely each member of the Pinheiro family, or the individual sellers, and FIP DGF Terra Viva. The total purchase price under this agreement was R\$170 million, subject to post-closing adjustments that we do not expect, as of the date of this offering memorandum, will be substantial, R\$70 million of which was paid by us to FIP DGF Terra Viva through the delivery of 8,954,395 preferred shares issued by Tonon through a capital increase on May 3, 2013. On September 30, 2013, we merged Paraíso into our company.

### ***Shareholders' Agreement***

FIP DGF Terra Viva and Tonon Holding entered into a shareholders' agreement on February 26, 2010 (as amended on April 27, 2010, September 16, 2011 and October 15, 2012), or the shareholders' agreement, for a term of ten years, which is automatically renewed for five year periods if neither party objects in writing. The shareholders' agreement will also terminate if FIP DGF Terra Viva ceases to be our shareholder or if FIP DGF Terra Viva transfers shares to a third party that is not an institutional investor that becomes party to the shareholders' agreement pursuant to its terms.

*Management.* The shareholders' agreement provides that we shall be managed by a board of directors composed of up to nine members and by a board of executive officers composed of up to four members. Our board of executive officers shall be composed of a chief executive officer, a chief financial officer, a chief industrial officer and a chief agricultural officer. Pursuant to the shareholders' agreement, the members of the board of directors are appointed in proportion to the respective equity interests held by each of our shareholders, provided that FIP DGF Terra Viva is entitled to appoint at least two directors and the chief financial officer.

*IPO.* Pursuant to the terms of the shareholders' agreement, FIP DGF Terra Viva and Tonon Holding agreed to use their best efforts to conduct an initial public offering by February 26, 2017, in an offering encompassing at least 40% of our total shares.

*Resolutions of the Board of Directors.* The shareholders' agreement establishes that, as a general rule, board of directors resolutions shall be passed by a simple majority of votes, except for the following matters, which require the approval of the directors appointed by FIP DGF Terra Viva: (1) material acquisitions, disinvestments, disposal or encumbrance on our assets, involving individual or aggregate amounts exceeding R\$5.0 million in any 12-month consecutive period, except as provided in the business plan and the annual budget, (2) hiring and dismissal of our independent auditors, (3) material changes to our accounting policies, practices or principles, except when resulting from legal rules, (4) hiring of law firms, investment banks, financial consultants or advisors, whose fees exceed the amount of R\$200,000 per project or event, except as provided in the in the business plan and the annual budget, and (5) entering into any other transaction or series of transactions not contemplated in the business plan and our annual budget that would result in (i) an indebtedness above 10.0% of our net revenue of the previous fiscal year or (ii) monetary obligations in an amount greater than R\$10.0 million.

*Resolutions of the Shareholders' Meetings.* The shareholders' agreement establishes that, as a general rule, resolutions of the shareholders' meetings shall be passed by a simple majority of votes, except for the following matters, which shall require the approval of FIP DGF Terra Viva: (1) liquidation, dissolution, request for judicial or extrajudicial recovery, self-declared bankruptcy by us or our controlled companies, (2) disposal, assignment of use and transfer to third parties of all or the majority of our assets, as well as the licensing of brands, licenses, logos, expressions, software, slogans and any other type of intellectual property owned by us or our controlled companies to third parties outside the ordinary course of business, (3) our public offering and delisting, admission and listing of our shares on the stock market and in any other special listing segments of securities, including the signing of any contract or commitment with any entities in connection thereto, (4) entering into any transaction or commercial agreement with Tonon Holding, FIP DGF Terra Viva or the Tonon Family Holding Companies and any other entities in which any shareholder, the Tonon Family Holding Companies, any director, executive officer or member of the fiscal council hold direct or indirect interest, except for the contracts related to the exploration of sugarcane culture at market fair value, (5) declaration, retention or payment of dividends, interest on shareholders' equity or any other form of distribution or compensation to shareholders, in an amount superior to the mandatory minimum dividend determined by the Brazilian Corporate Law, (6) any grouping, bonus, split and conversion of our shares or



other securities or our controlled companies, (7) any merger, spin-off, amalgamation, transformation, trade or any other similar act of corporate reorganization involving us and third parties to form joint-ventures, to acquire equity interests in other companies and to acquire equity interests in groups of companies, (8) any increase of our corporate capital and the corporate capital of our controlled companies (except when resulting from the capitalization of profits or profit reserves) or capital reduction for payment to shareholders, as well as the repurchase of our securities or securities of our controlled companies, (9) any amendment to our by-laws, including but not limited to our corporate purpose, rights, preferences, advantages, powers or restrictions assigned to our shares and (10) any issuance of our shares or any other security, whether or not convertible into shares at any issuance price.

*Preemptive Rights.* The shareholders' agreement establishes that the shareholders shall have preemptive rights in the subscription of new shares issued by us, in the proportion of their respective equity interests.

*Right of First Refusal.* The shareholders' agreement establishes that in case any shareholder receives an offer to sell, assign, transfer, contribute to the capital of another company, or in any other form dispose of its shares, in a single transaction or in a series of transactions, directly or indirectly, the offered shareholder shall notify the other shareholders informing the terms and conditions of the offer and such shareholders shall have a right of first refusal in the acquisition of the shares under the same terms and conditions of the offer.

*Right of First Offer.* The shareholders' agreement establishes that in case any shareholder decides to sell, assign, transfer, or in any other form dispose of its shares in a single transaction or in a series of transactions, and has not received any third-party offer, the offering shareholder shall notify the other shareholders informing the intended terms and conditions of the transaction and the shareholders shall have the right to present a first offer in relation to the totality of the offered shares.

*Indirect Transfers.* The shareholders' agreement establishes that as long as FIP DGF Terra Viva is our shareholder, in case of sales of shares or quotas of the Tonon Family Holding Companies or Tonon Holding, in connection with which the existing shareholders/quotaholders of the Tonon Family Holding Companies or Tonon Holding fail to exercise their respective right of first refusal in any such sale or transfer, FIP DGF Terra Viva shall have a subsequent right of first refusal for the acquisition of such shares or quotas, as the case may be.

*Tag-along Right.* The shareholders' agreement establishes that in case Tonon Holding decides to assign, directly or indirectly, its shares to one or more interested third parties, the other shareholders shall be entitled to sell the totality or part of their respective shares together with Tonon Holding, on the same terms and conditions.

*Share Pledge.* On February 26, 2010, we, Tonon Holding, FIP DGF Terra Viva and the Tonon Family Holding Companies entered into a share pledge agreement, pledging 8,833,904 common shares issued by us and owned by Tonon Holding, or 15.93% of our total capital stock at that time, in order to secure the obligations pursuant to the investment agreement entered into on January 27, 2010 with FIP DGF Terra Viva, Tonon Family Holding Companies and the members of the Tonon Family. On August 13, 2012, the share pledge agreement was amended to increase the number of pledged shares from 8,833,904 to 8,793,361, or 15.9% of our common shares at that time.

*Obligation to amend the shareholders agreement.* Pursuant to the terms of the Paraíso Acquisition Agreement, in case the purchase price is paid by Tonon to the individual sellers' holding company through the issuance of common shares, Tonon Holding and FIP DGF Terra Viva are obligated to amend the shareholders' agreement in order to grant tag along rights to the individual sellers' holding company.

Additionally, pursuant to the terms of the Paraíso Acquisition Agreement, the amendment to the shareholders' agreement shall stipulate that Tonon Holding, FIP DGF Terra Viva and the individual sellers shall agree in relation to certain corporate governance rights and that the individual sellers shall not be directly or indirectly responsible for any of our liabilities and/or materialized contingencies before the subscription of our shares by the individual sellers' holding company.

As of the date of this offering memorandum, we have not participated in significant negotiations with the individual sellers with respect to the shareholders' agreement in connection with the Paraíso acquisition.

## RELATED PARTY TRANSACTIONS

We enter into related-party transactions from time to time. All of the agreements we enter into with related parties are carried out on an arm's-length basis.

Some of our shareholders are also suppliers of sugarcane or owners of rural areas where we grow our crops through land lease agreements (*parcerias e arrendamentos agrícolas*). We have agricultural partnership agreements (*parcerias*) with certain members of the Tonon Family under which we lease approximately 8,370 hectares of land (approximately 8.1% of the total area leased by us) and lease agreements (*arrendamento*) with certain members of the Pinheiro Family under which we lease approximately 2,432 hectares, or (approximately 2.3% of the total area we lease). These land lease agreements are on arms'-length terms equivalent to those we enter into with third parties. In accordance with these land lease agreements, we pay the lessors a certain fixed number of tons of sugarcane per hectare as consideration for the use of the land, and a certain fixed productivity per ton of sugarcane in terms of ATR. The overall volume of ATR is obtained by multiplying the number of hectares leased by the committed tons of sugarcane per hectare by the ATR per ton of sugarcane. The price that we pay for each kilogram of ATR is set from time to time based on the reference price published by CONSECANA.

Some of our minority shareholders are also shareholders of companies that supply industrial equipment to the sugarcane industry, with which we have entered into agreements. These agreements are on arms'-length terms equivalent to those we enter into with third parties (see table below).

On October 18, 2012, we acquired from the Tonon Family 100% of the capital stock of Auto Posto Santa Cândida de Bocaina Ltda., a company that owns a gas station located close to our Santa Cândida mill, for R\$4.6 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Corporate Transactions."

The table below sets forth our related party transactions entered into as of March 31, 2015.

	March 31, 2015
	(in thousands of reais)
<b>Asset balances</b>	
<b>Trade accounts receivable with related parties</b>	
Estrela Dalva Tecnologia em Limpeza .....	—
Silvia de Barros Brisola .....	—
Flavio de Albuquerque Pinheiro .....	—
Wilson Helio de Albuquerque Pinheiro Junior.....	—
Renata de Albuquerque Pinheiro.....	—
Transbocainense Transportes Ltda. ....	—
<b>Total of trade accounts receivable with related parties .....</b>	<b>—</b>
<b>Advances to related party suppliers</b>	
Abelmir Bortolo Tonon .....	41
Alfredo Tonon and Others.....	15
Antônio Tonon .....	—
Aparecida T. Tonon Ghiselli.....	16
Auto Posto Santa Cândida de Bocaina Ltda. ....	626
Celso Roberto Tonon .....	—
Dionete Tonon.....	2
José Antônio Tonon.....	512
Mauro de Albuquerque Pinheiro .....	150
Renato José Tonon.....	303
Tereza de Francisco.....	34
Transbilin Transp. Ltda. ....	—
Tonon Agroimóveis Rurais Ltda.....	—
Transbocainense Transportes Ltda. ....	—
Tonon Holding .....	500
Vera Tonon Durante .....	733

	March 31, 2015
	(in thousands of reais)
Wilson Jelio Albuquerque Pinheiro Junior.....	369
<b>Total advances to related party suppliers .....</b>	<b>3,302</b>
<b>Liability balances</b>	
<b>Amounts owed to related party suppliers</b>	
ABT Participações Ltda.....	13
Alfredo Tonon .....	54
Auto Posto Santa Cândida de Bocaina Ltda. ....	—
ALT Participações Ltda. ....	13
ANT Participações Ltda. ....	13
CAJRT Participações Ltda. ....	13
Celso Roberto Tonon.....	69
JAT Participações Ltda.....	13
J. Tonon Transp. Ltda. ....	2
RJT Participações Ltda. ....	13
Tonon Agroimóveis Rurais Ltda. ....	367
Transbilin Transportes Ltda.....	—
Transbocainense Transportes Ltda. ....	—
Silivia de Barros Brisola.....	23
Renata de Albuquerque Pinheiro. ....	45
Pinhal Administração de bens próprios. ....	489
Mauro Albuquerque Pinheiro. ....	—
Wilson Helio A. Pinheiro Junior. ....	44
Tereza Albuquerque Pinheiro .....	3
Flavio Albuquerque Pinheiro .....	109
<b>Total of amounts owed to related party suppliers .....</b>	<b>1,279</b>

For information on our related-party transactions, see note 31 to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014 and note 26 to our audited financial statements as of March 31, 2014 and 2013.

## DESCRIPTION OF THE NEW NOTES

The following summary describes certain provisions of the New Notes and the Indenture. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to the provisions of the Indenture and the New Notes. Copies of the Indenture are available for inspection during normal business hours at the Company's principal office, at the Corporate Trust Office of the Trustee in New York City, New York. The holders of the New Notes are entitled to the benefits of, are bound by, and are deemed to have notice of, all the provisions of the Indenture. Certain terms used in this description are defined under the subheading "—Certain Definitions."

The new notes (the "New Notes") are to be issued under and governed by an indenture (the "Indenture"), among Tonon Luxembourg S.A., as issuer (the "Issuer"), Tonon Bioenergia S.A., as a Guarantor and The Bank of New York Mellon, as trustee (the "Trustee"), registrar, transfer agent and paying agent. For purposes of this "Description of the New Notes," the term the "Company" means Tonon Bioenergia S.A. and its successors under the Indenture, in each case excluding its Subsidiaries, and the term "Subsidiary Guarantors" means certain future Subsidiaries of the Company that are from time to time guarantors of the New Notes pursuant to the provisions described below under "—Restrictive Covenants—Future Subsidiary Guarantors," unless the context indicates otherwise. As of the Closing Date, the Company's only subsidiary will be the issuer and Auto Posto Santa Cândida de Bocaína Ltda, of which Auto Posto Santa Cândida de Bocaína Ltda will be an Unrestricted Subsidiary.

### General

The New Notes will:

- be senior unsecured obligations of the Issuer;
- rank equally in right of payment with all other existing and future Senior Indebtedness of the Issuer;
- rank senior in right of payment to all existing and future Subordinated Obligations of the Issuer;
- be effectively subordinated to all existing and future secured Indebtedness of the Issuer, to the extent of the value of the assets securing such secured Indebtedness; and
- be subordinated to liabilities preferred by statute.

The New Notes Guarantee will:

- be a senior obligation of the Company;
- rank equally in right of payment with all other existing and future Senior Indebtedness of the Company;
- rank senior in right of payment to all existing and future Subordinated Obligations of the Company;
- be effectively subordinated to all existing and future secured Indebtedness of the Company, to the extent of the value of the assets securing such secured Indebtedness;
- be structurally subordinated to all existing and future Indebtedness of the Company's Subsidiaries that are not Subsidiary Guarantors (other than the Issuer); and
- be subordinated to liabilities preferred by statute.

As of March 31, 2015, after adjusting for the post March 31, 2015 capitalization adjustments described in "Capitalization," the Company's outstanding Indebtedness amounted to R\$2,339.6 million (or U.S.\$729.3 million using the commercial market selling rate as reported by the Brazilian Central Bank on March 31, 2015 of R\$3.2080 to U.S.\$1.00), of which R\$1,026.9 million (or U.S.\$320.1 million) was secured by assets of the Company.

The Issuer does not have any indebtedness, other than (1) the New Notes, (2) the U.S.\$70,000,000 senior secured loan, (3) the U.S.\$73,000,000 10.50% senior secured notes due 2024, (4) the U.S.\$96,000,000 10.50%

senior secured notes due 2024, (5) the U.S.\$32,000,000 10.50% senior secured notes due 2024, (6) the U.S.\$29,000,000 principal amount of 10.50% senior secured notes due 2024 and (7) the U.S.\$300,000,000 9.250% senior notes due 2020.

### **New Notes Guarantee**

The Company will, subject to applicable legal limitations, fully, unconditionally and irrevocably guarantee the due and punctual payment of the principal of, and interest and Additional Amounts on, the New Notes. The New Notes Guarantee by the Company will not be subordinated to any of the Company's other unsecured debt obligations. Certain future Subsidiaries of the Company may be required to guarantee the New Notes pursuant to the provisions described below under "—Restrictive Covenants—Future Subsidiary Guarantors."

### **Principal, Maturity and Interest**

The initial outstanding principal amount of the New Notes will be US\$300,000,000. The New Notes will mature on January 24, 2020 (the "Maturity Date"), and the aggregate principal amount of New Notes outstanding at such time will become due and payable. On such date, the Issuer will pay the registered Holder(s) of the New Notes principal in an amount equal to the outstanding principal amount of the New Notes. The New Notes will bear interest at the rate of (1) 7.250% per annum from January 24, 2015 through January 23, 2017, and (2) 9.250% per annum from January 24, 2017 through the Maturity Date. Interest on the New Notes will accrue from January 24, 2015. Interest on the New Notes will be payable semi-annually on January 24 and July 24 of each year, beginning on July 24, 2015 unless the Issuer exercises its right to defer the payment of interest on such Interest Payment Date as permitted in accordance with the provisions below, to the person in whose name a New Note is registered at the close of business on the preceding January 9 or July 9 (each, a "Record Date"), as the case may be. Interest on the New Notes will be computed on the basis of a 360-day year of twelve 30-day months.

The Issuer may, at its option, defer payments of interest due on any Interest Payment Date as follows:

- for any payments of interest due on any Interest Payment Date that occurs on or prior to January 24, 2017, the Issuer may defer such payments of interest to January 24, 2017 at its sole discretion; and
- for any payments of interest due on any Interest Payment Date that occurs after January 24, 2017, the Issuer may defer such payments of interest to the Maturity Date, provided the Deferred Interest Payment Condition is satisfied.

"Deferred Interest Payment Condition" means, after giving effect to an interest payment on an Interest Payment Date that occurs after January 24, 2017, that the amount of cash on the balance sheet of the Company as of the last day of the fiscal quarter immediately preceding such Interest Payment Date would be less than R\$100.0 million.

If any payments of interest are deferred by the Issuer on any Interest Payment Date in accordance with the provisions above, then interest deferred on such Interest Payment date will be added to the then outstanding principal amount of the New Notes. Interest on the New Notes shall thereafter accrue, and will be calculated, by reference to the Adjusted Principal Amount.

"Adjusted Principal Amount" means an amount that is equal to the sum of (1) the total amount of payments of interest to date that have been deferred by the Issuer in accordance with the provisions above and (2) the outstanding principal amount of the New Notes.

The Indenture does not limit the aggregate principal amount of the debt securities that may be issued under the Indenture. The Issuer may issue an unlimited principal amount of additional notes having identical terms and conditions as the New Notes (the "Additional Notes"), except that interest may accrue from the date of issuance of such Additional Notes. The issuance of such Additional Notes will be subject to the covenant described under "—Restrictive Covenants—Limitation on Indebtedness." Such Additional Notes may be issued in one or more series and with the same or different CUSIP number; *provided, however*, that unless such Additional Notes are issued under a separate CUSIP, either such Additional Notes are part of the same "issue" for U.S. federal income tax purposes or are issued pursuant to a "qualified reopening" for U.S. federal income tax purposes. The New Notes and the Additional Notes, if any, will be treated as a single class for all purposes under the Indenture, including waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, for all purposes of the

Indenture and this “Description of the New Notes,” references to the New Notes include any Additional Notes actually issued.

The New Notes will be issued in fully registered form in denominations of US\$200,000 and integral multiples of US\$1,000 in excess thereof and will be issued as one or more Global Notes. Principal is to be payable, and the New Notes will be transferable and exchangeable, at the office or agency maintained for such purposes in New York City, New York, which initially will be the Corporate Trust Office of the Trustee; *provided* that the Global Notes will be exchangeable only in the manner and to the extent set forth under “Form of the New Notes—Global Notes.” No service charge will be made for any registration of transfer or exchange of New Notes, but the Issuer and the Trustee may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge in connection therewith.

If any payment date or redemption date falls on a day which is not a Business Day, any payment of interest and principal with respect to the New Notes will be made on the next succeeding Business Day with the same force and effect as if made on the due date, and no interest on such payment will accrue from and after such due date. The principal of and interest on the New Notes will be payable in U.S. dollars or in such other coin or currency of the United States as at the time of payment is legal tender for the payment of public and private debts.

The Issuer will maintain a registrar (the “Registrar”) and a transfer agent (the “Transfer Agent”). The initial Registrar will be The Bank of New York Mellon and the initial Transfer Agent will be The Bank of New York Mellon. The Registrar will maintain a register reflecting ownership of the New Notes outstanding from time to time, if any, and together with the Transfer Agent, will facilitate transfers of the New Notes on behalf of the Issuer. A register of the New Notes shall be kept at the registered office of the Issuer in accordance with the provisions of the Luxembourg Companies Law. In case of inconsistency between the register of New Notes kept by the Registrar and the one kept by the Issuer at its registered office, the register kept by the Issuer at its registered office shall prevail for evidence of ownership and for Luxembourg law purposes.

## **Optional Redemption**

### ***Optional Redemption with a Make-Whole Premium***

Prior to January 24, 2017, the Issuer may, at its option, redeem all of the New Notes at any time or part of the New Notes from time to time at a redemption price equal to 100% of the principal amount of the New Notes plus the Applicable Premium as of, and accrued and unpaid interest to, but excluding, the redemption date (subject to the right of holders of the New Notes on the relevant Record Date to receive interest due on the relevant interest payment date).

“Applicable Premium” means with respect to a New Note at any redemption date, the greater of (1) 1.0% of the principal amount of such New Note on such redemption date and (2) the excess, if any, of (A) an amount equal to the present value at such redemption date of (i) the redemption price of such New Note on January 24, 2017 (such redemption price being described in the “—Optional Redemption without a Make-Whole Premium” section exclusive of any accrued interest) plus (ii) all required remaining scheduled interest payments due on such New Note (assuming that the interest rate per annum on the New Notes applicable on the date on which the notice of redemption was given was in effect for the entire period) through January 24, 2017 (but excluding accrued and unpaid interest to the redemption date), in each case, computed using a discount rate equal to the Adjusted Treasury Rate plus 0.50%, over (B) the principal amount of such New Note on such redemption date.

“Adjusted Treasury Rate” means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H. 15(519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after January 24, 2017, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed

as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third Business Day immediately preceding the redemption date.

“Comparable Treasury Issue” means, with respect to any redemption date, the United States Treasury security selected by the Quotation Agent as having a maturity comparable from such redemption date to January 24, 2017 that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to January 24, 2017.

“Comparable Treasury Price” means, with respect to any redemption date, if clause (2) of the Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Quotation Agent, Reference Treasury Dealer Quotations for such redemption date.

“Quotation Agent” means the Reference Treasury Dealer selected by the Issuer.

“Reference Treasury Dealer” means at least four nationally recognized investment banking firms selected by the Issuer that are primary U.S. Government securities dealers.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as calculated by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue, expressed in each case as a percentage of its principal amount, quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day immediately preceding such redemption date.

#### ***Optional Redemption without a Make-Whole Premium***

On and after January 24, 2017, the Issuer may, at its option, redeem all of the New Notes at any time or part of the New Notes from time to time at the following redemption prices (expressed as a percentage of principal amount), plus accrued and unpaid interest to, but excluding, the redemption date (subject to the right of holders of the New Notes on the relevant Record Date to receive interest due on the relevant interest payment date), if redeemed during the twelve-month period commencing on January 24 of the years set forth below:

<b>Period</b>	<b>Redemption Price</b>
2017 .....	104.625%
2018 .....	102.313%
2019 and thereafter .....	100.000%

#### ***Optional Redemption upon Eligible Equity Offering***

At any time prior to January 24, 2016, the Issuer may at its option on one or more occasions redeem New Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the outstanding New Notes (including any Additional Notes) at a redemption price (expressed as a percentage of principal amount) of 109.25%, plus accrued and unpaid interest to, but excluding, the redemption date, with the Net Cash Proceeds from one or more Eligible Equity Offerings; *provided, however*, that:

- (1) at least 65% of such aggregate principal amount of New Notes remains outstanding immediately after the occurrence of each such redemption (including any Additional Notes); and
- (2) the Issuer gives notice of such redemption not more than 60 days after the consummation of the related Eligible Equity Offering.

Notice of any redemption upon any Eligible Equity Offering may be given prior to the completion thereof, and any such redemption or notice may, at the Issuer’s discretion, be subject to one or more conditions precedent, including, but not limited to, completion of the related Eligible Equity Offering.

#### ***Optional Tax Redemption***

The New Notes may be redeemed at the Issuer’s election, as a whole, but not in part, by the giving of notice as provided in the Indenture, at a price in U.S. dollars equal to the outstanding principal amount thereof, together with any Additional Amounts and accrued and unpaid interest to, but excluding, the redemption date, if, as a result of any

change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of Luxembourg, Brazil or any other jurisdiction from or through which payments are made, or in each case any political subdivision or taxing authority thereof or therein, or any change in the official application, administration or interpretation of such laws, regulations or rulings in Luxembourg, Brazil or such other jurisdiction, the Issuer or the Company has or will become obligated to pay Additional Amounts at a rate of withholding or deduction in excess of the rate of withholding applicable in such jurisdiction as of the Closing Date (which (i) in the case of Luxembourg shall mean a rate of withholding or deduction in excess of 0%) and (ii) in the case of Brazil shall mean a rate of withholding or deduction in excess of 15% or 25% if in case the holder of the New Notes is resident in a tax haven jurisdiction as defined by applicable Brazilian law, if such change or amendment is effective on or after the Closing Date, and such obligation cannot be avoided by the Issuer or the Company taking reasonable measures available to it; *provided, however*, that (1) for the avoidance of doubt, reasonable measures shall not include changing the jurisdiction of the Issuer or the Company or the incurrence of material out-of-pocket costs by the Issuer or the Company or an Affiliate thereof, but may include changing the jurisdiction of a paying agent and (2) no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer or the Company would be obligated to pay such Additional Amounts, were a payment in respect of the New Notes then due, and at the time such notice of redemption is given, such obligation to pay Additional Amounts remains in effect. Prior to the distribution of any notice of redemption and as a condition to redemption of the New Notes pursuant to this paragraph, the Issuer will deliver to the Trustee (i) an Officer's Certificate stating that the Issuer or the Company has or will become obligated to pay such an increase in Additional Amounts as a result of such change or amendment, and that such obligation cannot be avoided by the Issuer or the Company taking reasonable measures available to it, and (ii) an opinion of independent legal counsel of recognized standing in the jurisdiction in question to the effect that the Issuer or the Company will have or will become obligated to pay such Additional Amounts as a result of such change in or amendment to law.

For the avoidance of doubt, in the event that there is a Successor Company (as defined in “—Restrictive Covenants—Consolidation, Merger, Conveyance, Sale or Lease”) or a Substituted Issuer (as defined in “—Substitution of the Issuer”) where, in either case, such Person is incorporated in a jurisdiction other than Luxembourg or Brazil (such other jurisdiction, a “Successor Jurisdiction”) then all references in the preceding paragraph to Luxembourg or Brazil (other than the references to the Luxembourg and Brazilian rates of withholding tax in effect on the Closing Date) shall be read to refer to the Successor Jurisdiction, and all references in the preceding paragraph to the Closing Date shall be read to refer to the date that such Person became the Successor Company or Substituted Issuer, as applicable.

#### ***Notice of Redemption***

Notice of any redemption will be mailed to the holders of the New Notes (with a copy to the Trustee) at least 30 days but not more than 60 days before the redemption date to each holder of New Notes to be redeemed.

Unless the Issuer or the Company defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the New Notes.

If the Issuer is redeeming less than all the New Notes at any time, the Trustee will select New Notes on a pro rata basis, by lot or by such other method as the Trustee in its sole discretion shall deem to be fair and appropriate, unless otherwise required by law or applicable stock exchange and subject to the applicable procedures of the depository. If any New Note is to be redeemed in part only, the notice of redemption that relates to that New Note will state the portion of the principal amount thereof to be redeemed.

At least US\$100.0 million in aggregate principal amount of the New Notes issued under the Indenture (including any Additional Notes, but excluding any New Notes held by the Company or any of its Affiliates) must remain outstanding after any partial redemption of the New Notes.

#### **Repurchases at the Option of the Holders of the New Notes upon Change of Control**

If a Change of Control that results in a Rating Decline occurs, each holder of New Notes will have the right to require the Issuer to repurchase all or any part (in integral multiples of US\$1,000) of that holder's New Notes pursuant to a Change of Control Offer (as defined below) on the terms set forth in the Indenture. No such purchase in part shall reduce the outstanding principal amount of the New Notes held by any holder to below US\$200,000. In the Change of Control Offer, the Issuer will offer a “Change of Control Payment” in U.S. dollars equal to 101% of



the aggregate principal amount of New Notes repurchased plus accrued and unpaid interest and Additional Amounts, if any, on the New Notes repurchased, to the date of purchase (subject to the right of the holders of record on the relevant Record Date to receive interest and Additional Amounts, if any, on the relevant interest payment date).

No later than 30 days following a Change of Control that results in a Rating Decline, the Issuer will make a “Change of Control Offer” by notice to each holder of New Notes (with a copy to the Trustee) by mailing and publishing such notice in accordance with the provision set out under “—Notices” below, describing the transaction or transactions that constitute the Change of Control that results in a Ratings Decline and offering to repurchase New Notes on the date specified in the notice (the “Change of Control Payment Date”), which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice.

The Issuer will comply, to the extent applicable, with the requirements of Section 14(e)-1 of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of New Notes pursuant to this covenant. To the extent that the provisions of any applicable securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue of its compliance with such securities laws or regulations.

The paying agents will promptly mail to each holder of New Notes properly tendered the Change of Control Payment for such New Notes. The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer to make a Change of Control Offer following a Change of Control that results in a Rating Decline will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control that results in a Rating Decline, the Indenture does not contain provisions that permit the holders of the New Notes to require that the Issuer repurchase or redeem the New Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control that results in a Rating Decline if (i) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements, set forth in the Indenture, that are applicable to a Change of Control Offer made by the Issuer and such third party purchases all New Notes properly tendered and not withdrawn under the Change of Control Offer or (ii) notice of redemption for all outstanding New Notes has been given pursuant to the Indenture as described above, unless and until there is a default in payment of the applicable redemption price. Notwithstanding anything to the contrary contained herein, the Issuer may make a Change of Control Offer in advance of a Change of Control and conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the offer to purchase is made.

### **Open Market Purchases**

The Issuer, the Company or any of their Affiliates may purchase New Notes in the market or in negotiated transactions at any time (in any manner and at any price), *provided* that any such purchased New Notes will not be resold, except in compliance with applicable requirements or exemptions under the relevant securities laws.

### **Restrictive Covenants**

#### ***Limitation on Restricted Payments***

(1) The Company will not, and will not permit any Restricted Subsidiary, directly or indirectly, to:

(a) declare or pay any dividend or make any distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving the Company or any Restricted Subsidiary of the Company) except dividends or distributions payable solely in the form of its Capital Stock (other than Disqualified Stock) and except dividends or distributions payable to the Company or any Restricted Subsidiary (and, if such Restricted Subsidiary has shareholders other than the Company or any other Restricted Subsidiary, to its other shareholders on a *pro rata* basis);

(b) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Company held by Persons other than the Company or another Restricted Subsidiary (other than a purchase, redemption, retirement or other acquisition for value that would constitute a Permitted Investment);

(c) purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Obligations (other than the purchase, repurchase, redemption, defeasance or other acquisition of Subordinated Obligations made in anticipation of satisfying a sinking fund obligation, a principal installment or a final maturity, in each case, due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition); or

(d) make any Investment (other than a Permitted Investment) in any Person;

(the actions described in clauses (a) through (d) above being herein referred to as “Restricted Payments” and each, a “Restricted Payment”), if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(i) an Event of Default will have occurred and be continuing;

(ii) the Company is not able to Incur at least US\$1.00 of additional Indebtedness pursuant to clause (1) of “— Limitation on Indebtedness”; or

(iii) the aggregate amount of such Restricted Payment and all other Restricted Payments declared or made subsequent to the Closing Date would exceed the sum of, without duplication:

(A) 50% of the aggregate amount of Consolidated Net Income accrued during the period (treated as one accounting period) from the beginning of the first day of the fiscal quarter in which the Closing Date occurs and ending on the last day of the most recent fiscal quarter for which financial statements are available prior to the date of such Restricted Payment (or, in case such Consolidated Net Income will be a loss, *minus* 100% of such loss); *plus*

(B) the aggregate Net Cash Proceeds, and the Fair Market Value of any property, received by the Company from the issue or sale of its Capital Stock (other than Disqualified Stock) or other capital contributions subsequent to the Closing Date (other than Net Cash Proceeds received from an issuance or sale of such Capital Stock to a Restricted Subsidiary of the Company or an employee stock ownership plan, option plan or similar trust to the extent such sale to an employee stock ownership plan or similar trust is financed by loans from or Guaranteed by the Company or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination); *plus*

(C) (1) the amount of a Guarantee of the Company or any Restricted Subsidiary upon the unconditional release in full of the Company or such Restricted Subsidiary from such Guarantee if such Guarantee was previously treated as a Restricted Payment; and

(2) in the event that the Company or any Restricted Subsidiary makes an Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, an amount equal to the Company’s or such Restricted Subsidiary’s existing Investment in such Person;

*provided* that any amount added pursuant to clauses (1) and (2) of this clause (C) shall not exceed the amount of such Investment or Guarantee, respectively, previously made and treated as a Restricted Payment; *provided, however,* that no amount will be included under this clause (C) to the extent it is already included in Consolidated Net Income; *plus*

(D) the amount by which Indebtedness of the Company or any Restricted Subsidiary is reduced on the Company’s balance sheet or the balance sheet of any Restricted Subsidiary, in each case, upon the conversion or exchange (other than for Indebtedness held by the Company or any Restricted Subsidiary) subsequent to the Closing Date of any such Indebtedness for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash or the Fair Market Value of other property distributed by the Company or any Restricted Subsidiary upon such conversion or exchange); *plus*

(E) the amount equal to the net reduction of Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in any Person resulting from repurchases or redemptions of such Investment

by such Person, proceeds realized upon the sale of such Investment, repayments of loans or advances or other transfers of assets (including by way of dividend or distribution) by such Person to the Company or any Restricted Subsidiary; *provided* that any amount added pursuant to this clause (E) shall not exceed the amount of such Investment previously made and treated as a Restricted Payment; *provided, however*, that no amount will be included under this clause (E) to the extent it is already included in Consolidated Net Income; *plus*

(F) 100% of any dividends received by the Company or any of its Restricted Subsidiaries from an Unrestricted Subsidiary; *provided, however*, that no amount will be included under this clause (F) to the extent it is already included in Consolidated Net Income.

(2) The provisions of clause (1) above will not prohibit:

(a) any Restricted Payment in exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Restricted Subsidiary of the Company or an employee stock ownership plan or other trust established by the Company or any of its Restricted Subsidiaries to the extent that such sale to an employee stock ownership plan or other trust was financed by loans from or Guaranteed by the Company or a Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination); *provided, however*, that (x) such Restricted Payment will be excluded in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above and (y) the Net Cash Proceeds from such sale of Capital Stock, to the extent such Net Cash Proceeds are used for such Restricted Payment will be excluded from clause (1)(iii)(B) of this covenant;

(b) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations made in exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Obligations that is permitted to be Incurred pursuant to the covenant described under “—Limitation on Indebtedness”; *provided, however*, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value will be excluded in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(c) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations owed to the Company or any of its Restricted Subsidiaries, the incurrence of which was permitted under clause (2)(a) of the covenant described under “—Limitation on Indebtedness”; *provided, however*, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value will be excluded in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(d) so long as no Default has occurred and is continuing, any purchase or redemption of Subordinated Obligations at a purchase price of up to 101% of the principal amount thereof (together with accrued and unpaid interest) in the event of the occurrence of a Change of Control; *provided*, that prior to such purchase or redemption, the Company (or a third party to the extent permitted by the Indenture) has made the Change of Control Offer described under “—Repurchases at the Option of the Holders of the New Notes Upon Change of Control” and has purchased all New Notes validly tendered and not withdrawn pursuant thereto;

*provided, further* that any such purchase shall be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(e) dividends paid or distributions made after the date of declaration thereof if at such date of declaration such dividend or distribution would have complied with this covenant; *provided, however*, that the payment or declaration, but not both the payment and the declaration, of such dividend will be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(f) as long as no Default has occurred and is continuing, any purchase or redemption of Subordinated Obligations from Net Available Cash; *provided* that the Company has complied with the covenant described under “—Limitation on Sale of Assets”; *provided, further*, that such purchase or redemption shall be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(g) the payment of the Minimum Legally Required Dividends; *provided, however*, that such payment shall be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(h) repurchases of Capital Stock deemed to occur upon the exercise of stock options, warrants or other convertible securities if such Capital Stock represents a portion of the exercise price thereof and cash payments in lieu of the issuance of fractional shares; *provided, however*, that such repurchases shall be excluded from calculations of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(i) payments of dividends on Disqualified Stock issued pursuant to the covenant described under “— Limitation on Indebtedness”; *provided, however*, that such payments shall be excluded from the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(j) the repurchase, redemption or other acquisition or retirement for value of any of the Company’s Capital Stock or any Capital Stock of any of its Restricted Subsidiaries held by any then-existing or former director, officer, employee, independent contractor or consultant of the Company, its direct or indirect parent or any of its Restricted Subsidiaries or their respective assigns, estates or heirs; *provided, however*, that the price paid for all repurchased, redeemed, acquired or retired Capital Stock in all cases, other than as a result of death or disability, does not exceed US\$5.0 million in the aggregate in any fiscal year (with unused amounts in any fiscal year being carried over to succeeding fiscal years subject to a maximum payment (without giving effect to the following provisions) of US\$10.0 million in any calendar year); *provided*, that the amounts in any fiscal year may be increased by an amount not to exceed: (A) the cash proceeds received by the Company from the sale of Capital Stock (other than Disqualified Stock) of the Company to any present or former employees, directors, officers or consultants (or their respective permitted transferees) of the Company or any of its Restricted Subsidiaries following the Closing Date, plus (B) the cash proceeds of “key man” life insurance policies received by the Company or any of its Restricted Subsidiaries since the Closing Date; *provided, further*, that such payments shall be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above; and

(k) other Restricted Payments in an aggregate amount not to exceed US\$10.0 million since the Closing Date; *provided, however*, that such payments shall be excluded in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above.

The amount of all Restricted Payments (other than cash) shall be the Fair Market Value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred, issued, purchased, repurchased, redeemed, retired, defeased or otherwise acquired by the Company or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment; *provided*, that if such Restricted Payment or a series of related Restricted Payments involves aggregate consideration in excess of US\$15.0 million, as determined in good faith by the management of the Company, such determination shall be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of recognized standing.

#### ***Limitation on Indebtedness***

(1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness; *provided, however*, that the Company or any Restricted Subsidiary may Incur Indebtedness if, on the date of such incurrence and after giving effect thereto and the application of the proceeds therefrom, the Net Debt to EBITDA Ratio would be no greater than 3.5 to 1.0.

(2) Notwithstanding clause (1) above, the Company or any Restricted Subsidiary may Incur the following Indebtedness:

(a) intercompany Indebtedness between or among the Company and any Restricted Subsidiary or between or among Restricted Subsidiaries; *provided, however*, that:

(i) if the Company or any Subsidiary Guarantor is the obligor on such Indebtedness Incurred and the obligee is a Person other than the Company or a Subsidiary Guarantor, such Indebtedness must be expressly subordinated in right of payment to the New Notes; and

(ii) any subsequent issuance or transfer of Capital Stock or any other event that results in any such Indebtedness being held by a Person other than the Company or a Restricted Subsidiary and any sale or other transfer of any such Indebtedness to a Person that is neither the Company nor a Restricted Subsidiary will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (a);

(b) Indebtedness:

(i) represented by the New Notes or the Subsidiary Guarantees (other than any Additional Notes);

(ii) outstanding on the Closing Date;

(iii) consisting of Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (b) or the foregoing clause (1); or

(iv) consisting of Guarantees of any Indebtedness permitted under the Indenture;

(c) (i) Indebtedness of a Restricted Subsidiary Incurred and outstanding on or prior to the date on which such Restricted Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary of, or was otherwise acquired by, the Company); *provided, however*, that on the date that such Restricted Subsidiary is acquired by the Company, the Company would have been able to incur US\$1.00 of additional Indebtedness pursuant to clause (1) above after giving effect to the Incurrence of such Indebtedness pursuant to this subclause (i); and

(ii) Refinancing Indebtedness Incurred by the Company or a Restricted Subsidiary in respect of Indebtedness Incurred pursuant to this clause (c);

(d) Indebtedness in respect of bankers' acceptances, deposits, promissory notes, letters of credit, self-insurance obligations, completion guarantees, performance, surety, appeal or similar bonds and Guarantees provided by the Company or any Restricted Subsidiary in the ordinary course of its business or Indebtedness with respect to reimbursement type obligations regarding workers' compensation claims;

(e) Hedging Obligations of the Company or any Restricted Subsidiary (entered into for non-speculative purposes) in the ordinary course of business or directly related to Indebtedness permitted to be Incurred by the Company or any Restricted Subsidiary pursuant to the Indenture;

(f) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, or guarantees or letters of credit, surety bonds or performance bonds securing any obligations of the Company or any Restricted Subsidiary pursuant to such agreements, in any case Incurred in connection with the disposition of any business, assets or Subsidiary (other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition), so long as the amount does not exceed the gross proceeds (including non-cash proceeds) actually received by the Company or any Restricted Subsidiary thereof in connection with such disposition;

(g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within five Business Days of its Incurrence;

(h) Indebtedness to the extent that the net proceeds thereof are promptly deposited to defease or to satisfy and discharge the New Notes in accordance with the Indenture;

(i) Indebtedness consisting of (i) the financing of insurance premiums or (ii) take or pay obligations contained in supply agreements in the ordinary course of business;

(j) solely during the Company's fiscal years ending March 31, 2016 and March 31, 2017, Indebtedness for the purpose of funding Capital Expenditures on industrial equipment associated with expansion at the Santa Cândida Mill; *provided* that the maximum aggregate principal amount outstanding of any such Indebtedness shall not exceed U.S.\$20,000,000 (or the equivalent amount thereof at the time of determination) at any time; and

(k) Indebtedness in an aggregate principal amount at any time outstanding not to exceed the greater of (i) US\$100.0 million and (ii) 17.5% of the Company's Consolidated Total Assets (or the equivalent amount thereof at the time of determination).

(3) For purposes of determining compliance with this covenant:

(a) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including clause (1) above, the Company, in its sole discretion, may classify, and from time to time may reclassify, such item of Indebtedness in one of the types of Indebtedness described above, including clause (1) above; and

(b) the Company will be entitled to divide and classify, and from time to time may reclassify, an item of Indebtedness in more than one of the types of Indebtedness described above, including clause (1) above.

Notwithstanding any other provision of this covenant, neither the Company nor any Restricted Subsidiary shall, with respect to any outstanding Indebtedness Incurred, be deemed to be in violation of this covenant solely as a result of fluctuations in the exchange rates of currencies.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate determined on the date of Incurrence, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness. The principal amount of any Indebtedness Incurred to Refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being Refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated calculated based on the relevant currency exchange rates as calculated in the first sentence of this paragraph.

The accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant; *provided* that any such outstanding additional Indebtedness in respect of Indebtedness Incurred pursuant to any provision of clause (2) above will be counted as Indebtedness outstanding for purposes of any future Incurrence of Indebtedness pursuant to clause (1) above.

#### ***Limitation on Liens***

The Company will not, and will not permit any Restricted Subsidiary to, issue or assume any Indebtedness secured by a Lien (the "Initial Lien") upon any property or assets of the Company or any Restricted Subsidiary without effectively providing that the New Notes (together with, if the Company so determines, any other Indebtedness or obligations then existing or thereafter created) shall be secured equally and ratably with (or prior to) such Indebtedness so long as such Indebtedness shall be so secured; *provided, however*, that any Lien created for the benefit of the holders of the New Notes (and, if applicable, holders of such other Indebtedness or obligations) pursuant to the foregoing shall provide by its terms that such Lien will be automatically and unconditionally released and discharged upon release and discharge of the Initial Lien; except that the foregoing provisions shall not apply to (without duplication):

(a) Liens which secure only Indebtedness owing by any Restricted Subsidiary to the Company and/or by the Company to one or more Restricted Subsidiaries;

(b) Liens on any property or assets acquired from a Person which is merged with or into the Company or any Restricted Subsidiary, or any Liens on the property or assets of any Person or other entity existing at the time such Person or other entity becomes a Restricted Subsidiary and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction; provided that such Liens may not extend to any other property owned by the Company or any Restricted Subsidiary;

(c) any Lien on any property or assets existing at the time of acquisition thereof and which is not created as a result of or in connection with or in anticipation of such acquisition; provided that such Liens may not extend to any other property owned by the Company or any Restricted Subsidiary;

(d) Liens for taxes, assessments, governmental charges, levies or claims which are not yet due or thereafter can be paid without penalty or are being contested in good faith by appropriate proceedings or the period within which such proceedings may be initiated has not expired;

(e) pledges or deposits in connection with workers' compensation laws, unemployment insurance laws or similar legislation, any deposit to secure appeal bonds in proceedings being contested in good faith to which the Company or any Restricted Subsidiary is a party, good faith deposits in connection with bids, tenders, contracts

(other than for the payment of Indebtedness) or leases to which the Company or any Restricted Subsidiary is a party or deposits for the payment of rent, in each case made in the ordinary course of business;

(f) any Lien in favor of issuers of surety or performance bonds or letters of credit issued pursuant to the request of and for the account of the Company or any Restricted Subsidiary in the ordinary course of business;

(g) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens and other similar Liens, on the property or assets of the Company or any Restricted Subsidiary arising in the ordinary course of business and securing payment of obligations that are not yet due or are being contested in good faith by appropriate proceedings;

(h) easements, rights of way, restrictions, defects or irregularities in title and other similar charges or encumbrances not interfering in any material respect with the business of the Company or any Restricted Subsidiary, and any leases and subleases of real property that do not interfere with the ordinary conduct of the business of the Company or any Restricted Subsidiary, and which are made on customary and usual terms applicable to similar properties;

(i) Liens arising solely by virtue of any statutory or common law provision relating to bankers' liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; *provided, however*, that such deposit account is not a dedicated cash collateral account and is not intended by the Company or any Restricted Subsidiary to provide collateral to such depository institution;

(j) any rights of set-off of any Person with respect to any deposit account of the Company or any Restricted Subsidiary arising in the ordinary course of business;

(k) Liens granted to secure borrowing from, directly or indirectly, (i) *Banco Nacional de Desenvolvimento Econômico e Social—BNDES* (including loans from *Financiadora de Estudos e Projetos—FINEP*) or any other Brazilian governmental development bank or credit agency, or (ii) any international or multilateral development bank, government-sponsored agency, export-import bank or official export-import credit insurer;

(l) judgment Liens not giving rise to an Event of Default so long as such Lien is bonded in accordance with applicable law and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(m) Liens on property or assets (including Capital Stock) of any Person that secure Indebtedness Incurred for the purpose of financing all or any part of the purchase price or cost of construction or improvement of such property or asset and which attach within 365 days after the date of such purchase or the completion of construction or improvement; *provided*, that to the extent that the property or asset acquired is Capital Stock, the Lien also may encumber other property or assets of the Person acquired;

(n) Liens in existence on the Closing Date;

(o) other Liens securing obligations in an aggregate amount not to exceed 10.0% of the Company's Consolidated Total Assets;

(p) any Lien securing Hedging Obligations so long as such Hedging Obligations are entered into for bona fide, non-speculative purposes;

(q) any Lien on the inventory or receivables and related assets of any Person that secure the obligations of such Person under any credit facility or in connection with any structured export or import financing or other trade transaction to the extent that the aggregate amount of receivables securing Indebtedness shall not exceed (a) with respect to transactions secured by receivables from export sales, 80% of such Person's consolidated gross revenues from export sales for the most recently concluded period of four consecutive fiscal quarters; or (b) with respect to transactions secured by receivables from domestic sales, 80% of such Person's consolidated gross revenues from domestic sales for the most recently concluded period of four consecutive fiscal quarters; *provided, further*, that Advance Transactions will not be deemed transactions secured by receivables for the purpose of the above calculation; and

(r) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the clauses (b), (c), (k), (m) or (n) above or of any Indebtedness secured thereby, provided that the principal amount of Indebtedness so secured shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement (plus premiums, interest and reasonable expenses incurred in connection therewith), and that such extension, renewal or replacement Lien shall be limited to all or part of the property which secured the Lien extended, renewed or replaced (plus improvements on or additions to such property).

### ***Limitation on Sales of Assets***

(1) The Company will not, and will not permit any Restricted Subsidiary to, make any Asset Disposition unless the following conditions are met:

(a) The Asset Disposition is for Fair Market Value;

(b) At least 75% of the consideration consists of all or part of any of the following, received at closing, (i) cash and Temporary Cash Investments or (ii) Additional Assets. (For purposes of this clause (b), the assumption by the purchasers of Indebtedness or other obligations (other than Subordinated Debt) of the Company or a Restricted Subsidiary pursuant to a customary novation agreement, and instruments or securities received by the Company or any of its Restricted Subsidiaries from the purchasers that are converted into cash or Temporary Cash Investments within 270 days of the closing shall be considered to be cash received at closing);

(c) Within 365 days after the receipt of any Net Available Cash from an Asset Disposition, the Net Available Cash may be used:

- to permanently repay Indebtedness, other than Subordinated Obligations, of the Company or of any of its Restricted Subsidiaries, in each case owing to a Person other than the Company or any Subsidiary;
- to acquire (or within such 365-day period, the Company shall have made a good faith determination to acquire or make capital expenditures, which acquisition shall be consummated, or capital expenditure shall be made, prior to the second anniversary of such Asset Disposition) (i) all or substantially all of the assets of a Related Business, or a majority of the Voting Stock of another Person that thereupon becomes a Restricted Subsidiary engaged in a Related Business, or to make capital expenditures or otherwise acquire long-term assets that are to be used in a Related Business; or (ii) to acquire Additional Assets for the Company or its Restricted Subsidiaries;

(d) The Net Available Cash of an Asset Disposition not applied (or determined by the Company to be applied) pursuant to paragraph (c) above within 365 days of the Asset Disposition shall constitute "Excess Proceeds." Excess Proceeds of less than US\$20.0 million (or the equivalent thereof at the time of determination) will be carried forward and accumulated. When accumulated Excess Proceeds equals or exceeds US\$20.0 million, the Issuer shall, within 30 days, make an Offer (as defined in clause (2) below) to purchase New Notes having a principal amount equal to:

- accumulated Excess Proceeds, multiplied by
- a fraction (x) the numerator of which is equal to the then outstanding principal amount of the New Notes and (y) the denominator of which is equal to the then outstanding principal amount of the New Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Disposition, rounded down to the nearest US\$1,000.

Upon completion of the Offer, Excess Proceeds will be reset at zero and the Company shall be entitled to use any remaining proceeds for any corporate purposes to the extent permitted under the Indenture.

(2) (a) In the event of an Asset Disposition that requires the purchase of New Notes pursuant to clause (1)(d) above, the Issuer will make an offer (an "Offer") to purchase New Notes (and any other Senior Indebtedness), at a purchase price, in U.S. dollars, of 100% of their principal amount (or such lesser amount required in the case of any other Senior Indebtedness) plus accrued and unpaid interest (including Additional Amounts, if any) thereon, to, but excluding, the date of purchase and (b) if the aggregate purchase price of the New Notes (and any other Senior Indebtedness) tendered pursuant to the Offer exceeds the Net Available Cash allotted to their purchase, the



Company shall select the New Notes and other Senior Indebtedness to be purchased on a pro rata basis but in round denominations (subject to the applicable procedures of the depository), which in the case of the New Notes will be denominations of US\$1,000 or multiples thereof; *provided* that after a purchase from a holder in part, such holder shall hold US\$200,000 in principal amount of New Notes or a multiple of US\$1,000 in excess thereof.

(3) The Issuer will comply, to the extent applicable, with the requirements of Section 14(e)-1 of the Exchange Act and any other applicable securities laws or regulations in connection with any repurchase of New Notes pursuant to this covenant. To the extent that the provisions of any applicable securities laws or regulations conflict with provisions of this covenant, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

#### ***Limitation on Transactions with Affiliates***

The Company will not, and will not permit any Restricted Subsidiary to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an “Affiliate Transaction”), unless:

(a) the Affiliate Transaction is on terms that are no less favorable to the Company or the relevant Restricted Subsidiary, taken as a whole, than those that would have been obtained in a comparable arm’s-length transaction by the Company or such Restricted Subsidiary with a Person that is not an Affiliate; and

(b) the Company delivers to the Trustee:

(i) with respect of any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$5.0 million, an Officer’s Certificate stating that such Affiliate Transaction complies with this covenant; and

(ii) with respect of any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$15.0 million, an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by a Brazilian or international investment banking, auditing or consulting firm of recognized standing.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(i) transactions between or among the Company and any Restricted Subsidiary or between two or more Restricted Subsidiaries;

(ii) the payment of reasonable and customary regular fees to directors of the Company;

(iii) payments (including loans and advances) pursuant to any employee, officer or director compensation or benefit plans, customary indemnifications or arrangements entered into in the ordinary course of business;

(iv) any agreement in effect as of the Closing Date (and any transaction contemplated thereby) or any amendment, supplement, restatement, replacement, renewal, extension, refinancing thereof or thereto (so long as the renewed or replaced agreement, when taken as a whole, is not more disadvantageous to the holders of the New Notes in any material respect than the original agreement in effect on the Closing Date);

(v) any Sale-Leaseback Transaction otherwise permitted under the caption “—Limitation on Sale and Lease-Back Transactions” if such transaction is on market terms;

(vi) any issuance or sale of Capital Stock of the Company (other than Disqualified Stock);

(vii) Permitted Investments and Restricted Payments that are permitted by the provisions of the covenant described under “—Limitation on Restricted Payments”; and

(viii) (A) transactions with customers, clients, distributors, lessors, suppliers or purchasers or sellers of goods or services, in each case, in the ordinary course of business and on market terms or (B) transactions with joint ventures or other similar arrangements on market terms.

#### ***Limitation on Sale and Lease-Back Transactions***

The Company will not, and will not permit any Restricted Subsidiary to, enter into any Sale and Lease-Back Transaction unless:

(a) the Company or such Restricted Subsidiary would be entitled (i) pursuant to the provisions of the covenant described under “—Limitation on Indebtedness” above, to Incur Indebtedness in a principal amount equal to or exceeding the Attributable Debt in respect of such Sale and Lease-Back Transaction; and (ii) pursuant to the provisions of the covenant described under “—Limitation on Liens” above, to Incur a Lien to secure such Indebtedness; or

(b) the Company, during or immediately after the expiration of three months after the effective date of such Sale and Lease-Back Transaction (whether made by the Company or a Restricted Subsidiary), applies to the voluntary retirement of Funded Debt, an amount equal to the Value of such Sale and Lease-Back Transaction, less an amount equal to the sum of: (i) the principal amount of New Notes delivered, within such three-month period, to the Trustee for retirement and cancellation and (ii) the principal amount of other Funded Debt voluntarily retired by the Company within such three-month period, in each case excluding retirements of New Notes and other Funded Debt as a result of conversions or pursuant to mandatory sinking fund or mandatory prepayment provisions or by payment at maturity.

#### ***Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries***

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on the Capital Stock of the Restricted Subsidiary owned by the Company to the Company or any Restricted Subsidiary;

(2) pay any Indebtedness owed to the Company or any Restricted Subsidiary;

(3) make loans or advances to the Company or any Restricted Subsidiary; or

(4) transfer any of its properties or assets to the Company or any Restricted Subsidiary. However, the preceding restrictions will not apply to encumbrances or restrictions:

(i) existing under or by reason of applicable law or governmental rule, regulation or order;

(ii) existing with respect to any Person, or on any property or assets acquired from a Person which is acquired by or merged with or into the Company or any Restricted Subsidiary, or by reason of any Liens on the property or assets, or relating to the Indebtedness, of any Person or other entity existing at the time such Person or other entity becomes a Restricted Subsidiary, or restriction relating to Indebtedness of any such Person and, in any such case, is not created as a result of or in connection with or in anticipation of any such transaction; *provided* that such Liens and any extensions, renewals, replacements or refinancing thereof may not extend to any other property owned by the Company or any Restricted Subsidiary; *provided further* that the encumbrances and restrictions in the extension, renewal, replacement or refinancing are, taken as a whole, no less favorable in any material respect to the holders of the New Notes than the encumbrances or restrictions being extended, renewed, replaced or refinanced;

(iii) on any property or assets existing at the time of acquisition thereof and which are not created as a result of or in connection with or in anticipation of such acquisition; *provided* that such encumbrances and restrictions and any extensions, renewals, replacements or refinancing thereof may not extend to any other property owned by the Company or any Restricted Subsidiary; *provided further* that the encumbrances and restrictions in the extension, renewal, replacement or refinancing are, taken as a whole, no less favorable in any material respect to the holders of the New Notes than the encumbrances or restrictions being extended, renewed, replaced or refinanced;

(iv) in the case of clause (4) above:

(a) that exist by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture;

(b) that restrict in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any such lease, license or other contract or contractual right;

(c) contained in mortgages, pledges or other security agreements permitted under the Indenture securing Indebtedness of the Company or a Restricted Subsidiary to the extent such encumbrances or restrictions restrict the transfer of the property subject to such mortgages, pledges or other security agreements;

(d) imposed by Purchase Money Indebtedness for property acquired in the ordinary course of business or by Capitalized Lease Obligations permitted under the Indenture on the property so acquired, but only to the extent that such encumbrances or restrictions restrict the transfer of the property; or

(e) arising or agreed to in the ordinary course of business, not relating to Indebtedness, and that do not, individually or in the aggregate, detract from the value of the property or assets of the Company or any Restricted Subsidiary in any manner material to the Company and its Restricted Subsidiaries.

(v) imposed by the standard loan documentation in connection with loans from (i) *Banco Nacional de Desenvolvimento Econômico e Social—BNDES* (including loans from *Financiadora de Estudos e Projetos—FINEP*) or any other Brazilian governmental development bank or credit agency, or (ii) any international or multilateral development bank, government sponsored agency, export-import bank or official export-import credit insurer;

(vi) imposed by any agreement governing Indebtedness of any Restricted Subsidiary that is permitted to be Incurred by the covenant described under “—Limitation on Indebtedness”; *provided* that the encumbrance or restriction, taken as a whole, is not materially more restrictive than comparable financings and will not materially affect the Issuer’s ability to pay interest or principal, when due, on the New Notes or the Company’s ability to make payments under its New Notes Guarantee;

(vii) existing by reason of Liens that secure Indebtedness otherwise permitted to be incurred under the provisions of the covenant described under “—Limitation on Liens” above and that limit the right of the debtor to dispose of the assets subject to such Liens;

(viii) imposed with respect to a Restricted Subsidiary pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(ix) with respect to a Restricted Subsidiary and imposed pursuant to a customary provision in a joint venture or other similar agreement with respect to such Restricted Subsidiary that was entered into in the ordinary course of business;

(x) required pursuant to the Indenture; or

(xi) existing on the Closing Date and any amendments, extensions, renewals, replacements or refinancing thereof; *provided* that the encumbrances and restrictions in the extension, renewal, replacement or refinancing are, taken as a whole, no less favorable in any material respect to the holders of the New Notes than the encumbrances or restrictions being extended, renewed, replaced or refinanced.

#### ***Future Subsidiary Guarantors***

The Company will not permit any of its Restricted Subsidiaries that is not a Subsidiary Guarantor to Incur any Indebtedness (including the guarantee of payment of any Indebtedness) in an aggregate principal amount in excess of US\$5.0 million unless:

(1) such Restricted Subsidiary simultaneously executes and delivers to the trustee a supplemental indenture in the form attached as an exhibit to the Indenture pursuant to which such Restricted Subsidiary shall unconditionally

guarantee the due and punctual payment of the principal of, and interest and Additional Amounts on, the New Notes, as well as any other amounts whatsoever owed under the Indenture; and

(2) the Company or such Restricted Subsidiary delivers to the trustee an opinion of counsel that such supplemental indenture (a) has been duly authorized, executed and delivered by such Restricted Subsidiary and (b) constitutes a valid and legally binding obligation of such Restricted Subsidiary in accordance with its terms.

Any such Subsidiary Guarantor's guarantee of the Issuer's obligations under the New Notes and the Indenture will be senior unsecured obligations of such Subsidiary Guarantor and will be limited to the maximum amount that (1) would not render such Subsidiary Guarantor's obligations subject to avoidance under applicable law, including applicable fraudulent conveyance laws, or (2) would not result in a breach or violation by such Subsidiary Guarantor of any then-existing agreement to which it is party. None of the Company's Unrestricted Subsidiaries will guarantee the New Notes.

The guarantee of a Subsidiary Guarantor may be terminated upon:

(i) a sale or disposition (including by way of consolidation or merger) of all or a portion of the Capital Stock of such Subsidiary Guarantor following which such Subsidiary Guarantor is no longer a Subsidiary of the Company;

(ii) a sale or disposition (including by way of consolidation or merger) of all or substantially all of the assets of such Subsidiary Guarantor to a Person that is not the Company or a Restricted Subsidiary;

(iii) defeasance or discharge of the New Notes, as described in "—Satisfaction and Discharge" and "—Defeasance"; or

(iv) the designation of such Subsidiary Guarantor as an Unrestricted Subsidiary;

*provided* that any such transaction is carried out pursuant to, and in accordance with, all other applicable provisions of the Indenture.

#### ***Consolidation, Merger, Conveyance, Sale or Lease***

The Company will not consolidate with or merge into another Person or convey, transfer or lease all or substantially all of its assets (determined on a consolidated basis) to any Person unless:

(a) (i) the Company is the continuing Person or (ii) the resulting, surviving or transferee Person (the "Successor Company") is organized and existing under the laws of Brazil or any political subdivision thereof, the United States of America, any state thereof or the District of Columbia or any other country member of the Organization for Economic Co-operation and Development (OECD) and expressly assumes by supplemental indenture, executed and delivered to the Trustee, in form as set forth in the Indenture or as otherwise satisfactory to the Trustee, all of the obligations of the Company under the Indenture and the Guarantee;

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing;

(c) immediately after giving effect to such transaction, the Company or the Successor Company (i) could incur at least US\$1.00 of Indebtedness under clause (1) of the covenant described under "—Limitation on Indebtedness" above or (ii) would have a Net Debt to EBITDA Ratio less than or equal to that of the Company immediately prior to such transaction;

(d) each Subsidiary Guarantor (unless it is the other party to the transactions above, in which case clause (a) above shall apply) shall have by supplemental indenture confirmed that its Subsidiary Guarantee shall apply to such Person's obligations in respect of the Indenture and the New Notes unless such Subsidiary Guarantor's then existing Subsidiary Guarantee remains in full force and effect; and

(e) the Company has delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the Indenture and that all conditions precedent therein relating to such transaction have been complied with.

None of the Subsidiary Guarantors shall, and the Company will not cause or permit any Subsidiary Guarantor to, consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person (other than the Company or any Restricted Subsidiary) unless:

(1) (x) the resulting, surviving or transferee Person (if not such Subsidiary Guarantor) shall be a Person organized and existing under the laws of the jurisdiction under which such Subsidiary Guarantor was organized or under the laws of Luxembourg, Brazil or any political subdivision thereof, the United States of America or any state thereof or the District of Columbia or any other country member of the Organization for Economic Co-operation and Development (OECD), and (y) such Person shall expressly assume, by supplemental indenture, all the obligations of such Subsidiary Guarantor, if any, under such Subsidiary Guarantee;

(2) immediately after giving effect to such transaction or transactions on a pro forma basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default shall have occurred and be continuing; and

(3) the Company delivers to the Trustee an Officer's Certificate and an opinion of counsel, each stating that such consolidation, merger or transfer and such guarantee agreement, if any, complies with the Indenture;

*provided, however*, that the provisions of this paragraph shall not apply if such Subsidiary Guarantor is released from its Subsidiary Guarantee pursuant to clause (ii) of the last paragraph set forth under the caption under "—Future Subsidiary Guarantors" as a result of such sale, disposition, consolidation, amalgamation or merger.

#### ***Other Covenants***

In addition, the Indenture will (subject to exceptions, qualifications and materiality thresholds, where appropriate) contain covenants regarding permitted lines of business, the performance of the Issuer's and the Company's obligations under the New Notes and the Company's New Notes Guarantee, as applicable, maintenance of corporate existence, maintenance of properties, compliance with applicable laws, maintenance of the Company's and any Subsidiary Guarantors' governmental approvals, payment of taxes and other claims, maintenance of books and records, notices of certain events and further actions.

#### **Substitution of the Issuer**

The Issuer may, without the consent of any holder of the New Notes, be substituted by any Wholly-Owned Subsidiary of the Company as principal debtor in respect of the New Notes (in that capacity, the "Substituted Issuer"); *provided* that the following conditions are satisfied:

(a) such documents will be executed by the Substituted Issuer, the Guarantors and the Trustee as may be necessary to give full effect to the substitution, including a supplemental indenture under which the Substituted Issuer assumes all of the Issuer's obligations under the Indenture and the New Notes (collectively, the "Issuer Substitution Documents"), and pursuant to which the Company will unconditionally and irrevocably guarantee (the "Company Guarantee") the payment of all sums payable under the Indenture and the New Notes by the Substituted Issuer as such principal debtor and the covenants and events of default will continue to apply to the Company in respect of the New Notes as if no such substitution had occurred;

(b) if the Substituted Issuer is organized in a jurisdiction other than Luxembourg, the Issuer Substitution Documents will contain covenants (1) to ensure that each holder of the New Notes has the benefit of a covenant in terms corresponding to the obligations of the Issuer in respect of the payment of Additional Amounts (but replacing references to Luxembourg with references to such other jurisdiction); and (2) to indemnify each holder and beneficial owner of the New Notes against all taxes or duties (a) which arise by reason of a law or regulation in effect or contemplated on the effective date of the substitution, which may be incurred or levied against such holder or beneficial owner of the New Notes as a result of the substitution and which would not have been so incurred or levied had the substitution not been made or (b) which are imposed on such holder or beneficial owner of the New Notes by any political subdivision or taxing authority of any country in which such holder or beneficial owner of the New Notes resides or is subject to any such tax or duty and which would not have been so imposed had the substitution not been made;

(c) the Substituted Issuer will deliver, or cause the delivery, to the Trustee of opinions from counsel in the jurisdiction of organization of the Substituted Issuer and the United States as to the validity, legally binding effect and enforceability of the Issuer Substitution Documents, as well as an Officer's Certificate as to compliance with the provisions described under this section;

(d) the Substituted Issuer will appoint a process agent in the Borough of Manhattan in The City of New York to receive service of process on its behalf in relation to any legal action or proceedings arising out of or in connection with the New Notes, the Indenture and the Issuer Substitution Documents; and

(e) no Event of Default has occurred and is continuing.

Upon the execution of the Issuer Substitution Documents and compliance with the other conditions in the Indenture relating to the substitution, the Substituted Issuer will be deemed to be named in the New Notes and the Indenture as the principal debtor in place of the Issuer and the New Notes shall thereupon be deemed to be amended to give effect to the substitution. Except as set forth above, the execution of the Issuer Substitution Documents shall operate to release the Issuer from all its obligations under the New Notes and the Indenture.

Not later than 10 business days after the execution of the Issuer Substitution Documents, the Substituted Issuer will give notice thereof to the holders of the New Notes in accordance with the provisions of the Indenture.

## **Reports**

The Company shall provide the Trustee and, upon request, the holders of the New Notes:

- within 120 days following the end of each fiscal year of the Company after the Closing Date, the annual financial statements (including the notes thereto) of the Company prepared in accordance with Brazilian GAAP and presented in the English language and a report thereon by the Company's certified independent accountants; and
- within 60 days following the end of the first three fiscal quarters in each fiscal year of the Company beginning with the quarter ending after the Closing Date, all quarterly financial statements (including the notes thereto) of the Company, prepared in accordance with Brazilian GAAP and presented in the English language.

In addition, the Issuer will furnish to the holders of the New Notes and to prospective investors, upon request of such holders or investors, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the New Notes are not freely tradable under the Securities Act.

For so long as any of the New Notes are outstanding, the above information will be made available at the specified offices of each paying agent.

Notwithstanding the foregoing, if the Company makes available the reports described in the first paragraph of this covenant on the Company's website and notifies the Trustee in writing thereof, it will be deemed to have satisfied the reporting requirement set forth in such applicable clause.

Delivery of the above reports to the Trustee is for informational purposes only and the Trustee's receipt of such reports will not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's, the Company's or any Subsidiary Guarantor's compliance with any of its covenants in the Indenture (as to which the Trustee is entitled to rely exclusively on Officer's Certificates).

## **Suspension of Covenants**

If on any date following the Closing Date:

- (1) the New Notes have been assigned an Investment Grade Rating by any two Rating Agencies; and
- (2) no Default shall have occurred and be continuing,

then, beginning on that day and subject to the provisions of the following paragraph, the covenants specifically listed under the following captions will automatically, without any notice of any kind, be suspended (and the Company and its Subsidiaries will have no obligation or liability whatsoever with respect to such covenants):

- (a) “—Limitation on Restricted Payments”;
- (b) “—Limitation on Indebtedness”;
- (c) “—Limitation on Sales of Assets”;
- (d) “—Limitation on Sale and Lease-Back Transactions”;
- (e) “—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”; and
- (f) clause (c) of the first paragraph of “—Consolidation, Merger, Conveyance, Sale or Lease.” Clauses (a) through (f) above are collectively referred to as the “Suspended Covenants.”

If, during any period in which the Suspended Covenants are suspended, the New Notes cease to have an Investment Grade Rating by two Rating Agencies (the “Reversion Date”), the Suspended Covenants will thereafter be reinstated and be applicable pursuant to the terms of the Indenture (including in connection with performing any calculation or assessment to determine compliance with the terms of the Indenture), unless and until the New Notes subsequently attain an Investment Grade Rating by any two Rating Agencies (in which event the Suspended Covenants will again be suspended for such time that the New Notes maintain an Investment Grade Rating by any two Rating Agencies); *provided, however*, that no Default or breach or violation of any kind will be deemed to exist under the Indenture, the New Notes, the New Notes Guarantee or any Subsidiary Guarantee with respect to the Suspended Covenants (whether during the period when the Suspended Covenants were suspended or thereafter) based on, and none of the Issuer, the Company or any Restricted Subsidiary will bear any liability (whether during the period when the Suspended Covenants were suspended or thereafter) for, any actions taken or events occurring after the New Notes attain an Investment Grade Rating by any two Rating Agencies and before any reinstatement of the Suspended Covenants as provided above, or any actions taken at any time (whether during the period when the Suspended Covenants were suspended or thereafter) pursuant to any contractual obligation arising prior to the reinstatement, regardless of whether those actions or events would have been permitted if the applicable Suspended Covenant had remained in effect during such period.

On the Reversion Date, all Indebtedness Incurred during the Suspension Period will be classified to have been Incurred pursuant to paragraph (1) of “—Limitation on Indebtedness” or one of the clauses set forth in paragraph (b) thereto (to the extent such Indebtedness would be permitted to be Incurred thereunder as of the Reversion Date and after giving effect to the Indebtedness Incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be permitted to be Incurred pursuant to “—Limitation on Indebtedness,” such Indebtedness shall be deemed to have been outstanding on the Closing Date, so that it is classified as permitted under clause (2)(b)(ii) of “—Limitation on Indebtedness.” The Company will give the Trustee notification upon the occurrence of any covenant suspension or any Reversion Date.

The Company shall give the Trustee written notice of any Covenant Suspension Event and in any event not later than five (5) Business Days after such Covenant Suspension Event has occurred. In the absence of such notice, the Trustee shall assume the Suspended Covenants apply and are in full force and effect. The Company shall give the Trustee written notice of any occurrence of a Reversion Date not later than five (5) Business Days after such Reversion Date. After any such notice of the occurrence of a Reversion Date, the Trustee shall assume the Suspended Covenants apply and are in full force and effect.

## **Events of Default**

An Event of Default with respect to the New Notes is defined in the Indenture as being a:

- default for 30 days in payment of any interest or Additional Amounts on the New Notes when the same becomes due and payable, *provided* that it shall not be an Event of Default if the Company exercises its option to defer payment of any interest due in compliance with the provisions described under “—Principal, Maturity and Interest”;

- default in payment of principal of or premium, if any, on the New Notes when the same becomes due and payable, upon optional redemption, upon required purchase, upon declaration of acceleration or otherwise;
- failure by the Company to comply with the provisions described under “—Restrictive Covenants— Consolidation, Merger, Conveyance, Sale or Lease”;
- default in the performance, or breach, of any other covenant or obligation of the Issuer, the Company or any Restricted Subsidiary in the Indenture and continuance of such default or breach for a period of 60 consecutive days after written notice specifying such default or breach is given to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in aggregate principal amount of the New Notes;
- default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness by the Company or any Restricted Subsidiary (or the payment of which is Guaranteed by the Company or any Restricted Subsidiary) whether such Indebtedness or Guarantee now exists, or is created after the Closing Date, if that default:
  - is caused by a failure to pay principal of or interest or premium (or Additional Amounts) on such Indebtedness within any applicable grace period (a “Payment Default”); or
  - results in the acceleration of such Indebtedness prior to its Stated Maturity,
- and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates US\$15.0 million (or its equivalent in other currencies at the time of determination) or more;
- any final judgment or order for the payment of money in excess of US\$15.0 million (or its equivalent in other currencies at the time of determination) is rendered against the Issuer, the Company or any Significant Subsidiary and such judgment or order is not paid (whether in full or if there is a failure to pay installments in accordance with the terms of the judgment aggregating in excess of US\$15.0 million) or otherwise discharged and remains unstayed for a period of 60 days after such judgment becomes final and non-appealable;
- any involuntary case or other proceeding is commenced against the Issuer, the Company or any Significant Subsidiary with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a trustee, receiver, *administrador judicial*, liquidator, custodian or other similar official of it or any substantial part of its assets, and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 days; or a non-appealable final order for relief is entered against the Issuer, the Company or any Significant Subsidiary under relevant bankruptcy laws as now or hereafter in effect;
- the Issuer, the Company or any Significant Subsidiary (i) commences a voluntary case or other proceeding seeking liquidation, reorganization, *recuperação judicial* or *extrajudicial* or other relief with respect to itself or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, *administrador judicial*, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer, the Company or any Significant Subsidiary or for all or substantially all of the assets of the Issuer, the Company or any such Significant Subsidiary or (iii) effects any general assignment for the benefit of creditors;
- any guarantee of the New Notes ceases to be in full force and effect, other than in accordance with the terms of the Indenture, or the Issuer, the Company or any Subsidiary Guarantor denies or disaffirms its obligations under the New Notes; and
- all or substantially all of the assets and revenues of the Issuer, the Company and any Restricted Subsidiary, taken as a whole, is condemned, seized or otherwise appropriated by any Person acting under the authority of any national, regional or local government or the Company, the Issuer or any Significant Subsidiary is



prevented by any such Person for a period of 60 consecutive days or longer from exercising normal control over all or substantially all of the assets and revenues of the Issuer, the Company and its Restricted Subsidiaries, taken as a whole.

The Company will deliver to the Trustee, within ten Business Days after obtaining actual knowledge thereof, written notice of any Default or Event of Default that has occurred and is still continuing, its status and what action the Company is taking or proposing to take in respect thereof. The Indenture provides that the Trustee may withhold notice to the holders of the New Notes of any Default or Event of Default (except in payment of principal of, or interest or premium (and Additional Amounts), if any, on the New Notes) if the Trustee in good faith determines that it is in the interest of the holders of the New Notes to do so. The Indenture provides that, if an Event of Default (other than an Event of Default involving a bankruptcy, insolvency or similar event in respect of the Company) with respect to the New Notes specified therein shall have happened and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the New Notes, by written notice to the Company (and to the Trustee if notice is given by the holders), may declare the principal amount of (and interest on) all the New Notes to be due and payable immediately. The Indenture provides that if an Event of Default involving a bankruptcy, insolvency or other similar event in respect of the Issuer or the Company shall have happened, the principal amount of all the New Notes will be immediately due and payable without notice or any other act on the part of the Trustee or any holder of the New Notes. In this case, the Company will comply with any and all then applicable regulations of the Central Bank for remittance of funds outside of Brazil. However, if the Company cures all Defaults (except the nonpayment of principal of and accrued interest or premium (and Additional Amounts) on New Notes at maturity or which shall become due by acceleration) and certain other conditions are met, including the deposit with the Trustee of a sum sufficient to pay all sums paid or advanced by the Trustee and the reasonable fees, expenses, disbursements and advances of the Trustee, its agents and counsel incurred in connection with such Event of Default, such declaration may be rescinded and annulled by the holders of not less than a majority in aggregate principal amount of the New Notes. In addition, past Defaults with respect to the New Notes may be waived by the holders of not less than a majority in aggregate principal amount of the New Notes except (i) a Default in the payment of principal of (or premium, if any) or interest or premium (and Additional Amounts), if any, on any New Note or (ii) in respect of a provision of the Indenture which cannot be amended without the consent of the holder of each outstanding New Note affected thereby.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders of the New Notes, unless such holders shall have offered to the Trustee security or indemnity satisfactory to the Trustee. Subject to such provision for indemnification, the holders of a majority in principal amount of the New Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the New Notes, *provided* that the Trustee is offered indemnity or security satisfactory to it; *provided, further*, that the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed conflicts with any law or the provisions of the Indenture if the Trustee shall determine that such action would be prejudicial to holders of the New Notes not taking part in such direction or if the Trustee determines in good faith that such action would involve the Trustee in personal liability.

No holder of any New Note shall have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless:

- such holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the New Notes;
- the holders of not less than 25% in principal amount of the outstanding New Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee thereunder;
- such holder or holders have offered to the Trustee security or indemnity satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;
- the Trustee for 60 days after its receipt of such notice, request and offer of security or indemnity has failed to institute any such proceeding; and

- no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding New Notes,

it being understood and intended that no one or more of such holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such holders, or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all such holders.

Notwithstanding any other provision of the Indenture, the holder of any New Note shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and interest (and Additional Amounts), if any, on such New Note and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such holder.

The Trustee shall not be deemed to have notice of any Default or Event of Default (other than a payment default) unless a written notice of any event which is in fact such a default is received by a Responsible Officer of the Trustee at the Corporate Trust Office of the Trustee, and such notice references the New Notes and the Indenture.

### **Additional Amounts**

All payments of principal and interest by or on behalf of the Issuer, the Company or any Subsidiary Guarantor in respect of the New Notes shall be made without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Luxembourg, Brazil or any other jurisdiction from or through which such payments are made or by or within any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In the event of any such withholding or deduction, the Issuer, the Company or such Subsidiary Guarantor (in the case of payments made by the Issuer, the Company or such Subsidiary Guarantor) shall pay to holders of the New Notes in U.S. dollars such additional amounts ("Additional Amounts") as will result in the payment to such holder of the U.S. dollar amount that would otherwise have been receivable by such holder in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable:

(a) in respect of any tax that would not have been so withheld or deducted but for the existence of any present or former connection, including a permanent establishment, between the holder or beneficial owner of the New Note and any payment in respect of such New Note (or, if the holder or beneficial owner is an estate, nominee, trust, partnership or corporation, between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, the holder or beneficial owner) in Luxembourg, Brazil, or any other jurisdiction from us through which payments are made or within any political subdivision thereof, other than the mere receipt of such payment or the mere holding or ownership of such New Note or beneficial interest or enforcement of rights thereunder;

(b) in respect of any tax that would not have been so withheld or deducted if the New Note had been presented for payment within 30 days after the Relevant Date (as defined below);

(c) in respect of any tax that would not have been so withheld or deducted but for the failure by the holder or the beneficial owner of the New Note to (i) make a declaration of non-residence, or any other claim or filing for exemption, to which it is entitled or (ii) comply with any reasonable certification, identification, information, documentation or other reporting requirement concerning its nationality, residence, identity or connection with Luxembourg, Brazil or any other jurisdiction from or through which payments are made by or within any political subdivision thereof;

(d) in respect of any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar taxes, duties, assessments or other governmental charges;

(e) in respect of any tax, assessment or other government charge payable other than by withholding or deduction;

(f) in respect of any payment to a holder of a New Note that is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment or New Note, to the extent that a beneficiary or settlor with respect

to such fiduciary, a member of such partnership or the beneficial owner of such payment or New Note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such New Note;

(g) in respect of any withholding or deduction imposed on a payment to an individual that is required to be made pursuant to EC Council Directive 2003/48/EC on the taxation of savings income (the “EU Savings Directive”), or any law implementing or complying with, or introduced in order to conform to the EU Savings Directive or the Luxembourg law of December 23, 2005 as amended by the law of July 17, 2008 (the “Law”); or

(h) in respect of any taxes imposed in connection with a New Note presented for payment by or on behalf of a holder thereof who is a resident of the European Union for tax purposes and who would have been able to avoid such tax by presenting the relevant New Note to another paying agent in a member state of the European Union to whom presentation could have been made;

(i) in respect of any combination of (a) through (h) above.

“Relevant Date” means, with respect to any payment due under the New Notes, whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received in New York City, New York by the Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the New Notes in accordance with the Indenture.

All references to principal and interest in respect of the New Notes shall be deemed also to refer to any Additional Amounts, unless the context requires otherwise, which may be payable as set forth in the Indenture or in the New Notes.

At least ten Business Days prior to the first Interest Payment Date (and at least ten Business Days prior to each succeeding Interest Payment Date if there has been any change with respect to the matters set forth in the below-mentioned Officer’s Certificate), the Issuer, the Company or the relevant Subsidiary Guarantor, as the case may be, will furnish to the Trustee and each paying agent an Officer’s Certificate instructing the Trustee and each such paying agent whether payments of principal of or interest on the New Notes due on such Interest Payment Date shall be without deduction or withholding for or on account of any tax. If any such deduction or withholding shall be required, prior to such Interest Payment Date, the Issuer, the Company or the relevant Subsidiary Guarantor, as the case may be, will furnish the Trustee and each such paying agent with an Officer’s Certificate which specifies the amount, if any, required to be withheld on such payment to holders of the New Notes and certifies that the Issuer, the Company or the relevant Subsidiary Guarantor, as the case may be, shall pay such withholding or deduction. Any Officer’s Certificate required by the Indenture to be provided to the Trustee and any paying agent for these purposes shall be deemed to be duly provided if telecopied to the Trustee and such paying agent.

The Issuer, the Company or the relevant Subsidiary Guarantor, as the case may be, shall furnish to the Trustee the official receipts (or a certified copy of the official receipts) evidencing payment of any tax. Copies of such receipts shall be made available to holders of the New Notes upon request.

The Issuer, the Company and each Subsidiary Guarantor shall promptly pay when due any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of each New Note or any other document or instrument referred to herein or therein, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Luxembourg, Brazil or the jurisdiction of incorporation of such Subsidiary Guarantor and except, in certain cases, for taxes, charges or similar levies resulting from certain registration of transfer or exchange of New Notes.

### **Modification of the Indenture**

The Indenture contains provisions permitting the Issuer, the Company and the Trustee, with the consent of the holders of a majority in aggregate in principal amount of the outstanding New Notes to modify the Indenture or any supplemental indenture or the rights of the holders of the New Notes; provided that no such modification shall without the consent of the holder of each outstanding New Note affected thereby:

- change the stated maturity upon which the principal of or the interest on any New Note is due and payable, or reduce the principal amount thereof or the rate of interest thereon (including Additional Amounts) or any

premium payable upon the redemption thereof, or change any place of payment or the currency in which, any New Note or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after redemption date);

- reduce the percentage of the principal amount of the outstanding New Notes whose holders' consent is required for any waiver (of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences) provided for in the Indenture;
- amend or modify any provision of the guarantees of the New Notes by the Company or any Subsidiary Guarantor that would adversely affect holders of the New Notes; or
- modify certain other provisions of the Indenture.

The Indenture provides that New Notes owned by the Issuer, the Company, the Subsidiary Guarantors or any of their Affiliates shall be deemed not to be outstanding for, among other purposes, consenting to any modification; provided, that, for the purpose of determining whether the Trustee shall be protected in relying on any request, demand, authorization, direction, notice, consent or waiver, only New Notes which a Responsible Officer of the Trustee actually knows are so owned shall be deemed not to be outstanding.

The Indenture also contains provisions permitting the Issuer, the Company and the Trustee to amend the Indenture in certain circumstances without notice to or consent of the holders of any New Notes to:

- cure any ambiguity, omission, defect or inconsistency;
- provide for the assumption by a successor Person of the obligations of the Issuer, the Company and any Subsidiary Guarantor under the Indenture;
- add Guarantees with respect to the New Notes;
- secure the New Notes;
- add to the covenants of the Issuer, the Company or the Subsidiary Guarantors for the benefit of the holders or surrender any right or power conferred upon the Issuer, the Company or the Subsidiary Guarantors;
- make any change that does not adversely affect the rights of the holders in any material respect;
- conform the text of the Indenture to any provision of this "Description of the New Notes"; or
- provide for the appointment of a successor trustee; provided that the successor trustee is otherwise qualified and eligible to act as such under the terms of the Indenture.

After any amendment described herein becomes effective, the Company will mail to the holders of the New Notes a notice in accordance with the procedure set forth in "—Notices" briefly describing such amendment. However, the failure to give notice to all holders of the New Notes, or any defect therein, will not impair or affect the validity of the amendment.

#### **No Personal Liability of Directors, Officers, Employees and Shareholders**

No past, present or future director, officer, partner, employee, incorporator, shareholder or member of the Issuer, the Company or any Subsidiary of the Company shall have any liability for any obligations of the Issuer, the Company or any Subsidiary of the Company under the New Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of New Notes, by accepting a New Note, waives and releases all such liability. Such waivers and releases are part of the consideration for issuance of the New Notes. The waivers may not be effective to waive liabilities under the U.S. federal securities laws or under the Luxembourg or Brazilian Corporate Law.

## **Listing**

Application will be made to list the New Notes on the Official List of the Irish Stock Exchange and to trade on the Global Exchange Market of the Irish Stock Exchange, and the Issuer will use commercially reasonable efforts to obtain and maintain listing of the New Notes on the Official List of the Irish Stock Exchange; however, the New Notes are not yet listed and the Issuer cannot assure the holders of the New Notes that they will be accepted for listing.

## **Irish Listing Agent**

The Bank of New York Mellon SA/NV, Dublin Branch is the Irish Listing Agent. The address of the Irish Listing Agent is set forth on the inside back cover of this offering memorandum.

## **Notices**

The Indenture contains certain notice provisions, including notice requirements to the Trustee, the holders of the New Notes and, to the extent required, to the Irish Stock Exchange, or such other exchange on which the New Notes may be listed. Neither the failure to give any notice to a particular holder of New Notes, nor any defect in a notice given to a particular holder of New Notes, will affect the sufficiency of any notice given to another holder of New Notes.

## **Satisfaction and Discharge**

The Indenture will be discharged and (together with any Guarantees) will cease to be of further effect as to all New Notes issued thereunder, when:

- (1) (a) all New Notes that have been authenticated, except lost, stolen or destroyed New Notes that have been replaced or paid and New Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or
- (b) all New Notes that have not been delivered to the Trustee for cancellation (i) have become due and payable, (ii) will become due and payable at their Stated Maturity within one year or (iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of a redemption by the Trustee and, in each case, the Issuer, the Company or any Restricted Subsidiary has irrevocably deposited or caused to be deposited with the Trustee as funds in trust solely for the benefit of the holders, cash in U.S. dollars, in amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the New Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit or will occur as a result of the deposit and the deposit will not result in a breach or violation of, or constitute a default under, any other material instrument to which the Issuer, the Company or any Restricted Subsidiary is a party or by which the Issuer, the Company or any Restricted Subsidiary is bound;
- (3) the Issuer, the Company or any Restricted Subsidiary has paid or caused to be paid all other sums payable by it under the Indenture; and
- (4) the Issuer has delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the New Notes at maturity or the redemption date, as the case may be.

In addition the Issuer must deliver an Officer's Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

## **Defeasance**

The Issuer, the Company and the Subsidiary Guarantors, at the Company's option:

(1) will be discharged from any and all obligations in respect of the New Notes and the Guarantees (except in each case for certain obligations, including to register the transfer or exchange of New Notes, replace stolen, lost or mutilated New Notes, maintain paying agencies and hold moneys for payment in trust), or

(2) need not comply with certain covenants of the Indenture and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the New Notes and the Guarantees,

if the Issuer irrevocably deposits with the Trustee, in trust:

- money, or
- in certain cases, U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount, or
- a combination thereof,

in each case, sufficient to pay and discharge the principal of each installment of principal and interest, if any, on the outstanding New Notes on the dates such payments are due, in accordance with the terms of the New Notes, to, but excluding, the redemption date irrevocably designated by the Issuer pursuant to the final sentence of this section on the day on which payments are due and payable in accordance with the terms of the Indenture and of the New Notes.

To exercise any such option, the Issuer is required to deliver to the Trustee:

(a) an opinion of recognized U.S. counsel independent of the Issuer to the effect that the holders of the New Notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge of certain obligations, which in the case of clause (1) above must be based on a change in law or a ruling by the U.S. Internal Revenue Service; and

(b) an opinion of counsel and an Officer's Certificate as to compliance with all conditions precedent provided for in the Indenture relating to the satisfaction and discharge of the New Notes.

If the Issuer has deposited or caused to be deposited money or U.S. Government Obligations to pay or discharge the principal of (and premium, if any) and interest, if any, on the outstanding New Notes to and including a redemption date on which all of the outstanding New Notes are to be redeemed, such redemption date shall be irrevocably designated by the Issuer on or prior to the date of deposit of such money or U.S. Government Obligations, and such designation shall be accompanied by an irrevocable request from the Issuer that the Trustee give notice of such redemption in the name and at the expense of the Issuer not less than 30 nor more than 60 days prior to such redemption date in accordance with the Indenture.

#### **Governing Law; Consent to Jurisdiction; Service of Process and Currency Indemnity**

The Indenture and the New Notes provide that they will be governed by, and construed in accordance with, the laws of the State of New York. The provisions of articles 86 to 94-8 (inclusive) of the Luxembourg law of August 10, 1915 on commercial companies, as amended, are expressly excluded and shall not apply in relation to the Indenture and the New Notes. Each of the Issuer and the Company has consented to the non-exclusive jurisdiction of the courts of the State of New York and the United States courts located in the Borough of Manhattan, New York City, New York with respect to any action that may be brought in connection with the Indenture or the New Notes and have irrevocably appointed National Corporate Research, Ltd., 10 East 40th Street, 10th Floor, New York, New York 10016, as agent for service of process.

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder to the holder of a New Note from U.S. dollars into another currency, the Issuer has agreed, and each holder by holding such New Note will be deemed to have agreed, to the fullest extent that the Issuer and they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures such holder could purchase U.S. dollars with such other currency in New York City, New York on the day two Business Days preceding the day on which final judgment is given.

The Issuer's, the Company's and each Subsidiary Guarantor's obligation in respect of any sum payable by it to the holder of a New Note shall, notwithstanding any judgment in a currency (the "judgment currency") other than U.S. dollars, be discharged only to the extent that on the Business Day following receipt by the holder of such New Note of any sum adjudged to be so due in the judgment currency, the holder of such New Note may, in accordance with normal banking procedures, purchase U.S. dollars with the judgment currency; if the amount of the U.S. dollars so purchased is less than the sum originally due to the holder of such New Note in the judgment currency (determined in the manner set forth in the preceding paragraph), each of the Issuer, the Company and each Subsidiary Guarantor agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the holder of such New Note against such loss, and if the amount of the U.S. dollars so purchased exceeds the sum originally due to the holder of such New Note, such holder agrees to remit to the Issuer, the Company or the relevant Subsidiary Guarantor such excess, provided that such holder shall have no obligation to remit any such excess as long as the Issuer, the Company or such relevant Subsidiary Guarantor shall have failed to pay such holder any obligations due and payable under such New Note, in which case such excess may be applied to the Issuer's, the Company's and each Subsidiary Guarantor's obligations under such New Note in accordance with the terms thereof.

### **Certain Definitions**

Set out below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms as well as any other capitalized terms used herein for which no definition is provided. Unless the context otherwise requires, an accounting term not otherwise defined has the meaning assigned to it under and in accordance with Brazilian GAAP.

"Additional Amounts" has the meaning given to it under "—Additional Amounts." "Additional Assets" means:

- (1) any property or assets (other than Indebtedness and Capital Stock) to be used by the Company or a Restricted Subsidiary in a Related Business;
- (2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or
- (3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

*provided, however*, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

"Additional Notes" has the meaning given to it under "—General."

"Advance Transaction" means an advance from a financial institution involving either (a) a foreign exchange contract (ACC—*Adiantamento sobre Contrato de Câmbio*) or (b) an export contract (ACE—*Adiantamento sobre Cambiais Entregues*).

"Affiliates" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary outside the ordinary course of business, including any disposition by means of a merger, consolidation, or similar transaction (each referred to for the purposes of this definition as a "disposition"), of:

- (1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary);
- (2) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary; or

(3) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary,

*provided, however*, that Asset Disposition will not include:

(a) a disposition by a Restricted Subsidiary to the Company or another Restricted Subsidiary or by the Company to a Restricted Subsidiary;

(b) a Permitted Investment or a Restricted Payment that does not violate the covenant described under “—Restrictive Covenants—Limitation on Restricted Payments”;

(c) the disposition of assets in any fiscal year of the Company with a Fair Market Value not to exceed US\$10.0 million in the aggregate (or the equivalent thereof at the time of determination) (with unused amounts in any fiscal year being carried over to the next succeeding fiscal year, *provided* that such disposition shall not exceed US\$20.0 million in any fiscal year);

(d) (i) a disposition of obsolete equipment or other obsolete assets or other property which is uneconomical and no longer useful for the Company or any Restricted Subsidiary in the ordinary course of business; or (ii) a disposition of assets that are exchanged for or are otherwise replaced by comparable or superior assets within a reasonable period of time;

(e) the disposition of all or substantially all of the assets of the Company in a manner permitted under the covenant described under “—Restrictive Covenants—Consolidation, Merger, Conveyance, Sale or Lease”;

(f) the disposition of assets in a Sale-Leaseback Transaction, in a manner permitted under the covenant described under “—Restrictive Covenants—Limitation on Sale and Lease-Back Transactions”;

(g) the Incurrence of any Lien permitted by the covenant described under “—Restrictive Covenants—Limitation on Liens”;

(h) the issuance of Disqualified Stock permitted by the covenant described under “—Restrictive Covenants—Limitation on Indebtedness”;

(i) any surrender or waiver of contract rights pursuant to a settlement, release, recovery on or surrender of contract, tort or other claims of any kind;

(j) sales, transfers or other dispositions of assets for non-cash consideration at least equal to the Fair Market Value (as certificated in an Officer’s Certificate) of such assets, to the extent that such non-cash consideration would constitute Additional Assets; or

(k) the sale or other disposition of Temporary Cash Investments.

“Attributable Debt” in respect of a Sale and Lease-Back Transaction means, as at the time of determination, the present value (discounted at the interest rate implicit in the Sale and Lease-Back Transaction) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Lease-Back Transaction (including any period for which such lease has been extended).

“Brazil” means The Federative Republic of Brazil and any branch of power, ministry, department, authority or statutory corporation or other entity (including a trust) owned or controlled directly or indirectly by it or any of the foregoing or created by law as a public entity.

“Brazilian GAAP” means (i) International Financial Reporting Standards or (ii) generally accepted accounting principles in Brazil, in each case, as in effect from time to time.

“Business Day” means each day that is not a Saturday, Sunday or other day on which banking institutions in New York City, New York, São Paulo, Brazil or Luxembourg, Luxembourg are authorized or required by law to close.



“Capital Expenditures” means, for any period, without duplication, any expenditures or commitments of the Issuer, the Company or their respective Subsidiaries (a) for fixed or capital assets (including renewals, improvements, replacements, repairs and maintenance) that, in accordance with IFRS, are (or should be) classified as capital expenditures and that are (or should be) set forth in a consolidated statement of cash flows of the Issuer, the Company or their respective Subsidiaries for such period prepared in accordance with IFRS and (b) pursuant to Capital Lease Obligations of the Issuer, the Company or their respective Subsidiaries during such period.

“Capital Stock” of any Person means any and all quotas, shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock and partnership interests, but excluding any debt securities convertible into such equity.

“Capitalized Lease Obligation” means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“Central Bank” means the Brazilian Central Bank (*Banco Central do Brasil*).

“Change of Control” means the occurrence of one or more of the following events:

(1) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the consolidated assets of the Company and its Subsidiaries taken as a whole to any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) other than to one or more of the Permitted Holders; or

(2) the Permitted Holders (determined on an aggregate basis) cease, directly or indirectly, to possess a majority of the Voting Stock of the Company.

“Change of Control Offer” has the meaning given to it under “—Repurchases at the Option of the Holders of the New Notes Upon Change of Control.”

“Change of Control Payment” has the meaning given to it under “—Repurchases at the Option of the Holders of the New Notes Upon Change of Control.”

“Change of Control Payment Date” has the meaning given to it under “—Repurchases at the Option of the Holders of the New Notes Upon Change of Control.”

“Closing Date” means the date that initial New Notes under the Indenture are issued.

“Company” means Tonon Bioenergia S.A. and its successors under the Indenture.

“Consolidated EBITDA” means, for any period, the amount equal to the sum of Consolidated Net Income for such period plus, to the extent deducted in calculating such Consolidated Net Income:

- (1) consolidated net financial expenses for such period;
- (2) consolidated income and social contribution taxes for such period;
- (3) consolidated depreciation and amortization for such period;
- (4) consolidated minority interests for such period;
- (5) any restructuring charges or reserves, including any one-time costs incurred in connection with acquisitions after the Closing Date and costs related to the closure and/or consolidation of facilities; and
- (6) any non-cash charges of the Company and its consolidated Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period).

Notwithstanding the foregoing, any of the items described in clauses (1) through (6) above of any consolidated Subsidiary of the Company will be added to Consolidated Net Income to compute Consolidated EBITDA only to the extent (and in the same proportion) that the net income (loss) of such Subsidiary was included in calculating Consolidated Net Income in such period.

“Consolidated Net Income” means, for any period, the aggregate net income (or loss) of the Company and its Restricted Subsidiaries for such period determined on a consolidated basis in conformity with Brazilian GAAP; provided that the net income of any Person that is not a Restricted Subsidiary will be included only to the extent of the amount of dividends or distributions paid in cash by such Person to the Company or a Restricted Subsidiary (without duplication to the extent already included in the consolidated net income (or loss) of the Company for such period).

“Consolidated Net Indebtedness” means consolidated Indebtedness of the Company and its Restricted Subsidiaries, as set forth on the most recent consolidated quarterly balance sheet of the Company and its Restricted Subsidiaries, *minus* the sum of cash and cash equivalents and marketable securities recorded as current assets in the Company’s most recent consolidated quarterly balance sheet (except for any Capital Stock in any Person).

“Consolidated Net Revenues” means the total net sales or revenue of the Company and its Restricted Subsidiaries on a consolidated basis for the most recent twelve month period; all calculated (i) based on the consolidated income statements of the Company for the fiscal quarter most recently ended for which internal financial statements are available, (ii) in accordance with Brazilian GAAP and (iii) on a pro forma basis to give effect to any acquisition or disposition of companies, divisions, lines of businesses or operations by the Company and its Restricted Subsidiaries subsequent to such date and on or prior to the date of determination.

“Consolidated Total Assets” means the total amount of assets of the Company and its Restricted Subsidiaries based (i) on the balance sheet for the fiscal quarter most recently ended for which internal financial statements are available, (ii) in accordance with Brazilian GAAP and (iii) on a pro forma basis to give effect to any acquisition or disposition of companies, divisions, lines of businesses or operations by the Company and its Restricted Subsidiaries subsequent to such date and on or prior to the date of determination.

“Default” means any event which is an Event of Default or which, after notice or passage of time or both, would be an Event of Default.

“Disqualified Stock” means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable) or upon the happening of any event:

- (1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;
- (2) is convertible or exchangeable for Indebtedness or Disqualified Stock; or
- (3) is redeemable at the option of the holder thereof, in whole or in part,

in each case on or prior to the 91st day after the Stated Maturity of the New Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to repurchase or redeem such Capital Stock upon the occurrence of an “asset sale” or “change of control” occurring prior to the 91st day after the Stated Maturity of the New Notes shall not constitute Disqualified Stock if the “asset sale” or “change of control” provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the comparable provisions of the Indenture.

“Eligible Equity Offering” means the issuance and sale for cash of Capital Stock (other than Disqualified Stock) of the Company to any Person (other than a Restricted Subsidiary) pursuant to (i) a public offering in accordance with applicable laws, rules and regulations, or (ii) a private offering in accordance with Rule 144A, Regulation S and/or another exemption under the Securities Act.

“Event of Default” has the meaning given to it under “—Events of Default.”

“Excess Additional Amounts” has the meaning given to it under “—Optional Tax Redemption.”

“Exchange Act” means the United States Securities and Exchange Act of 1934, as amended.

“Fair Market Value” of any property, asset, share of Capital Stock, other security, Investment or other item means, on any date, the fair market value of such property, asset, share of Capital Stock, other security, Investment or other item on that date as determined in good faith by the management of the Company.

“Fitch” means Fitch Ratings Ltd. and its successors.

“Funded Debt” means Indebtedness of the Company (including the New Notes) or any Restricted Subsidiary maturing by the terms thereof more than one year after the original creation thereof.

“Global Notes” has the meaning given to it under “Form of the New Notes.”

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of any Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

*provided, however*, that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a correlative meaning. The term “Guarantor” shall mean any Person Guaranteeing any obligation.

“Hedging Obligations” of any Person means the obligations of such Person under any agreement relating to any swap, option, forward sale, forward purchase, index transaction, cap transaction, floor transaction, collar transaction or any other similar transaction, in each case, for purposes of hedging or capping against Brazilian inflation, interest rates, currency or commodities price fluctuations.

“IBGE” means the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*).

“IFRS” means International Financial Reporting Standards as adopted in the English language by the International Accounting Standards Board, as implemented and in use in Brazil.

“Incur” means issue, assume, Guarantee, incur or otherwise become liable for Indebtedness or Capital Stock; *provided, however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person is merged or consolidated with the Company or becomes a Subsidiary of the Company (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time of such merger or consolidation or at the time it becomes a Subsidiary of the Company. The term “Incurrence” when used as a noun shall have a correlative meaning. Neither the accretion of principal of a non-interest bearing or other discount security nor the capitalization of interest on Indebtedness shall be deemed the Incurrence of Indebtedness.

“Indebtedness” means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of indebtedness of such Person for borrowed money;

(2) the principal and premium, if any, in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all obligations of such Person to pay the deferred and unpaid purchase price of property (except trade payables and contingent obligations to pay earn-outs), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto;

(4) all reimbursement obligations of such Person in respect of the face amount of letters of credit or other similar instruments (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (1) through (3) above) entered into in the ordinary course of business of such Person, such as import tax credits and import transactions, to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the third business day following receipt by such Person of a demand for reimbursement following payment on the letter of credit);

(5) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock (but excluding, in each case, any accrued dividends);

(6) all Capitalized Lease Obligations and all Attributable Debt of such Person;

(7) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however*, that the amount of Indebtedness of such Person shall be the lesser of:

(a) the Fair Market Value of such asset at such date of determination; and

(b) the amount of such Indebtedness of such other Persons;

(8) to the extent not otherwise included in this definition, all Hedging Obligations of such Person; and

(9) all obligations of the type referred to in clauses (1) through (8) above of other Persons that is Guaranteed by such Person to the extent so Guaranteed;

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with Brazilian GAAP.

For the avoidance of doubt, “Indebtedness” shall not include (1) any obligations to any Person with respect to “*Programa de Recuperação Fiscal—REFIS*,” “*Programa Especial de Parcelamento de Impostos—REFIS Estadual*” and “*Programa de Parcelamento Especial—PAES*” or any other tax payment agreement entered into with any Brazilian governmental entity, (2) any advances made by or on behalf of customers for products already shipped but not yet invoiced by the Company or any Restricted Subsidiary in the ordinary course of business and (3) any amounts owed by the Company or any Restricted Subsidiary for the purchase of sugarcane or the lease of land in the ordinary course of business.

“Indenture” has the meaning given to it in the first paragraph of this Description of the New Notes.

“Initial Lien” has the meaning given to it under “—Restrictive Covenants—Limitation on Liens.”

“Interest Payment Date” means each January 24 and July 24 of each year, commencing on July 24, 2015.

“Investment” in any Person means any direct or indirect advance, loan (other than advances to customers or suppliers in the ordinary course of business that are recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of the applicable lender) or other extension of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such Person. For purposes of the definition of “Unrestricted Subsidiary” and the covenant described under “—Restrictive Covenants—Limitation on Restricted Payments”:

(1) Investment shall include the portion (proportionate to the Company’s equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; *provided, however*, that, upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company shall be deemed to continue to have a permanent “Investment” in an Unrestricted Subsidiary in an amount (if positive) equal to:

(a) the Company’s Investment in such Subsidiary at the time of such redesignation, minus

(b) the portion (proportionate to the Company's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer.

"Investment Grade Rating" means a rating equal to or higher than (a) BBB-, by S&P or Fitch and (b) Baa3, by Moody's.

"IPCA" means the Brazilian Extended National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), published by the IBGE.

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"Luxembourg" means the Grand Duchy of Luxembourg.

"Maturity Date" has the meaning given to it under "—General."

"Minimum Legally Required Dividend" means, for any Person and any period, an amount equal to the sum of (a) the minimum dividend required to be distributed under applicable Brazilian law by such Person to holders of its Capital Stock during such period and (b) the minimum dividend required to be distributed to holders of Preferred Stock in such Person during such period so as to avoid such holders from acquiring or maintaining any voting rights under Brazilian law, and in each case (a) and (b), any such amounts may be paid in the form of interest on shareholders' equity.

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Net Available Cash" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case minus:

(1) all legal fees and expenses, title and recording tax expenses, commissions and other fees and expenses Incurred, and all federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability in accordance with Brazilian GAAP, as a consequence of such Asset Disposition;

(2) all payments, including any prepayment premiums or penalties, made on any Indebtedness that is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) appropriate amounts to be provided by the seller as a reserve, in accordance with Brazilian GAAP, against any liabilities associated with the property or other assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

"Net Cash Proceeds" with respect to any issuance or sale of Capital Stock or sale or other disposition of any Investment, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees and expenses actually Incurred in connection with such issuance or sale and net of taxes paid or payable in connection with such issuance, sale or disposition.

“Net Debt to EBITDA Ratio” means at any date (i) Consolidated Net Indebtedness divided by (ii) Consolidated EBITDA for the period of four consecutive fiscal quarters ending on or most recently prior to such date for which financial statements are available; provided, however, that:

(a) if since the beginning of such period the Company or any Restricted Subsidiary shall have made any Asset Disposition, the Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA directly attributable to the assets that are the subject of such Asset Disposition for such period; provided that pro forma effect shall be given to the proceeds applied of the Asset Disposition as if the event had occurred on the first day of such period;

(b) if since the beginning of such period the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Person that is merged with or into the Company or any Restricted Subsidiary (or any Person that becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, Consolidated EBITDA for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period;

(c) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (a) or (b) above if made by the Company or a Restricted Subsidiary during such period, Consolidated EBITDA for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day of such period; and

(d) pro forma effect shall be given to any Indebtedness Incurred (or repaid) since the most recently consolidated quarterly balance sheet of the Company.

To the extent that pro forma effect is to be given to an acquisition or disposition of a company, division or line of business, the pro forma calculation will be (i) based upon the most recent four full fiscal quarters for which the relevant financial information is available and (ii) determined in good faith by a financial or accounting officer of the Company.

“New Notes” has the meaning given to it in the first paragraph of this Description of New Notes.

“New Notes Guarantee” means the Guarantee by the Company of the Issuer’s obligations on the New Notes and under the Indenture, executed pursuant to the provisions of the Indenture.

“Offer” has the meaning given to it under “—Restrictive Covenants—Limitation on Sales of Assets.”

“Officer’s Certificate” means a certificate signed by any of the chief executive officer, the chief operating officer, the chief financial officer, the chief accounting officer, the treasurer, a director, the general counsel or any vice president (or any equivalent of the foregoing) of such Person.

“Permitted Financial Institution” means any of Banco BTG Pactual S.A., Itaú Unibanco S.A. or Banco Santander (Brasil) S.A. or any of their respective affiliates.

“Permitted Holders” means each of Alfredo Tonon, Claudia Maria Tonon, José Antonio Tonon, Francisco Tonon Neto, Monica Tonon Danieletto, Andrea Tonon, Renato José Tonon, Renato José Tonon Filho, Celso Roberto Tonon, André Roberto Tonon, Juliano Tonon, Rafael Tonon, Abelmir Bortolo Tonon, Fernando José Bartelotti Tonon, Carlos Eduardo Bartelotti Tonon, Antonio Tonon, Marina Tonon Rossi, the respective sons and daughters of any of the foregoing Persons, or any of the respective heirs or any entity in which a majority of the Voting Stock is owned by any of the foregoing Persons, and FIP Terra Viva — Fundo de Investimento em Participações.

“Permitted Investment” means:

(1) an Investment by the Company or any Restricted Subsidiary in the Company or any Restricted Subsidiary;

(2) an Investment by the Company or any Restricted Subsidiary in another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary or becomes a Restricted Subsidiary;

(3) Temporary Cash Investments;

(4) any Investment acquired from a Person which is merged with or into the Company or any Restricted Subsidiary, or any Investment of any Person existing at the time such Person becomes a Restricted Subsidiary and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction;

(5) stocks, obligations or securities received in settlement of (or foreclosure with respect to) debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments or in satisfaction of judgments or pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of a debtor;

(6) any Investment existing on, or made pursuant to written agreements existing on, the Closing Date or an Investment consisting of an extension, modification or renewal of any Investment in existence on the Closing Date; *provided* that such Investment does not increase the aggregate amount of the Investment so extended, modified or renewed except by an amount equal to any premium or other reasonable amount paid in respect of the underlying obligations and fees and expenses incurred in connection with such replacement, refinancing or refunding;

(7) Hedging Obligations permitted under clause (2)(e) of the covenant described under “—Restrictive Covenants—Limitation on Indebtedness”;

(8) Guarantees of Indebtedness permitted under the covenant described under “—Restrictive Covenants—Limitation on Indebtedness”;

(9) Investments which are made exclusively with Capital Stock of the Company (other than Disqualified Stock);

(10) any acquisition and holding of (a) Brazilian federal and state tax credits acquired solely to pay amounts owed by the Company to Brazilian tax authorities and (b) discounted obligations of any Brazilian governmental authority acquired solely to pay tax amounts owed by the Company to such Brazilian governmental authority;

(11) Investments made as a result of the receipt of non-cash consideration from an Asset Disposition that was made in compliance with the covenant described in “—Restrictive Covenants—Limitation on Sales of Assets”;

(12) receivables owing to the Company or any of its Restricted Subsidiaries, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided* that such trade terms may include such trade terms as the Company or such Restricted Subsidiary deems reasonable under the circumstances;

(13) any advance, loan or extension of credit arising in connection with the purchase of inventory, equipment or supplies in the ordinary course of business;

(14) loans and advances pursuant to any employee, officer or director compensation or benefit plans, customary indemnifications or arrangements entered into in the ordinary course of business, *provided, however*, that such loans and advances do not exceed US\$3.0 million in one or a series of related transactions;

(15) Investments in connection with pledges, deposits, payments or performance bonds made or given in the ordinary course of business in connection with or to secure statutory, regulatory or similar obligations, including obligations under health, safety or environmental obligations;

(16) repurchases of the New Notes and any related Guarantees;

(17) Capital Expenditures by the Company and its Restricted Subsidiaries, not to exceed, individually or in the aggregate, in any given fiscal year, the following amounts: R\$225.0 million (fiscal year ending March 31, 2016; in addition to this amount, the Company is permitted to make capital expenditures on industrial equipment associated with expansion at the Santa Cândida Mill in accordance with the covenant described under “—Restrictive

Covenants—Limitation on Indebtedness,” to be financed from outside the Company’s operating cash flow); R\$225.0 million (fiscal year ending March 31, 2017); R\$225.0 million (fiscal year ending March 31, 2018); R\$225.0 million (fiscal year ending March 31, 2019); R\$225.0 million (fiscal year ending March 31, 2020); and R\$225.0 million (fiscal year ending March 31, 2021); *provided* that (i) such amounts will be indexed to the monthly IPCA beginning as of the Closing Date and (ii) for any amounts (as adjusted as provided in clause (i)) that are not applied to Capital Expenditures in any given fiscal year, such amounts shall be carried over and added to the amounts set forth above for the subsequent fiscal year (but *provided, further*, that in no event may any such amounts be carried forward for more than one fiscal year); and

(18) additional Investments by the Company or any of its Restricted Subsidiaries having an aggregate Fair Market Value, taken together with all other Investments made pursuant to this clause (18) that are at the time outstanding, not to exceed US\$20.0 million at the time of such Investment (with the Fair Market Value of each Investment being measured at the time made and without giving effect to subsequent changes in value).

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“Preferred Stock,” as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Purchase Money Indebtedness” means Indebtedness:

(1) consisting of the deferred purchase price of an asset, conditional sale obligations, obligations under any title retention agreement and other purchase money obligations; or

(2) Incurred to finance all or any part of the purchase price, or other cost of construction or improvement, of any property;

*provided, however*, that the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such asset or property or such purchase price or cost, including any Refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of Refinancing.

“Rating Agency” means any of Fitch, Moody’s and S&P.

“Rating Decline” means that at any time within 90 days (which period shall be extended so long as the rating of the New Notes is under publicly announced consideration for possible down grade by either Rating Agency) after the earlier of the date of public notice of a Change of Control and of the Company’s intention or that of any Person to effect a Change of Control, (i) in the event the New Notes are assigned an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the New Notes by at least two of the Rating Agencies shall be below an Investment Grade Rating; or (ii) in the event the New Notes are rated below an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the New Notes by at least two of the Rating Agencies shall be decreased by one or more categories; *provided* that, in each case, any such Rating Decline is in whole or in part in connection with a Change of Control.

“Real,” “Reais” or “R\$” means the lawful currency of Brazil.

“Refinance” means, in respect of any Indebtedness, to refinance, extend (including pursuant to any defeasance or discharge mechanism), renew, refund, repay, replace, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. “Refinanced” and “Refinancing” shall have correlative meanings.

“Refinancing Indebtedness” means Indebtedness that is Incurred to Refinance any Indebtedness of the Company or any Restricted Subsidiary existing on the Closing Date or Incurred in compliance with the Indenture (including Indebtedness that Refinances Refinancing Indebtedness); *provided, however*, that:



(1) the Refinancing Indebtedness has a Stated Maturity no earlier than (i) the Stated Maturity of the Indebtedness being Refinanced or (ii) the 91st day after the Maturity Date of the New Notes;

(2) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being Refinanced (plus premiums, interest and reasonable expenses incurred in connection therewith); and

(3) if the Indebtedness being Refinanced is Subordinated Obligations, such Refinancing Indebtedness is subordinated in right of payment to the New Notes at least to the same extent as the Indebtedness being Refinanced;

*provided, further*, that Refinancing Indebtedness shall not include Indebtedness of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

“Related Business” means any business conducted by the Company and the Restricted Subsidiaries on the Closing Date and any business related, ancillary or complementary thereto.

“Relevant Date” has the meaning given to it under “—Additional Amounts.”

“Responsible Officer” shall mean, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee who shall have direct responsibility for the administration of the Indenture, or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject.

“Restricted Payment” has the meaning given to it under “—Restrictive Covenants—Limitation on Restricted Payments.”

“Restricted Subsidiary” means the Issuer and any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies Inc., and its successors.

“Sale and Lease-Back Transaction” means any arrangement with any Person (other than the Company or a Restricted Subsidiary), or to which any such Person is a party, providing for the leasing to the Company or a Restricted Subsidiary for a period of more than three years of any property or assets which property or assets have been or are to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person (other than the Company or a Restricted Subsidiary) to which funds have been or are to be advanced by such Person on the security of the leased property or assets.

“Santa Cândida Mill” means the area defined as entry No. 20,150 of the Real Estate Registry Office of the city of Jaú, state of São Paulo, Brazil, including all constructions and other fixtures thereon.

“SEC” means the United States Securities and Exchange Commission.

“Securities Act” means the United States Securities Act of 1933, as amended.

“Senior Indebtedness” means all unsubordinated Indebtedness of the Company or of any Restricted Subsidiary, whether outstanding on the Closing Date or Incurred thereafter.

“Significant Subsidiary” means any Restricted Subsidiary of the Company which at the time of determination either (i) had assets which, based on the consolidated balance sheet of the Company for the fiscal quarter most recently ended for which internal financial statements are available, constituted at least 10% of the Company’s total assets on a consolidated basis as of such date or (ii) had revenues for the twelve-month period which, based on the consolidated income statements of the Company for the fiscal quarter most recently ended for which internal financial statements are available, constituted at least 10% of the Company’s total revenues on a consolidated basis for such period, in each case, (i) measure in accordance with Brazilian GAAP and (ii) on a pro forma basis to give effect to any acquisition or disposition of companies, divisions, lines of businesses or operations by the Company and its Restricted Subsidiaries subsequent to such date and on or prior to the date of determination.

“Stated Maturity” means, with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final payment of principal of such Indebtedness is due and payable, including, with respect to any principal amount which is then due and payable pursuant to any mandatory redemption provision, the date specified for the payment thereof (but excluding any provision providing for the repurchase of any such Indebtedness upon the happening of any contingency unless such contingency has occurred).

“Subordinated Obligation” means any Indebtedness that is subordinate or junior in right of payment to the New Notes, New Notes Guarantee and Subsidiary Guarantees pursuant to a written agreement.

“Subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which more than 50% of the outstanding Voting Stock is owned, directly or indirectly, by such Person and one or more Subsidiaries of such Person (or a combination thereof).

“Subsidiary Guarantee” means any Guarantee by a Subsidiary Guarantor of the Issuer’s obligations with respect to the New Notes, executed pursuant to the provisions of the Indenture.

“Subsidiary Guarantor” means any Restricted Subsidiary that has provided a Subsidiary Guarantee.

“Successor Company” has the meaning given to it under “—Restrictive Covenants—Consolidation, Merger, Conveyance, Sale or Lease.”

“Temporary Cash Investments” means any of the following:

(1) any investment in direct obligations of Brazil, the United States or any agency thereof or obligations Guaranteed by Brazil, the United States or any agency thereof;

(2) investments in time deposit accounts, certificates of deposit and money market deposits maturing within twelve months from the date of acquisition issued by a bank or trust company that is organized under the laws of the United States, any state thereof, Brazil or any foreign country recognized by the United States having capital, surplus and undivided profits aggregating in excess of US\$500.0 million (or the foreign currency equivalent thereof) and whose long-term debt is rated “A” (or such similar equivalent rating, including similar equivalent ratings in foreign countries) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act);

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;

(4) investments in commercial paper maturing not more than 90 days after the date of acquisition issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States, Brazil or any other foreign country recognized by the United States with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P (or such similar equivalent rating, including similar equivalent ratings in foreign countries);

(5) investments in securities with maturities of twelve months or less from the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or “A” by Moody’s (or such similar equivalent rating);

(6) investments in securities with maturities of twelve months or less from the date of acquisition issued or fully Guaranteed by Brazil;

(7) certificates of deposit, bankers’ acceptances and time deposits issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any Brazilian or United States office of any Permitted Financial Institution; and

(8) investments in money market funds substantially all the assets of which are comprised of investments of the types described in clauses (1) through (7) above.

“Trustee” has the meaning given to it in the first paragraph of this “Description of the New Notes”.

“United States” means United States of America.

“Unrestricted Subsidiary” means:

(1) any Subsidiary of the Company (other than the Issuer) that at the time of determination shall be designated an Unrestricted Subsidiary by the management of the Company in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The management of the Company may designate any Restricted Subsidiary of the Company (including any newly acquired or newly formed Subsidiary of the Company) to be an Unrestricted Subsidiary pursuant to clause (1) above unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or owns or holds any Lien on any property of, the Company or any Restricted Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; *provided, however*, that either:

(a) the Subsidiary to be so designated has total consolidated assets of US\$1,000 or less; or

(b) if such Subsidiary has consolidated assets greater than US\$1,000, then such Investment and designation would be permitted under “—Restrictive Covenants—Limitation on Restricted Payments.”

The management of the Company may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided, however*, that immediately after giving effect to such designation:

(i) such designation shall be deemed an Incurrence of Indebtedness by a Restricted Subsidiary and such designation shall only be permitted if such Indebtedness is permitted under “—Restrictive Covenants—Limitation on Indebtedness”; and

(ii) no Event of Default shall have occurred and be continuing.

Any such designation of a Subsidiary as a Restricted Subsidiary, and any such designation of a Subsidiary as an Unrestricted Subsidiary pursuant to clause (1) above, by the management of the Company shall be evidenced to the Trustee by promptly filing with the Trustee an Officer’s Certificate certifying that such designation complied with the foregoing provisions.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States is pledged and that are not callable or redeemable at the Issuer’s option.

“Value” shall mean, with respect to a Sale and Lease-Back Transaction, as of any particular time, the amount equal to the greater of: (1) the net proceeds of the sale or transfer of the property leased pursuant to such Sale and Lease-Back Transaction or (2) the Fair Market Value of such property at the time of entering into such Sale and Lease-Back Transaction, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in the lease.

“Voting Stock” of a Person means all classes of Capital Stock or other interests (including partnership interests) of such Person then outstanding that are entitled (without regard to the occurrence of any contingency) to vote in the election of the directors of such Person, but excluding such classes of Capital Stock or other interests that are entitled, as a group in a separate cast, to appoint one director of such Person as representative of the minority shareholders.

“Wholly-Owned Subsidiary” means any Subsidiary of a Person of which at least 95% of the outstanding Capital Stock or other ownership interests (other than directors’ qualifying shares) of such entity shall at the time be owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person.

## FORM OF THE NEW NOTES

New Notes sold in offshore transactions in reliance on Regulation S will be represented by a permanent global note or notes in fully registered form without interest coupons (the “Regulation S Global Note”), and will be registered in the name of a nominee of DTC and deposited with a custodian for DTC. New Notes sold in reliance on Rule 144A will be represented by a permanent global note or notes in fully registered form without interest coupons (the “Restricted Global Note” and, together with the Regulation S Global Note, the “global notes”) and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC. The notes will also be registered in the register of holder of the notes held at the registered office of the issuer (the “Note Register”). In case of discrepancies between the Note Register and any other register, the Note Register shall prevail for evidence of ownership.

The notes will be subject to certain restrictions on transfer as described in “Transfer Restrictions.” On or prior to the 40th day after the later of the commencement of the offering and the closing date of this offering, a beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Note only upon receipt by the registrar of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes to be a “qualified institutional buyer,” within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction (a “Restricted Global Note Certificate”). After such 40th day, this certification requirement will no longer apply to such transfers. Beneficial interests in the Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, whether before, on or after such 40th day, only upon receipt by the registrar of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 under the Securities Act (a “Regulation S Global Note Certificate”). Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for as long as it remains an interest.

Except in the limited circumstances described under “—Global Notes,” owners of the beneficial interests in global notes will not be entitled to receive physical delivery of individual definitive notes. The notes are not issuable in bearer form.

### Global Notes

Upon the issuance of the Regulation S Global Note and the Restricted Global Note, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC (“DTC Participants”) or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such global note for all purposes under the indenture and the notes. Unless DTC notifies the issuer that it is unwilling or unable to continue as depository for a global note, or ceases to be a “clearing agency” registered under the Exchange Act, or any of the notes becomes immediately due and payable in accordance with “Description of the New Notes—Events of Default,” owners of beneficial interests in a global note will not be entitled to have any portions of such global note registered in their names, will not receive or be entitled to receive physical delivery of notes in individual definitive form and will not be considered the owners or holders of the global note (or any notes represented thereby) under the indenture or the notes. In addition, no beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to the procedures under the indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Investors may hold interests in the Regulation S Global Note through Euroclear or Clearstream, if they are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Note on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositories, which, in turn, will hold such interests in the Regulation S Global Note in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in the Restricted Global Note directly through DTC, if they are DTC Participants, or indirectly through organizations, which are DTC Participants.

Payments of the principal of and interest on global notes will be made to the paying agent who will forward such payments to the trustee who will forward such payments to DTC or its nominee as the registered owner thereof. Neither the issuer, any initial purchasers nor any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The issuer anticipates that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note representing any notes held by its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The issuer also expects that payments by DTC Participants to owners of beneficial interests in such global note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical individual definitive certificate in respect of such interest. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions available to the notes described above, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream account holders, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream account holders may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream account holder purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a global note settled during such processing day will be reported to the relevant Euroclear or Clearstream account holder on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream account holder to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such DTC Participant or DTC Participants has or have given such

direction. However, in the limited circumstances described above, DTC will exchange the global notes for individual definitive notes (in the case of notes represented by the Restricted Global Note, bearing a restrictive legend), which will be distributed to its participants. Holders of indirect interests in the global notes through DTC Participants have no direct rights to enforce such interests while the notes are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a global note will be governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the state of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“indirect participants”).

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Note and in the Restricted Global Note among participants and account holders of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the issuer nor the trustee, or any paying agent will have any responsibility for the performance of DTC, Euroclear or Clearstream or their respective participants, indirect participants or account holders of their respective obligations under the rules and procedures governing their operations.

#### **Individual Definitive Notes**

If (i) DTC or any successor to DTC is at any time unwilling or unable to continue as a depository for the reasons described in “Global Notes” and a successor depository is not appointed by the issuer within 90 days or (ii) any of the notes has become immediately due and payable in accordance with “Description of the New Notes—Events of Default,” the issuer will issue individual definitive notes in registered form in exchange for the Regulation S Global Note and the Restricted Global Note, as the case may be. Upon receipt of such notice from DTC or any paying agent, as the case may be, the issuer will use its best efforts to make arrangements with DTC for the exchange of interests in the global notes for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to holders. Persons exchanging interests in a global note for individual definitive notes will be required to provide the registrar with (a) written instruction and other information required by the issuer and the registrar to complete, execute and deliver such individual definitive notes and (b) in the case of an exchange of an interest in a Restricted Global Note, certification that such interest is not being transferred or is being transferred only in compliance with Rule 144A under the Securities Act. In all cases, individual definitive notes delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC.

In the case of individual definitive notes issued in exchange for the Restricted Global Note, such individual definitive notes will bear, and be subject to, the legend described in “Transfer Restrictions” (unless the issuer determines otherwise in accordance with applicable law). The holder of a restricted individual definitive note may transfer such note, subject to compliance with the provisions of such legend, as provided in “Description of the New Notes.” Upon the transfer, exchange or replacement of notes bearing the legend, or upon specific request for removal of the legend on a note, the issuer will deliver only notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any individual definitive note may be transferred to a person who takes delivery in the form of an interest in any global note, the transferor will be required to provide the registrar with a Restricted Global Note Certificate or a Regulation S Global Note Certificate, as the case may be.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC.

## PLAN OF DISTRIBUTION

We expect that delivery of the New Notes will be made as soon as practicable after the Expiration Date (or the Early Expiration Date, if the required amount of Existing Notes has been validly tendered by the Early Expiration Date), but not, in any event, later than the fifth business day following the Expiration Date (or the Early Expiration Date, if the required amount of Existing Notes has been validly tendered by the Early Expiration Date).

The New Notes (including the New Notes Guarantee) have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to qualified institutional buyers in reliance on Rule 144A. The New Notes (including the New Notes Guarantee) will not be offered, sold or delivered (1) as part of the distribution at any time or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the New Notes are restricted as described under "Transfer Restrictions."

In addition, until 40 days after the commencement of this offering, an offer or sale of the New Notes (including the New Notes Guarantee) within the United States by a broker/dealer (whether or not it is participating in the offering), may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

### **Selling Restrictions**

We are not making an offer to sell, or seeking offers to buy, the New Notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the New Notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the New Notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. We will not have any responsibility therefor.

#### ***European Economic Area***

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the Relevant Implementation Date, it has not made and will not make an offer of New Notes which are the subject of the offering contemplated in this offering memorandum to the public in that Relevant Member State other than:

- (1) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (2) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
- (3) in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of New Notes shall require the issuer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any New Notes in association with, the offers to the public contemplated in this offering memorandum, will be deemed to have represented, warranted and agreed to and with the issuer that:

- (1) it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article (1)(e) of the Prospectus Directive; and
- (2) in the case of any New Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (1) the New Notes acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than qualified investors, as that term is defined in the Prospectus Directive; or (2) where New Notes have been acquired



by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those New Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any New Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the New Notes to be offered so as to enable an investor to decide to purchase or subscribe the New Notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States), and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

### ***United Kingdom***

The issuer:

- has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000, or the FSMA) to persons who have professional experience in matters relating to investments falling with Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to the company; and
- has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom.

### ***Republic of Ireland***

The New Notes are not being offered, directly or indirectly, to the general public in Ireland and no offers or sales of any securities under or in connection with this offering memorandum may be effected except in conformity with the provisions of Irish law including the Irish Companies Acts 1963 to 2009, the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland, the European Communities (Markets in Financial Instruments) Regulations 2007 (Nos. 1 to 3) of Ireland and the Market Abuse (Directive 2003/6/EC) Regulations 2005 of Ireland.

### ***Luxembourg***

In relation to the Grand Duchy of Luxembourg (“Luxembourg”), no offer of New Notes to the public will be made pursuant to this offering memorandum, except that an offer of New Notes to the public in Luxembourg may be made at any time:

- a. to any person or legal entity which is a qualified investor as defined in the Prospectus Law;
- b. to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Law); or
- c. in any other circumstances which do not require the publication of a prospectus pursuant to Article 5 of the Prospectus Law.

For the purposes of this provision, the expression “offer of New Notes to the public” in relation to any New Notes in Luxembourg means the communication to persons in any form and by any means presenting sufficient information on the terms of the offer and the New Notes to be offered so as to enable an investor to decide to purchase or subscribe the New Notes and the expression “Prospectus Law” means the law of 10 July 2005 on prospectuses for securities, as amended from time to time

### ***Brazil***

The New Notes (and the related New Notes Guarantee) have not been, and will not be, registered with the CVM. The New Notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations. The New Notes (and the related New Notes Guarantee)

are not being offered in Brazil. Documents relating to the offering of the New Notes, as well as information contained therein, may not be supplied to the public in Brazil, nor be used in connection with any offer for subscription or sale of the New Notes to the public in Brazil.

### **General**

None of the New Notes has been offered, sold or delivered and will not be offered, sold or delivered any New Notes directly or indirectly, and neither this offering memorandum nor any other offering material relating to the New Notes in or from any jurisdiction will be distributed, except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us.

Purchasers of New Notes sold outside the United States may be required to pay stamp taxes and other charges in compliance with the laws and practices of the country of purchase in addition to the price to investors on the cover page of this offering memorandum.

The New Notes are a new issue of securities for which there is currently no market. Accordingly, no assurance can be given as to the development or liquidity of any market for the New Notes.

## TRANSFER RESTRICTIONS

The New Notes (including the New Notes Guarantee) have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the New Notes are being offered hereby only (1) to QIBs in compliance with Rule 144A and (2) in offers and sales that occur outside the United States to persons other than U.S. persons (“non-U.S. purchasers”), which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners (other than an estate or trust), in offshore transactions meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act. As used herein, the terms “offshore transactions,” “United States” and “U.S. person” have the respective meanings given to them in Regulation S.

Each purchaser of the New Notes will be deemed to have represented and agreed with the issuer and the guarantor as follows:

(1) It is purchasing the New Notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. purchaser that is outside the United States (or a non-U.S. purchaser that is a dealer or other fiduciary as referred to above);

(2) It acknowledges that the New Notes are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that the New Notes (including the New Notes Guarantee) have not been and will not be registered under the Securities Act and that the New Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(3) It shall not resell or otherwise transfer any such New Notes prior to (a) the date which is one year (or such other period of time as permitted by Rule 144(d) under the Securities Act or any successor provision thereunder) after the later of the date of original issuance of the New Notes and (b) such later date, if any, as may be required by applicable laws except:

- to the issuer or the guarantor;
- pursuant to a registration statement that has been declared effective under the Securities Act;
- to a QIB in compliance with Rule 144A;
- outside the United States to non-U.S. purchasers in offshore transactions meeting the requirements of Rule 903 or Rule 904 of Regulation S under the Securities Act; or
- pursuant to another exemption from the registration requirements of the Securities Act (if available);

(4) It agrees that it will give notice of any restrictions on transfer of such New Notes to each person to whom it transfers the New Notes;

(5) It understands that the certificates evidencing the New Notes (other than the Regulation S Global New Note) will bear a legend substantially to the following effect unless otherwise agreed by us and the trustee:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE:

BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT, AND ANY ACCOUNT FOR WHICH IT IS ACTING, (A) IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) OR (B) IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN “OFFSHORE TRANSACTION” PURSUANT TO RULE 903 OR 904 OF REGULATION S AND, WITH RESPECT TO (A) AND (B), EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT

TO SUCH ACCOUNT, (2) AGREES FOR THE BENEFIT OF THE ISSUER AND THE GUARANTOR THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS SECURITY OR ANY BENEFICIAL INTEREST HEREIN PRIOR TO THE RESALE RESTRICTION TERMINATION DATE (AS DEFINED IN THE NEXT PARAGRAPH), EXCEPT (A) (I) TO THE ISSUER, THE GUARANTOR OR ANY SUBSIDIARY THEREOF, (II) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT, (III) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (IV) IN AN OFFSHORE TRANSACTION COMPLYING WITH THE REQUIREMENTS OF RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (V) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND OTHER JURISDICTIONS, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

THE RESALE RESTRICTION TERMINATION DATE WILL BE THE DATE:

(1) THAT IS AT LEAST ONE YEAR AFTER THE LAST ORIGINAL ISSUE DATE HEREOF; AND (2) ON WHICH THE ISSUER INSTRUCTS THE TRUSTEE THAT THIS LEGEND (OTHER THAN THE FIRST PARAGRAPH HEREOF) SHALL BE DEEMED REMOVED FROM THIS SECURITY, IN ACCORDANCE WITH THE PROCEDURES DESCRIBED IN THE INDENTURE RELATING TO THIS SECURITY.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH PARAGRAPH 2(A)(V) ABOVE, THE ISSUER AND THE TRUSTEE RESERVE THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS, OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.\*

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (I) IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS SECURITY OR INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS SECURITY OR INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF), (A) AN “EMPLOYEE BENEFIT PLAN” AS DEFINED IN AND SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“ERISA”), (B) A “PLAN” AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1984, AS AMENDED (THE “CODE”), (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE, “PLAN ASSETS” BY REASON OF SUCH PLAN INVESTMENT IN THE ENTITY, OR (D) ANY EMPLOYEE BENEFIT PLAN SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (“SIMILAR LAW”) OR (II) ITS PURCHASE AND HOLDING OF THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, IS NOT IN VIOLATION OF ANY SIMILAR LAW).

\* This legend (other than the first paragraph hereof) shall be deemed removed from the face of this Security without further action of the issuer, the guarantor, the trustee, or the holders of the New Notes at such time as the issuer instructs the Trustee to remove such legend pursuant to the Indenture.

(6) If it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S Global Note offered pursuant to this offering memorandum, it acknowledges and agrees that, until the expiration of the 40 day “distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a

QIB taking delivery thereof in the form of a beneficial interest in a Restricted Global Note, and that each Regulation S Global Note will contain a legend to substantially the following effect:

PRIOR TO EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S ("REGULATION S")) UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), THIS SECURITY MAY NOT BE REOFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (I) IT IS NOT (AND FOR SO LONG AS IT HOLDS THIS SECURITY OR INTEREST HEREIN WILL NOT BE), AND IS NOT ACTING ON BEHALF OF (AND FOR SO LONG AS IT HOLDS THIS SECURITY OR INTEREST HEREIN WILL NOT BE ACTING ON BEHALF OF), (A) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN AND SUBJECT TO PART 4 OF SUBTITLE B OF TITLE I OF U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), (B) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1984, AS AMENDED (THE "CODE"), (C) ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE, OR ARE DEEMED FOR PURPOSES OF ERISA OR THE CODE TO INCLUDE, "PLAN ASSETS" BY REASON OF SUCH PLAN INVESTMENT IN THE ENTITY, OR (D) ANY EMPLOYEE BENEFIT PLAN SUBJECT TO ANY U.S. FEDERAL, STATE OR LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") OR (II) ITS PURCHASE AND HOLDING OF THIS SECURITY (OR ANY INTEREST HEREIN) WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF ANOTHER EMPLOYEE BENEFIT PLAN SUBJECT TO SIMILAR LAW, IS NOT IN VIOLATION OF ANY SIMILAR LAW).

(7) (a) Either: (i) it is not, and is not purchasing the New Notes on behalf of, and for so long as it holds the New Notes or interests in the New Notes will not be, an employee benefit plan (as defined in Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA")) subject to the provisions of part 4 of subtitle B of Title I of ERISA, a plan as defined in and subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), or any entity whose underlying assets include "plan assets" by reason of such an employee benefit plan's and/or plan's investment in such entity, or a governmental plan, church plan, non-U.S. or other plan that is subject to any laws, regulations or rules that are substantially similar to Section 406 of ERISA or Section 4975 of the Code (collectively, "Similar Law"), or (ii) its acquisition, holding or disposition of the New Notes or interests in the New Notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan, non-U.S. or other plan subject to Similar Law, a violation of any Similar Law); and (b) it will not transfer any such New Notes to any person unless such person could itself truthfully make the foregoing representations and agreements.

(8) It acknowledges that the foregoing restrictions apply to holders of beneficial interests in the New Notes, as well as holders of the New Notes;

(9) It acknowledges that the Trustee will not be required to accept for registration of transfer any New Notes acquired by it, except upon presentation of evidence satisfactory to the issuer, the guarantor and the trustee that the restrictions set forth herein have been complied with; and

(10) It acknowledges that the issuer, the guarantor, the trustee and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agrees that if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the

New Notes are no longer accurate, it shall promptly notify the issuer, the guarantor and the trustee; if it is acquiring the New Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

## **TAXATION**

The following discussion summarizes certain Luxembourg, Brazilian and United States federal income tax considerations that may be relevant to the acquisition, ownership and disposition of New Notes by a holder. This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your own tax advisors about the tax consequences of investing in and holding the New Notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

This summary is based upon tax laws and regulations of Luxembourg, Brazil and the United States as in effect on the date of this offering memorandum, which are subject to change, possibly with retroactive effect, and to differing interpretations. You should consult your own tax advisors as to the Luxembourg, Brazilian, United States or other tax consequences of the purchase, ownership and disposition of the New Notes.

### **Luxembourg Taxation**

#### ***Taxation of Tonon Luxembourg***

Tonon Luxembourg is a company resident in Luxembourg for tax purposes and fully taxed in Luxembourg on its world-wide income and wealth. As Tonon Luxembourg is fully taxable in Luxembourg, it may benefit from double tax treaties concluded by Luxembourg.

#### ***Withholding Tax***

All payments of interest (including accrued but unpaid interest) or principal by the issuer in the context of the holding, disposal, redemption or repurchase of the New Notes which are not profit sharing can be made free of withholding or deduction for or on account of any taxes of whatsoever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein in accordance with applicable law, subject to the exception of the application as regards Luxembourg resident individuals (in the context of their private wealth) of the Law which has introduced a 10% withholding tax on savings income.

Payments of interest or similar income on the New Notes made or deemed to be made by a paying agent (within the meaning of the Law) established in the Grand Duchy of Luxembourg to or for the benefit of an individual Luxembourg resident for tax purposes who is the beneficial owner of such payment may be subject to a tax at a rate of 10%. Such tax will be in full discharge of income tax if the individual beneficial owner acts in the course of the management of his/her private wealth. Responsibility for the withholding and payment of the tax lies with the Luxembourg paying agent.

Pursuant to the Law, Luxembourg resident individuals can opt to self-declare and pay a 10% levy on interest payments made by paying agents located in a Member State of the European Union other than the Grand Duchy of Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an agreement directly relating to the EU Savings Directive.

The 10% withholding tax as described above or the 10% levy are final when Luxembourg resident individuals are acting in the context of the management of their private wealth.

Responsibility for the withholding of tax in application of the Law, as amended, is assumed by the Luxembourg paying agent within the meaning of the Law, including the issuer, to the extent it qualifies as such a Luxembourg paying agent.

#### ***Taxes on Income and Capital Gains***

A holder of the New Notes who derives income from such notes or who realizes a gain on the holding, disposal or redemption thereof will not be subject to Luxembourg taxation on such income or capital gains (subject to the Law of 21 June 2005 implementing the EU Savings Directive and the Law) unless:

(i) such holder is, or is deemed to be, resident in Luxembourg for Luxembourg tax purposes (or for the purposes of the relevant provisions); or

(ii) such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment, a permanent representative or a fixed place of business in Luxembourg.

#### *Non-resident holders of the New Notes*

Non-resident holders of the New Notes, not having a permanent establishment, a permanent representative, or a fixed place of business in Luxembourg to which the New Notes or income therefrom are attributable, are not subject to Luxembourg income taxes on income accrued or received, redemption premiums or issue discounts, under the New Notes nor on capital gains realized on the disposal or redemption of the New Notes. Non-residents holders who have a permanent establishment, a permanent representative, or a fixed place of business in Luxembourg to which the New Notes or income therefrom are attributable are subject to Luxembourg income tax on interest accrued or received, redemption premiums or issue discounts, under the New Notes and on any gains realized upon the sale or disposal of the New Notes.

#### *Resident holders of the New Notes*

##### *Individuals*

A resident individual acting in the course of the management of a professional or business undertaking must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realized on the sale or disposal, in any form whatsoever, of the New Notes, in its taxable income for Luxembourg income tax assessment purposes.

A resident holder of the New Notes, acting in the course of the management of his/her private wealth, is subject to Luxembourg income tax in respect of interest received, redemption premiums or issue discounts, under the New Notes, except if tax has been levied on such payments in accordance with the Law.

A gain realized by an individual holder of the New Notes, acting in the course of the management of his/her private wealth, upon the sale or disposal, in any form whatsoever, of the New Notes is not subject to Luxembourg income tax, provided this sale or disposal took place more than 6 months after the New Notes were acquired. However, any portion of such gain corresponding to accrued but unpaid interest income is subject to Luxembourg income tax, except if tax has been levied on such interest in accordance with the Law.

##### *Corporations*

A resident holder of the New Notes (which is not exempt) from income taxation must include any interest accrued or received, any redemption premium or issue discount, as well as any gain realized on the sale or disposal, in any form whatsoever, of the New Notes, in its taxable income for Luxembourg income tax assessment purposes.

A holder of the New Notes that is governed by the law of May 11, 2007 on family estate management companies (as amended), or by the law of December 17, 2010 on undertakings for collective investment (amending the law of December 20, 2002), or the law of February 13, 2007 on specialized investment funds (as amended) is neither subject to Luxembourg income tax in respect of interest accrued or received, any redemption premium, nor on gains realized on the sale or disposal, in any form whatsoever, of the New Notes.

#### **VAT**

No Luxembourg value added tax is levied with respect to (i) any payment made in consideration of the issuance of the New Notes, (ii) any payment of interest, (iii) any repayment of principal or upon redemption, and (iv) any transfer of the New Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the issuer, if for Luxembourg value added tax purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from value added tax does not apply with respect to such services.

#### **Net Wealth Tax**

A corporate holder of the New Notes, whether it is a resident of Luxembourg for tax purposes or a non-resident having a permanent establishment or a permanent representative in Luxembourg to which/whom such New Notes

are attributable, is subject to Luxembourg net wealth tax on the New Notes. Resident holders of the New Notes governed by the law of 11 May 2007 on family estate management companies, as amended, or by the law of 17 December 2010 on undertakings for collective investment, as amended, or by the law of 13 February 2007 on specialised investment funds, as amended, or is a securitisation company governed by the law of 22 March 2004 on securitisation, as amended, or is a capital company governed by the law of 15 June 2004 on venture capital vehicles, as amended are not subject to Luxembourg net wealth tax.

An individual holder of the New Notes, whether he/she is a resident of Luxembourg or not, is not subject to Luxembourg net wealth tax on such notes.

### ***Inheritance and Gift Tax***

Where the New Notes are transferred for no consideration:

(i) No Luxembourg inheritance tax is levied on the transfer of the New Notes upon death of a holder of the New Notes in cases where the deceased holder was not a resident of Luxembourg for inheritance tax purposes;

(ii) Luxembourg gift tax will be levied in the event that the gift is made pursuant to a notarial deed signed before a Luxembourg notary or is registered in Luxembourg.

### ***Other Taxes and Duties***

It is not compulsory that the New Notes are filed, recorded or enrolled with any court or other authority in Luxembourg or that registration tax, transfer tax, capital tax, stamp duty or any other similar tax or duty (other than court fees and contributions for the registration with the Chamber of Commerce) be paid in respect of or in connection with the execution, delivery and/or enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the New Notes in accordance therewith. However in the case of proceedings in a Luxembourg court (including but not limited to a Luxembourg insolvency proceeding), registration of the New Notes may be ordered by the court, in which case the New Notes will be respectively subject to a fixed duty of EUR 12 or an *ad valorem* duty. Registration would in principle further be ordered, and the same registration duties could be due, when the New Notes are produced, either directly or by way of reference, before an official authority (“*autorité constituée*”) in Luxembourg. A registration duty may also apply upon voluntary registration of the New Notes in Luxembourg (although there is no obligation to do so).

### ***EU Savings Directive***

Under the EU Savings Directive, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State. On March 24, 2014, a Council Directive was adopted amending the EU Savings Directive and broadening the scope of the above requirements. One such change is where payments of interest or other similar income are paid to or secured for certain entities or arrangements outside the application of the EU Savings Directive which are beneficially owned by individuals who are resident in a Member State, such payments may be treated as payments to the individuals and the EU Savings Directive will apply. Member States are required to implement legislation giving effect to these changes by January 1, 2016 (which such legislation must apply by January 1, 2017).

### **Brazilian Taxation**

The following discussion is a general description of certain Brazilian tax aspects of the New Notes applicable to a holder of the New Notes that is an individual, entity, trust or organization that is not resident or domiciled in Brazil for purposes of Brazilian taxation (“Non-Resident Holder”) and does not purport to be a comprehensive description of all the tax aspects of the New Notes. Therefore, each Non-Resident Holder should consult his/her/its own tax advisor concerning the Brazilian tax consequences in respect of the New Notes.

Investors should note that, as to the discussions below, other income tax rate or treatment may be provided for in any applicable tax treaty between Brazil and the country where the Non-Resident Holder is domiciled. Investors



should also note that there is no tax treaty between Brazil and the United States. This summary does not address any tax issues that affect solely our company, such as deductibility of expenses.

#### ***Payments on the New Notes Made by the Issuer***

Generally, a Non-Resident Holder is taxed in Brazil only when income is derived from Brazilian sources or gains are realized on the disposition of assets located in Brazil. In this circumstance, other income tax rates may be provided for in an applicable tax treaty between Brazil and the country of residence of the beneficiary. Therefore, based on the fact that the issuer is not considered for tax purposes to be domiciled in Brazil, any income (including interest and original interest discount, or OID, if any) paid by it in respect of the New Notes to Non-Resident Holders will not be subject to withholding or deduction in respect of Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with funds held by the issuer outside of Brazil.

#### ***Payments on the New Notes Made by Tonon as Guarantor***

If Tonon is ever required, in its capacity as guarantor, to make any payment under the units (including principal or interest) to a Non-Resident Holder, the Brazilian tax authorities could attempt to impose withholding income tax at the rate of 15% or 25% (depending on the nature of the payment and the location of the Non-Resident Holder).

In the event that Tonon is required to withhold or deduct amounts for any taxes or other governmental charges imposed by Brazil, Tonon will be allowed under Brazilian laws to pay such additional amounts as may be necessary to ensure that the net amount to be received by the Non-Resident Holder after the assessment of withholding income tax will equal the amounts that would have been paid in the absence of such withholding.

#### ***Capital Gains***

Capital gains generated outside Brazil as a result of a transaction between two non-residents of Brazil with respect to assets located in Brazil are subject to income tax in Brazil, according to Article 26 of Law No. 10,833, enacted on December 29, 2003 (“Law 10,833/03”).

Although the issuer believes that the New Notes do not fall within the definition of assets located in Brazil for purposes of Law No. 10,833/03, considering the general and unclear scope of this legislation and the absence of judicial guidance in respect thereof, the issuer is unable to predict how Law No. 10,833/03 would be interpreted in the Brazilian courts. If such courts were to determine that the New Notes constitute assets located in Brazil, gains realized by a Non-Resident Holder from the sale or other disposition of the New Notes to a Brazilian resident or even to a non-resident of Brazil will be subject to income tax in Brazil at a rate of 15% (or 25% if such Non-Resident Holder is located in a Low or Nil Tax Jurisdiction).

#### ***Discussion on Low or Nil Tax Jurisdiction***

On June 23, 2008, Law No. 11,727 enlarged the scope of Low or Nil Tax Jurisdiction and introduced the concept of “privileged tax regime,” which is considered to be a regime that (1) does not tax income or taxes income at a maximum rate of 20%; (2) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or dependency, or (b) conditioned on the non-exercise of a substantial economic activity in the country or dependency; (3) does not tax income generated outside the jurisdiction, or tax such income at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of goods and rights or the economic transactions carried out.

In addition, on June 4, 2010, the Brazilian Tax Authorities enacted Ordinance No. 1,037, as amended, listing (1) the countries and jurisdictions considered Low or Nil Tax Jurisdictions, and (2) the privileged tax regimes. Although the interpretation of the current Brazilian tax legislation could lead to the conclusion that such concept of “privileged tax regime” should apply only for purposes of Brazilian transfer pricing and thin capitalization/cross border interest deductibility rules, it is still not clear whether this “privileged tax regime” concept will also be applied to interest and payments made to Non-Resident Holders in respect of the New Notes.

Therefore, if the Brazilian tax authorities determine that interest payments on the New Notes will be made to a recipient and/or capital gain that will benefit from a “privileged tax regime,” such payments could be subject to Brazilian withholding tax at a rate of 25%. Potential investors should consult with their own tax advisors regarding

the consequences of the implementation of Law No. 11,727, Ordinance No. 1,037 and of any related Brazilian tax law or regulation concerning Low or Nil Tax Jurisdiction and “privileged tax regimes.”

### ***Other Tax Considerations***

Pursuant to Decree No. 6,306, of December 14, 2007 (as amended from time to time), the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais* are subject to the tax on foreign exchange transactions (“IOF/Exchange”).

Currently, the IOF/Exchange tax rate varies according to the nature and conditions of the relevant transaction, being generally due at 0.38%.

As a general rule, foreign exchange transactions in connection with cross border loans and financings, for both the inflow and outflow of proceeds into and from Brazil, are currently subject to IOF/Exchange tax at a rate of 0%. However, foreign exchange transactions entered into as of October 7, 2014 in connection with the inflow of proceeds to Brazil deriving from cross-border loans or financings or international securities issuances, subject to registration with the Central Bank and with the minimum average term of 180 days or less (accordingly to article 15B, XII, of the Decree 6,306/07), will be subject to IOF/Exchange tax at a rate of 6% (which will be levied with penalties and interest in case of cross-border loans or financings or international securities with minimum average term longer than 180 days with respect to which an early redemption occurs affecting such minimum average term). The outflow of proceeds on such cross-border loans or financings or international bond issuances currently remains subject to the IOF/Exchange tax at a rate of 0%.

The Brazilian government can increase such rate at any time up to a rate of 25%, but only with respect to future foreign exchange transactions. In any event, any IOF/Exchange relating to cross-border loans and financings or international notes issuances would be borne by the Brazilian borrower/issuer.

### ***Stamp, Transfer or Similar Taxes***

Generally, there are no stamp, transfer or other similar taxes in Brazil applicable to the transfer, assignment or sale of the New Notes outside Brazil, nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the New Notes, except for gift and inheritance taxes imposed in some states of Brazil on gifts and bequests by a Non-Resident Holder to individuals or entities domiciled or residing within such Brazilian states.

**THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF THE NEW NOTES. PROSPECTIVE PURCHASERS OF THE NEW NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.**

### **Certain U.S. Federal Income Tax Considerations**

The following is a description of certain U.S. federal income tax consequences related to the Exchange Offer and Consent Solicitation and the ownership and disposition by exchanging U.S. Holders (as described below) of the New Notes. This discussion applies only to U.S. Holders that hold Existing Notes and, if applicable, New Notes as capital assets (generally, assets held for investment), and does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including alternative minimum tax and Medicare contribution tax consequences, as well as differing tax consequences that may apply to U.S. Holders subject to special rules, such as

- certain financial institutions,
- insurance companies,
- regulated investment companies,
- dealers or traders in securities who use a mark to market method of tax accounting,
- persons holding Existing Notes or New Notes as part of a straddle or integrated transaction or persons entering into a constructive sale with respect to Existing Notes or New Notes,

- tax-exempt entities,
- persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar, or
- entities classified as partnerships for U.S. federal income tax purposes.

If a partnership or other entity that is classified as a partnership for U.S. federal income tax purposes holds Existing Notes or New Notes, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partnerships holding Existing Notes or New Notes and partners therein should consult their tax advisers as to the U.S. federal income tax consequences of the Exchange Offer and Consent Solicitation and the ownership and disposition of the New Notes.

This summary is based on the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury regulations (the “Regulations”) as of the date hereof, changes to any of which subsequent to the date of this Exchange Offer Memorandum and Consent Solicitation Statement may affect the tax consequences described herein. This summary does not address any aspect of state, local or non-U.S. taxation, or any taxes other than income taxes. Holders should consult their tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations, as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

As used herein, the term “U.S. Holder” means a beneficial owner of an Existing Note, or a New Note received in exchange for an Existing Note in the Exchange Offer, that is for U.S. federal income tax purposes: (i) an individual who is a citizen or resident of the United States; (ii) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or (iii) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

#### ***Tax Considerations for Exchanging U.S. Holders***

The tax consequences of the exchange of Existing Notes for New Notes pursuant to the Exchange Offer will depend on whether the exchange is treated as resulting in a “significant modification” of the Existing Notes, and thus, subject to the discussion in the next paragraph, a taxable exchange of the Existing Notes for New Notes. The exchange of Existing Notes for New Notes pursuant to the exchange offer will constitute a significant modification of the Existing Notes if, based on all of the relevant facts and circumstances and taking into account all modifications of the Existing Notes collectively, the legal rights or obligations of exchanging holders are altered in an “economically significant” manner as determined under the Regulations. Based on the differences in the yield of the Existing Notes and the New Notes, we expect that the exchange of Existing Notes for New Notes pursuant to the Exchange Offer will constitute a significant modification of the Existing Notes, and the balance of the discussion assumes that the exchange of Existing Notes for New Notes constitutes a significant modification.

If the exchange of Existing Notes for New Notes is treated as a significant modification, a U.S. Holder will recognize gain or loss on the exchange (subject in the case of loss to the potential application of the “wash sale” rules) unless the exchange is treated as a recapitalization for U.S. federal income tax purposes. The exchange will be treated as a recapitalization within the meaning of Section 368(a)(1)(E) of the Code if both the Existing Notes and the New Notes constitute “securities” within the meaning of the provisions of the Code governing reorganizations. This, in turn, depends upon the terms and conditions of, and other facts and circumstances relating to, the Existing Notes and the New Notes. The term of the instrument is usually regarded as one of the most significant factors for the determination of whether notes are “securities” for U.S. federal income tax purposes. Instruments with a term of five years or less generally have not qualified as securities, whereas instruments with a term of ten years or more generally have qualified. The Internal Revenue Service (“IRS”) has publicly ruled that a debt instrument with a term of two years may be a “security” if received in a reorganization in exchange for an instrument having substantially the same maturity date and terms (other than interest rate) where the original instrument was a “security” with a term of more than five years. Holders should consult their tax advisers regarding the possibility that the exchange will be treated as a recapitalization for U.S. federal income tax purposes.

If the exchange is properly treated as a recapitalization for U.S. federal income tax purposes, a U.S. Holder that tenders its Existing Notes will not recognize any gain or loss in respect of the exchange. The holding period for the New Notes received will include the period of time during which the U.S. Holder held the corresponding Existing

Notes, and the initial tax basis in the New Notes will equal the adjusted tax basis in the Existing Notes immediately prior to the exchange.

If the exchange of Existing Notes for New Notes does not qualify as a recapitalization for U.S. federal income tax purposes, a U.S. Holder would recognize gain or loss (subject in the case of loss to the potential application of the “wash sale” rules) equal to the difference, if any, between the amount realized on the exchange and the U.S. Holder’s adjusted tax basis in the Existing Notes. The amount realized would be equal to the issue price of the New Notes received (determined as described below). Subject to the application of the market discount rules discussed below, any gain or loss would be capital gain or loss, and would be long-term capital gain or loss if at the time of the exchange the Existing Notes have been held for more than one year. The deduction of capital losses for U.S. federal income tax purposes is subject to limitations. Any gain or loss would generally be U.S.-source income for purposes of computing a U.S. Holder’s foreign tax credit limitation. A U.S. Holder’s holding period for a New Note received in the exchange would commence on the date immediately following the date of the exchange and the holder’s initial tax basis in the New Note would be the issue price of the New Note (determined as described below).

If an exchange is treated as a wash sale within the meaning of Section 1091 of the Code (and not as a recapitalization), any loss recognized by a U.S. Holder resulting from the exchange would be deferred. U.S. Holders should consult their own tax advisers regarding whether the exchange may be subject to the wash sale rules.

If a U.S. Holder holds an Existing Note acquired at a “market discount,” any gain recognized by the U.S. Holder on the exchange of such Existing Note for a New Note will be recharacterized as ordinary interest income rather than capital gain to the extent of the accrued market discount that had not previously been included as ordinary income. A U.S. Holder will be treated as having acquired an Existing Note at a “market discount” if the U.S. Holder’s initial tax basis in the Existing Notes is less than its principal amount, unless this difference was less than a specified *de minimis* amount.

#### The New Notes

*Classification of the New Notes.* There are circumstances in which we may, at our option, defer payments of interest on a New Note in a manner that would change the yield of the New Note, as described in the Exchange Offering Memorandum and Consent Solicitation under “Description of Notes—Principal, Maturity and Interest.” As a result of our right to defer interest on the New Notes, the New Notes are likely to be treated as contingent payment debt instruments for U.S. federal income tax purposes (“CPDIs”).

The rules governing the U.S. federal income tax consequences of holding a CPDI are complex. Holders should consult their tax advisers regarding the application of these rules to their particular circumstances. The remainder of this discussion assumes that the New Notes are contingent payment debt instruments.

*Interest Accruals on the New Notes.* A U.S. Holder will generally be required to accrue interest on the New Notes at the comparable yield (as described below). For purposes of determining the amount of interest a U.S. Holder is required to include in such U.S. Holder’s income each year, these amounts must be adjusted as described under “—Adjustments to Interest Accruals on the New Notes to Reflect the Difference Between Basis and Adjusted Issue Price” and “—Adjustments to Interest Accruals on the New Notes to Reflect Actual Payments.” Interest income earned by a U.S. Holder with respect to a New Note will constitute foreign-source income for foreign tax credit purposes. Subject to applicable limitations, some of which may vary depending upon the U.S. Holder’s particular circumstances, foreign income taxes withheld from interest income on a New Note generally will be creditable against the U.S. Holder’s U.S. federal income tax liability.

Under the CPDI Regulations, a U.S. Holder must accrue an amount of ordinary interest income, as original issue discount (“OID”) for U.S. federal income tax purposes, for each accrual period prior to and including the maturity date of the New Notes that equals the product of:

- the adjusted issue price (as described below) of the New Notes as of the beginning of the accrual period;
- the comparable yield (as described below) of the New Notes, adjusted for the length of the accrual period; and

- a fraction, the numerator of which is the number of days during the accrual period that the U.S. Holder held the New Notes and the denominator of which is the number of days in the accrual period.

The “adjusted issue price” of a New Note is generally its issue price increased by any interest income previously accrued, generally determined without regard to any adjustments to interest accruals described below, and decreased by the projected amount of any payments (in accordance with the projected payment schedule described below) previously made with respect to the New Notes. The issue price of the New Notes will depend on whether they are “publicly traded” within the meaning of applicable Regulations. If the New Notes are publicly traded, their issue price will equal their fair market value on the date of the exchange. If the Existing Notes are publicly traded but the New Notes are not, the issue price of the New Notes will equal the fair market value of the Existing Notes on the date of the deemed exchange. We expect the New Notes to be publicly traded within the meaning of the applicable Regulations, and therefore that the issue price of the New Notes on the exchange will be equal to the fair market value of the New Notes on the date of the exchange.

As used in the CPDI Regulations, the term “comparable yield” means the greater of (i) the annual yield we would pay, as of the issue date, on a fixed-rate, nonconvertible debt instrument with no contingent payments, but with terms and conditions otherwise comparable to those of the New Notes, including the level of subordination, term, timing of payments and general market conditions, but excluding any adjustments for the riskiness of the contingencies or the liquidity of the New Notes and (ii) the applicable federal rate.

The CPDI Regulations require that we provide to U.S. Holders, solely for U.S. federal income tax purposes, a schedule of the projected amounts of payments (the “projected payment schedule”) on the New Notes. This schedule must produce a yield to maturity that equals the comparable yield.

U.S. Holders may obtain the comparable yield for the New Notes, and the related projected payment schedule, by submitting a written request for this information to us at:

Rodovia Jaú-Araraquara, Km. 129, CP-7,  
Fazenda Santa Cândida, Distrito Rural  
17240-000, Bocaina – SP Brazil

For U.S. federal income tax purposes, a U.S. Holder of a New Note is required to use the comparable yield and projected payment schedule established by us in determining interest accruals and adjustments in respect of a New Note, unless the U.S. Holder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

**The comparable yield and the projected payment schedule will not be used for any purpose other than to determine a U.S. Holder’s interest accruals and adjustments thereto in respect of a New Note for U.S. federal income tax purposes. They will not constitute a projection or representation by us regarding the actual amounts that will be paid on a New Note.**

*Adjustments to Interest Accruals on the New Notes to Reflect Actual Payments.* If, during any taxable year, a U.S. Holder receives actual payments with respect to the New Notes (which, for this purpose, include any foreign taxes withheld from such payments and any Additional Amounts paid with respect thereto) that, in the aggregate, exceed the total amount of projected payments for that taxable year, such U.S. Holder will incur a “net positive adjustment” equal to the amount of such excess. The net positive adjustment will be treated as additional interest income in that taxable year.

If a U.S. Holder receives in a taxable year actual payments with respect to the New Notes that, in the aggregate, are less than the amount of projected payments for that taxable year, such U.S. Holder will incur a “net negative adjustment” equal to the amount of such deficit. This net negative adjustment will (a) reduce the U.S. Holder’s interest income on the New Notes for that taxable year, and (b) to the extent of any excess after the application of (a), give rise to an ordinary loss to the extent of the U.S. Holder’s interest income on the New Notes during prior taxable years, reduced to the extent such interest was offset by prior net negative adjustments. Any net negative adjustment in excess of the amounts described in (a) and (b) will be carried forward as a negative adjustment to offset future interest income with respect to the New Notes or to reduce the amount realized on a sale, exchange, redemption or other disposition of the New Notes.

*Adjustments to Interest Accruals on the New Notes to Reflect the Difference Between Basis and Adjusted Issue Price.* Assuming the exchange is treated as a tax-free recapitalization, a U.S. Holder's basis in a New Note will likely differ from the adjusted issue price of the New Note. In such event, a U.S. Holder will generally be required to adjust its interest income on the New Note to account for the difference between the U.S. Holder's basis in the New Note and the adjusted issue price of the New Note at the time the U.S. Holder acquires it. If the U.S. Holder's basis in the New Note exceeds its adjusted issue price, the amount of the difference is treated as a negative adjustment to the amount of interest that such U.S. Holder would otherwise accrue and include in income each year. If the U.S. Holder's basis in the New Note is less than its adjusted issue price, the amount of the difference is treated as a positive adjustment. Such adjustments are made on the date the daily portion of interest accrues. On the date of the adjustment, the U.S. Holder's adjusted tax basis in the New Note is reduced by the amount of negative adjustment or increased by the amount of positive adjustment, as the case may be. U.S. Holders should consult their tax advisers with respect to these adjustments.

*Sale, Exchange, Redemption or Other Disposition of New Notes.* Generally, a U.S. Holder will recognize gain or loss upon the sale, exchange, redemption or other disposition of a New Note equal to the difference between (a) the amount received by the U.S. Holder (the "amount realized") and (b) the U.S. Holder's adjusted tax basis in the New Note. As previously discussed under "—Adjustments to Interest Accruals on the New Notes to Reflect Actual Payments," to the extent a U.S. Holder had any net negative adjustment carry-forward, such U.S. Holder may use such net negative adjustment carry-forward from a previous year to reduce the amount realized on the sale, exchange, redemption or other disposition of the New Notes.

A U.S. Holder's adjusted tax basis in a New Note generally will be equal to its initial tax basis for the New Note (as described above), increased by any interest income previously accrued (determined without regard to any adjustments to interest accruals described under "—Adjustments to Interest Accruals on the New Notes to Reflect Actual Payments," but taking into account the adjustments discussed in "—Adjustments to Interest Accruals on the New Notes to Reflect the Difference Between Basis and Adjusted Issue Price") and decreased by the amount of any projected payments that previously have been scheduled to be made in respect of the New Notes (without regard to the actual amount paid).

Any gain realized by a U.S. Holder will be ordinary income, and any loss will generally be ordinary loss to the extent of the excess of previous interest inclusions over the total net negative adjustments previously taken into account, and thereafter will be capital loss (which will be long-term capital loss if the New Note has been held for more than one year). Holders should consult their own tax advisers regarding the source of any gain or loss for U.S. foreign tax credit purposes.

*Substitution of Issuer.* Subject to certain limited exceptions set forth in the applicable Regulations, the substitution of another obligor in our place as the principal debtor under the New Notes, as described in "Description of the Notes—Substitution of the Issuer," will generally be deemed for U.S. federal income tax purposes to be an exchange of New Notes for new notes by the U.S. Holders thereof, which may result in recognition of taxable gain or loss for U.S. federal income tax purposes and possibly other adverse tax consequences. Holders should consult their own tax advisers regarding the U.S. federal, state and local income tax consequences of such a substitution.

#### ***Tax Considerations for Non-Exchanging U.S. Holders***

If the Proposed Amendments are adopted, the U.S. federal income tax consequences to non-exchanging U.S. Holders will depend on whether the adoption of the Proposed Amendments is treated as resulting in a significant modification of the Existing Notes. See "—Tax Considerations for Exchanging U.S. Holders" above for a discussion of what constitutes a significant modification. The Regulations provide that a modification of a debt instrument that adds, deletes or alters customary accounting or financial covenants is not a significant modification. If the adoption of the Proposed Amendments is treated as resulting in a significant modification of the Existing Notes, non-exchanging U.S. Holders will be deemed to have exchanged their Existing Notes ("old Existing Notes") for new notes ("new Existing Notes") for U.S. federal income tax purposes.

Although the matter is not free from doubt, we intend to take the position that the adoption of the Proposed Amendments does not constitute a significant modification of the Existing Notes under the Regulations, and therefore will not result in a deemed exchange of the old Existing Notes for new Existing Notes for U.S. federal income tax purposes.

If there is not a deemed exchange of Notes, a non-exchanging U.S. Holder will not recognize gain or loss as a result of the adoption of the Proposed Amendments, and the U.S. Holder will have the same adjusted tax basis in, and holding period for, the new Existing Notes following the adoption of the Proposed Amendments as the U.S. Holder had immediately prior to the exchange.

Even if the adoption of the Proposed Amendments were to constitute a significant modification of the old Existing Notes, a non-tendering U.S. Holder would not recognize gain or loss if the deemed taxable exchange qualified as a tax-free recapitalization for U.S. federal income tax purposes. See “—Tax Considerations for Exchanging U.S. Holders” above for a discussion of the conditions for qualification as a tax-free recapitalization.

**Holders are encouraged to consult their own tax advisers as to the consequences of the adoption of the Proposed Amendments.**

***Information Reporting and Backup Withholding***

Information returns may be required to be filed with the IRS in connection with payments made with respect to the Exchange Offer and Consent Solicitation and payments on the New Notes and proceeds received from a sale or other disposition of the New Notes unless a U.S. Holder is an exempt recipient. A U.S. Holder may also be subject to backup withholding on these payments unless the U.S. Holder provides a correct taxpayer identification number and otherwise complies with applicable requirements of the backup withholding rules, or provides proof of an applicable exemption. Amounts withheld under the backup withholding rules are not additional taxes and may be refunded or credited against a U.S. Holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

## **INDEPENDENT AUDITORS**

Our financial statements as of and for the years ended March 31, 2015 and 2014, included elsewhere in this offering memorandum have been audited by KPMG Auditores Independentes, or KPMG, independent auditors, as stated in their report appearing herein. The report of KPMG with respect to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014, included elsewhere in this offering memorandum, contains an emphasis paragraph stating that, as of March 31, 2015, our total current liabilities exceeded our total current assets by R\$357.5 million, that our shareholders' equity was a negative R\$370.0 million and that our net loss for the fiscal year was R\$647.6 million. Accordingly, KPMG have stated that there are significant uncertainties regarding Tonon's ability to continue as a going concern. See note 1 to our audited financial statements as of and for the fiscal years ended March 31, 2015 and 2014, included elsewhere in this offering memorandum, for a detailed explanation of the measures we are adopting to address these issues.

Our financial statements as of and for the years ended March 31, 2014 and 2013, included elsewhere in this offering memorandum have been audited by KPMG, independent auditors, as stated in their report appearing herein.

KPMG is an independent auditor registered under number CRC 2SP014428/O-6 with the Regional Accounting Council of the state of São Paulo (*Conselho Regional de Contabilidade do Estado de São Paulo*), or CRC-SP.



## LISTING AND GENERAL INFORMATION

1. The New Notes have been accepted for clearance and settlement through DTC, Euroclear and Clearstream.
2. We intend to apply to admit the New Notes on the Global Exchange Market of the Irish Stock Exchange. We estimate that total expenses related to application for trading will be €4,940.
3. Copies of our audited annual financial statements for the last three fiscal years, and copies of the *estatuto social* (by-laws) of the guarantor and of the articles of incorporation of the issuer, as well as the indenture (including forms of New Notes and the New Notes Guarantee), will be available (free of charge) at the offices of any paying agent. For the life of the listing particulars, the documents referred to in this paragraph may be inspected, by physical or electronic means.
4. Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position, any material change with respect to the prospects affecting our business, or any significant change in our financial or trading position, since March 31, 2015, the date of the latest audited financial statements included in this offering memorandum.
5. Except as disclosed in this offering memorandum, we are not involved in any governmental litigation or arbitration proceedings relating to claims or amounts during the last 12 months that have had a significant effect on our financial position since March 31, 2015, nor so far as we are aware is any such governmental litigation or arbitration pending or threatened.
6. We intend to apply to list and admit the New Notes for trading on the Global Exchange Market of the Irish Stock Exchange. We will comply with any undertakings assumed or undertaken by us from time to time to the Global Exchange Market of the Irish Stock Exchange in connection with the New Notes, and we will furnish to them all such information as the rules of the Global Exchange Market of the Irish Stock Exchange may require in connection with the listing of the New Notes.

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**Tonon Bioenergia S.A.**

**Financial statements**

**March 31, 2015**

(A free translation of the original report in Portuguese containing  
Financial Statement prepared in accordance with accounting practices  
adopted in Brazil)

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## Independent auditors' report on financial statements

To  
The Executive Board and Shareholders of  
Tonon Bioenergia S.A.  
Bocaina - SP

We examined the individual and consolidated financial statements of Tonon Bioenergia SA ("Company"), identified as Company and Consolidated, respectively, which comprise the balance sheet as of March 31, 2015 and the related statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of the accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil (BR GAAP) and International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the internal controls who determines is necessary to enable the preparation of free from material misstatement financial statements, whether due to fraud or error.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, conducted in accordance with Brazilian and international auditing standards. Those standards require that we comply with ethical requirements by the auditors and that the audit is planned and performed in order to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement in the financial statements, whether due to fraud or error. In this risk assessment, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls of the Company. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements taken as a whole.

We believe that the audit evidence obtained is sufficient and appropriate for expressing our opinion.

**Opinion on the individual financial statements**

In our opinion, the aforementioned individual financial statements present fairly, in all material respects, the financial position of Tonon Bioenergia S.A. on March 31, 2015, the performance of its operations and cash flows for the year then ended date in accordance with accounting practices adopted in Brazil (BR GAAP).

**Opinion on the consolidated financial statements**

In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects the consolidation financial pontos of Tonon Bioenergia S.A. a March 31, 2015, the performance of its operations and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil (BR GAAP) and International financial Reporting Standards (IFRS) issued by the International accounting standards Board (IASB).

**Emphasis on the financial statements**

Without modifying our opinion, we draw attention to Note 1 to the financial statements which management is taking procedures to improve the cash flow generation and improving their working capital. On March 31, 2015, the Company's current liabilities exceeded the consolidated current assets of R\$ 354,502 million, individual R\$ 354,540 million, the equity is negative R\$ 370,235 million and the loss for the year R\$ 647,623 thousand. These conditions indicate the existence of significant uncertainty and significant doubt about the Company's ability to continue operating.

Ribeirão Preto, 01 june, 2015

KPMG Auditores Independentes  
CRC 2SP014428/O-6  
*Original report in Portuguese signed by*  
André Luiz Monaretti  
Accountant CRC 1SP160909/O-3

Giovani Ricardo Pigatto  
Accountant CRC 1SP263189/O-7

## Tonon Bioenergia S.A.

### Balance sheets March 31, 2015 and 2014

(In thousands of reais)

		<u>Consolidated</u>	<u>Parent company</u>	
Assets	Note	2015	2015	2014
Cash and cash equivalents	12	38,741	39,191	79,844
Other investments	13	14	14	15,474
Trade accounts receivable	14	21,236	21,236	7,549
Inventories	15	54,536	54,536	53,146
Advances to suppliers	16	32,920	32,920	75,968
Prepaid expenses		288	288	479
Recoverable taxes	17	13,034	13,034	50,051
Non-current assets held for sale	18	-	-	3,028
Income and social contribution taxes		151	151	151
Other accounts receivable		48	48	465
<b>Total current assets</b>		<b>160,968</b>	<b>161,418</b>	<b>286,155</b>
<b>Long-term assets</b>				
Prepaid expenses		25	25	39
Other investments	13	3,694	3,694	38,139
Advances to suppliers	16	100,539	100,539	37,065
Deferred tax assets	19	249,654	249,654	18,660
Recoverable taxes	17	33,508	33,508	2,703
Judicial deposits		4,813	4,813	5,302
		392,233	392,233	101,908
<b>Investments</b>	20	2,430	2,430	4,095
<b>Property, plant and equipment</b>	21	614,501	614,501	594,636
<b>Biological assets</b>	22	823,880	823,880	740,067
<b>Intangible assets</b>	23	150,724	150,724	138,807
<b>Total non-current assets</b>		<b>1,983,768</b>	<b>1,983,768</b>	<b>1,579,513</b>
<b>Total assets</b>		<b>2,144,736</b>	<b>2,145,185</b>	<b>1,865,668</b>

		<u>Consolidated</u>	<u>Parent company</u>	
Liabilities	Note	2015	2015	2014
Suppliers	24	115,300	115,300	98,053
Derivative financial instruments		1,218	1,218	2,115
Loans and financing	25	303,107	303,098	568,861
Salaries and social security charges		18,873	18,873	28,705
Taxes payable	26	2,349	2,349	2,847
Taxes in installments	27	8,128	8,128	6,317
Advances from clients	28	63,648	63,648	22,760
Other accounts payable		2,847	3,343	7,494
<b>Total current liabilities</b>		<b>515,470</b>	<b>515,957</b>	<b>737,152</b>
Suppliers	24	2,069	2,069	4,075
Loans and financing	25	1,811,906	1,811,868	796,576
Advances from clients	28	159,233	159,233	57,252
Provision for contingencies	29	7,570	7,570	10,354
Taxes in installments	27	18,723	18,723	6,920
<b>Total non-current liabilities</b>		<b>1,999,501</b>	<b>1,999,463</b>	<b>875,177</b>
<b>Shareholders' equity</b>				
Capital		104,753	104,753	88,265
Advances for future capital increase		50,000	50,000	50,000
Legal reserve		993	993	993
Capital reserve		167,216	167,216	167,216
Goodwill special reserve		34,806	34,806	34,806
Revaluation reserve		4,309	4,309	5,175
Equity valuation adjustment		73,959	73,959	81,973
Accumulated losses		(806,271)	(806,271)	(175,088)
<b>Total shareholders' equity</b>	32	<b>(370,235)</b>	<b>(370,235)</b>	<b>253,340</b>
<b>Total liabilities</b>		<b>2,514,971</b>	<b>2,515,420</b>	<b>1,612,328</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,144,736</b>	<b>2,145,185</b>	<b>1,865,668</b>

See the accompanying notes to the financial statements.

# Tonon Bioenergia S.A.

## Statements of income

Year ended March 31, 2015 and 2014

(In thousands of reais)

		Consolidated		Parent company	
	Note	2015	2014	2015	2014
Net revenue	33	731,852	804,551	731,852	644,960
Cost of sales		(736,590)	(678,759)	(736,590)	(549,501)
Change in fair value of biological assets	22	110,038	51,829	110,038	48,586
<b>Gross income</b>		<b>105,300</b>	<b>177,621</b>	<b>105,300</b>	<b>144,045</b>
Administrative expenses	34	(6,380)	(17,151)	(6,380)	(11,169)
Sales expenses	34	(48,416)	(53,724)	(48,416)	(48,677)
General expenses	34	(26,510)	(17,979)	(26,510)	(18,578)
Equity in net income of subsidiaries	20	(1,665)	(946)	(2,258)	(13,962)
Other operating income (expenses), net	34	(6,112)	10,152	(6,112)	5,689
		<b>(89,083)</b>	<b>(79,648)</b>	<b>(89,676)</b>	<b>(86,697)</b>
<b>Income before net financial income (expenses) and taxes</b>		<b>16,217</b>	<b>97,973</b>	<b>15,625</b>	<b>57,348</b>
Financial income	35	1,355,090	289,319	1,029,766	264,672
Financial expenses	35	(2,253,817)	(597,581)	(1,927,900)	(521,637)
<b>Financial income (expenses), net</b>	35	<b>(898,727)</b>	<b>(308,262)</b>	<b>(898,134)</b>	<b>(256,965)</b>
<b>Loss before taxes</b>		<b>(882,510)</b>	<b>(210,289)</b>	<b>(882,510)</b>	<b>(199,617)</b>
Deferred income and social contribution taxes	19	234,887	34,832	234,887	24,159
<b>Loss for the year</b>		<b>(647,623)</b>	<b>(175,458)</b>	<b>(647,623)</b>	<b>(175,458)</b>

See the accompanying notes to the financial statements.



## Tonon Bioenergia S.A.

### Statement of comprehensive income

Year ended March 31, 2015 and 2014

*(In thousands of reais)*

		<u>Consolidated</u>		<u>Parent company</u>	
	Note	2015	2014	2015	2014
Loss for the year		(647,623)	(175,458)	(647,623)	(175,458)
Net fair-value variation of financial assets held for sale		11,453	8,670	3,188 -	8,670
Income and social contribution taxes on other comprehensive incomes	19	<u>(3,894)</u>	<u>(2,948)</u>	<u>(1,084) -</u>	<u>(2,948)</u>
<b>Other comprehensive income, net of income and social contribution taxes</b>		<u>7,559</u>	<u>5,722</u>	<u>2,104</u>	<u>5,722</u>
<b>Total comprehensive income</b>		<u><b>(640,064)</b></u>	<u><b>(169,736)</b></u>	<u><b>(645,519)</b></u>	<u><b>(169,736)</b></u>

See the accompanying notes to the financial statements.

Tonon Bioenergia S.A.

Statement of changes in shareholders’ equity

Year ended March 31, 2015 and 2014

(In thousands of reais)

					Profit reserve					
Note	Capital	Advances for future capital increase	Capital reserve	Goodwill special reserve	Legal reserve	Unrealized profit reserve	Revaluation reserve	Equity evaluation adjustment	Accumulated losses	Total
Balances at March 31, 2013	79,310	-	106,170	34,806	993	35,940	-	45,319	-	302,538
Capital increase	8,955	-	61,046	-	-	-	-	-	-	70,000
Other comprehensive income	-	-	-	-	-	5,722	-	-	-	5,722
Realization of deemed cost	-	-	-	-	-	8,814	-	(8,814)	-	-
Advances for future capital increase	-	50,000	-	-	-	-	-	-	-	50,000
Revaluation reserve - Merge	-	-	-	-	-	-	5,175	-	(5,175)	-
Carrying value adjustment - deemed cost - Merge	-	-	-	-	-	-	-	45,468	(45,468)	-
Loss for the year	-	-	-	-	-	538	-	-	(175,458)	(174,920)
Offset of accumulated losses	-	-	-	-	-	(51,013)	-	-	51,013	-
Balances at March 31, 2014	88,265	50,000	167,216	34,806	993	-	5,175	81,973	(175,088)	253,340
Balances at March 31, 2014	88,265	50,000	167,216	34,806	993	-	5,175	81,973	(175,088)	253,340
Capital increase	16,488	-	-	-	-	-	-	-	-	16,488
Other comprehensive incomes	-	-	-	-	-	7,559	-	-	-	7,559
Realization of deemed cost	-	-	-	-	-	8,014	-	(8,014)	-	-
Revaluation reserve – Merger	-	-	-	-	-	-	(866)	-	866	-
Loss for the year	-	-	-	-	-	-	-	-	(647,623)	(647,623)
Offset accumulated losses	-	-	-	-	-	(15,573)	-	-	15,573	-
Balances at March 31, 2015	32104,753	50,000	167,216	34,806	993	-	4,309	73,959	(806,271)	(370,235)

See the accompanying notes to the financial statements.

## Tonon Bioenergia S.A.

### Statement of cash flows – indirect method

Year ended March 31, 2015 and 2014

(In thousands of reais)

	Consolidated		Parent company	
	2015	2014	2015	2014
<b>Cash flows from operating activities</b>				
<b>Loss for the Year</b>	<b>(647,623)</b>	<b>(175,458)</b>	<b>(647,623)</b>	<b>(175,458)</b>
Adjusted by:				
Depreciation of fixed assets	41,185	41,812	41,185	34,047
Amortization of intangible assets	2,587	560	2,587	528
Off-season maintenance	134,976	79,857	134,976	72,216
Amortization of plantation and crop treatment	229,246	176,494	229,246	144,135
Change in fair value of biological assets	(110,038)	(51,829)	(110,038)	(48,586)
Allowance for doubtful accounts	(91)	(64)	(91)	-
Provision for contingencies	(2,784)	2,838	(2,784)	3,010
Deferred tax assets and liabilities	(234,887)	(34,832)	(234,887)	(24,159)
Interest and exchange variation on loans and financing	811,997	265,938	811,997	223,600
Change in fair value of derivative financial instruments	(897)	(4,868)	(897)	(7,457)
Residual value of disposed fixed assets	18,792	3,762	18,792	1,483
Goodwill adjustment	13,758	-	13,758	-
Equity in income of subsidiaries and associated companies	1,665	946	2,258	13,962
	<b>257,887</b>	<b>305,156</b>	<b>258,480</b>	<b>237,320</b>
<b>Changes in assets and liabilities</b>				
(Increase)/decrease in other investments	48,364	(13,145)	48,364	(4,908)
(Increase)/decrease in trade accounts receivable	(13,687)	(1,911)	(13,687)	17,557
(Increase)/decrease in inventories	(1,390)	(1,926)	(1,390)	(1,587)
(Increase)/decrease in advances to suppliers	(20,426)	(15,234)	(20,426)	(21,606)
(Increase)/decrease in prepaid expenses	205	226	205	118
(Increase)/decrease in recoverable taxes	6,212	(18,189)	6,212	(18,028)
(Increase)/decrease in other accounts receivable	417	1,188	417	1,208
(Increase)/decrease in judicial deposits	489	(1,899)	489	(1,920)
(Increase)/decrease in investments	1,665	-	1,665	-
Increase/(decrease) in suppliers	15,241	15,392	15,241	17,401
Increase/(decrease) in salaries and social security charges	(9,832)	4,137	(9,832)	2,910
Increase/(decrease) in taxes payable	(498)	(5,631)	(498)	(6,071)
Increase/(decrease) in advances from clients	142,869	69,860	142,869	53,550
Increase/(decrease) in other accounts payable	(4,152)	2,546	(4,152)	4,099
Increase (decrease) in taxes in installments	13,614	(11,394)	13,614	(7,339)
Interest paid on loans and financing	(146,544)	(135,429)	(146,544)	(115,838)
<b>Cash flow from operating activities</b>	<b>290,435</b>	<b>193,747</b>	<b>291,028</b>	<b>156,866</b>
<b>Cash flow from investment activities</b>				
Acquisition of Paraíso Bioenergia S.A.	-	(50,000)	-	(50,000)
Acquisition of Tonon Luxembourg S.A.	-	-	(96)	-
Capital increase in investees	-	-	-	(70,000)
Investment in fixed assets	(209,582)	(133,150)	(209,582)	(130,563)
Acquisition of intangible assets	(3,755)	(7,662)	(3,755)	(7,642)
Investment in biological assets	(203,021)	(241,364)	(203,021)	(216,700)
Cash and cash equivalents from merger	-	-	-	38,616
<b>Cash flow used in investment activities</b>	<b>(416,358)</b>	<b>(432,176)</b>	<b>(416,454)</b>	<b>(436,289)</b>
<b>Cash flow from financing activities</b>				
Loans and financing taken	753,841	229,456	753,794	224,780
Principal amortization in loans and financing	(669,020)	(216,220)	(669,020)	(170,098)
Capital increase	-	283	-	-
<b>Cash flow from financing activities</b>	<b>84,821</b>	<b>13,519</b>	<b>84,774</b>	<b>54,682</b>
<b>Net decrease of cash and cash equivalents</b>	<b>(41,103)</b>	<b>(224,910)</b>	<b>(40,653)</b>	<b>(224,742)</b>
<b>Statement of changes in cash and cash equivalents</b>				
At the end of exercise	38,741	79,844	39,191	79,844
At the beginning of exercise	79,844	304,754	79,844	304,586
<b>Net decrease of cash and cash equivalents</b>	<b>(41,103)</b>	<b>(224,910)</b>	<b>(40,653)</b>	<b>(224,742)</b>

See the accompanying notes to the financial statements.

## **Notes to the financial statements**

*(In thousands of reais)*

### **1 Operations**

Tonon Bioenergia S.A. is headquartered at Jaú-Araraçu Highway, kilometer 129, Santa Cândida Farm, in the town of Bocaina, State of São Paulo. Its operating structure is made up of three (3) units: one in the state of Mato Grosso do Sul, in the city of Maracajú, whose name is “Vista Alegre Unit”, and two in the State of São Paulo, where one is in the city of Brotas called “Paraíso unit” and the headquarters in the city of Bocaina called “Santa Cândida Unit”. The Company’s corporate purpose and main activity is the planting of sugar cane, the manufacture and sale of sugar, ethanol and other products derived from sugar cane; co-generation of electricity; agricultural exploitation of products and raw materials.

Nearly 75% of the sugarcane used in the manufacture of products comes from its own plantations and agricultural partnerships and 25% from third-party suppliers.

#### **(i) Tonon Luxembourg S.A.**

Tonon Luxemburgo S.A., a company established on May 7, 2014, headquartered at street Guillaume Kroll, 5, in Luxemburg, has as main activity the trading of sugar and ethanol.

#### **(ii) Company's Strategic Plan**

On March 31, 2015, the Company's current liabilities exceeded current assets by R\$ 354,502, net worth is negative by R\$ 370,235 and the loss for the year was R\$ 647,623. The main factors that led the Company in obtaining these figures were:

- Drought most important of all history took place in south-central caused loss of grinding 1.5 million tons, representing a decrease compared to the estimated 18.2% and lost revenue of R\$ 165 million;
- dollar against the real appreciation during the harvest period of 41.8%, generating a passive exchange variation of R\$ 670 million, knowing that this will reflect on cash only in their settlement (2019 and 2020);
- Brazilian economic situation has led to crop 14/15 one of the largest credit restrictions precisely at the time when the Company invested in expanding the unit Vista Alegre. Its installed capacity increased from 2.5 million installed capacity to 3.7 million. These investments were necessary for the Company to meet the expansion of cogeneration assets held by Brookfield. These expansion investments in unit Vista Alegre as well as investments in units Paraíso and Santa Cândida led the Company to spend 4.9 million own cane to an estimated 6.1 million own cane for the harvest 15/16.

The Company's management presented its strategic plan to the Board of Directors that was approved on March 23, 2015, where it is clear that the effects shown above will be reversed. The Company is actively working to restructure its short-term debt. The strategic plan includes a significant decrease in short-term debt through new borrowings, which are being negotiated with financial institutions and investors. These measures are badly needed to strengthen the capital structure. Success in achieving the objectives set in the strategic plan is based on the significant amount of assets available and unencumbered property of the Company.

## 2 Acquisition and merger of subsidiary

### a. Acquisition of subsidiary

On March 20, 2013 the Company entered into a purchase and sale contract of shares of Paraíso Bioenergia SA for an amount of R\$ 170 million with the individual sellers and FIP Terra Viva DGF. On April 10, 2013 the Company received final approval for the acquisition of the regulator CADE (Administrative Council for Economic Defense) and on May 3, 2013 the Company made a payment of R\$ 120 million consisting of R\$ 50 million in cash and R\$ 70 million of new shares issued for the FIP Terra Viva DGF. The remaining R\$ 50 million will be paid by the Company's option, in cash or by issuing new shares, as agreed in the purchase contract.

The Company determined the acquisition date of May 3, 2013 for accounting purposes in accordance with CPC 15 - Business Combinations and IFRS 3

The acquisition accounting related to measurement at fair value of the assets acquired, liabilities assumed and consideration transferred and their related disclosures are presented in the tables below:

#### ***Fair value adjustments of assets acquired and liabilities assumed***

<b>Balances at April 30, 2013</b>	<b>R\$</b>
Inventories	(547)
Property, plant and equipment	9,727
Intangible assets	16,856
Deferred taxes liabilities	(9,040)
Contingencies	(541)
<b>Total identifiable assets, net</b>	<b><u>16,455</u></b>

#### ***Goodwill on acquisition***

Goodwill recognized as the result of the acquisition was identified as follows:

<b>Total amount of consideration transferred</b>	<b>R\$</b>
Amount of the share purchase agreement	170,000
Shareholders' equity value of the acquired company prior to the acquisition	(39,621)
(-) Fair value of identifiable net assets	(16,455)
<b>Goodwill on acquisition</b>	<b><u>113,924</u></b>

The fair value of the acquired subsidiary was obtained through an appraisal report of the Company at market value, according to the usual evaluation techniques for this type of transaction.

Goodwill is mainly attributable to the increase in cash flow forecast for the coming years. In the Company's individual balance sheets and financial statements, the goodwill presented above is recorded in the investment's carrying amount and in intangible assets, respectively.

**b. Corporate restructuring - merger**

On September 30, 2013, the Company's Extraordinary Shareholders' Meeting decided and approved the merger of Paraíso Bioenergia S.A. ("Paraíso") by the Company, pursuant to the terms of the Merger Agreement.

This merger, whose base date is September 30, 2013, is included in the project for simplifying the corporate structure of Tonon Bioenergia S.A. and should yield the reduction of operating, administrative and financial costs. As a result of this merger, Paraíso was dissolved, for all due purposes, and the Company became its successor.

Paraíso's shareholders' equity was evaluated on July 31, 2013, based on its book value, as worth R\$ 80,050, in accordance with the Accounting Appraisal Report for Merger Purposes issued by a specialist independent company. Appraised accounting net asset is as follows:

Asset	07/31/2013
Cash and cash equivalents	5,646
Other investments	3,650
Trade accounts receivable	22,859
Inventories	16,619
Advances to suppliers	23,749
Prepaid expenses	267
Recoverable taxes	4,836
Financial loan	15,989
<b>Total current assets</b>	<b>93,615</b>
Other investments	108
Deferred tax assets	20,785
Recoverable taxes	301
Financial loan	242
Judicial deposits	325
Prepaid expenses	48
Property, plant and equipment	211,693
Biological assets	145,185
Intangible assets	613
<b>Total non-current assets</b>	<b>379,300</b>
<b>Total assets</b>	<b>472,915</b>
Liabilities	07/31/2013
Suppliers	38,194
Derivative financial instruments	10,404
Loans and financing	67,554
Salaries and social security charges	9,278
Taxes payable	4,394
Tax installments	5,465
Advances from clients	5,212
Other accounts payable	598
<b>Total current liabilities</b>	<b>141,099</b>
Suppliers	5,534
Loans and financing	240,244
Financial loan	83
Provision for contingencies	584
Tax installments	5,321
<b>Total non-current liabilities</b>	<b>251,765</b>
<b>Total liabilities</b>	<b>392,865</b>
<b>Net assets</b>	<b>80,050</b>

### 3 Group entities

The Company has an ownership interest, as follows:

Entity	City / State-Country		Equity interest			
			2015		2014	
			Direct	Indirect	Direct	Indirect
Auto Posto Santa Cândida Ltda (a)	Bocaina/SP-Brazil	Subsidiary	99%	-	100%	-
Tonon Luxembourg S.A. (b)	Luxembourg-Luxembourg	Subsidiary	100%	-	-	-
Energisa Bioeletricidade Santa Cândida I S.A. (c)	Bocaina/SP-Brazil	Associated company	-	-	-	-
Energisa Bioeletricidade Vista Alegre I S.A. (c)	Maracaju/MS-Brazil	Associated company	-	-	-	-

- (a) Financial statements have not been consolidated due to subsidiary's balances immateriality;
- (b) Tonon Luxembourg was responsible for receiving funds from bonds obtained on May 14, 2014 with transfers to the Parent company, Tonon Bioenergia. The financial statements were consolidated into the Parent company's financial statements.
- (c) Investment recorded at fair value. In September 2014 the total of shareholding in the companies was sold to Energisa Bioeletricidade S.A.

### 4 Basis of preparation

#### a. Statement of compliance

The consolidated and individual and consolidated financial statements were prepared in accordance with accounting practices generally accepted in Brazil (BR GAAP), which comprise Brazilian Corporation Law, the pronouncements, orientations and interpretations issued by the Accounting Pronouncements Committee (CPC) and rules issued by the Federal Accounting Council (CFC) and in accordance with International Financial Reporting Standards (IFRS). For consolidated financial statement.

The consolidated and individual financial statements were authorized by the Company's Directors on June 01, 2015.

Details on the Company's accounting policies, including changes during the year are set out in notes 9 and 8, respectively.

### 5 Functional currency and presentation currency

These financial statements are being presented in Brazilian Real, functional currency of the Company. All financial information presented in BRL has been rounded to the nearest thousand value, except otherwise indicated.

### 6 Use of estimates and judgments

The preparation of financial statements according to CPC standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses. The actual results could differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Reviews in relation to accounting estimates are recognized in the period in which the estimates are reviewed and in any future periods affected.

Information about critical judgment referring to the accounting policies adopted which impact the amounts recognized in the financial statements are included in the following notes:

- **Note 14** - Allowance for doubtful accounts;
- **Note 19** - Deferred tax assets and liabilities; and
- **Note 30** - Financial instruments.

#### **Uncertainties about assumptions and estimates**

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the next financial period are included in the following notes:

- **Note 21** - Useful life of the fixed asset;
- **Note 22** - Biological assets; and
- **Note 29** - Provision for contingencies.

#### ***Fair value measurement***

A number of the Company's accounting policies and disclosures requires the measurement of fair values for financial assets and financial and non-financial liabilities.

The Company establishes a control structure related to the measurement of fair values. This includes an assessment team that has overall responsibility for reviewing all significant fair value measurements, including the fair values of Level 3, and reports directly to the CEO.

The Compahia regularly reviews significant unobservable inputs and valuation adjustments. If the third-party information such as quotations from brokers or pricing services, is used to measure the fair value, then the assessment team reviews the evidence obtained from third parties to support the conclusion that such assessments meet the CPC requirements, including the level in the fair value hierarchy in which such assessments should be sorted.

In measuring the fair value of an asset or a liability, the Company uses observable market data as much as possible. Fair values are classified into different levels in a hierarchy based on the information (inputs) used in the valuation techniques as follows:

- **Level 1:** quoted prices (unadjusted) in active for assets and liabilities and identical markets.
- **Level 2:** *inputs*, except quoted prices included in Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices).
- **Level 3:** *inputs*, for the asset or liability that are not based on observable market data (unobservable inputs).

The Compahia recognizes transfers between levels of the fair value hierarchy at year-end financial statements in which the change occurred..



Additional information on the assumptions used in measuring the fair value are included in the following note:

- **Note 30** - Financial Instruments.

## **7 Basis of measurement**

The financial statements have been prepared under the historical cost, except for derivative financial instruments not designated at fair value through profit or loss.

## **8 Changes in accounting policies**

The Company evaluated the following new standards and revisions of pronouncements, with initial application date on January 1, 2014:

- (a) ICPC 19/ IFRIC 21 - Taxes;
- (b) CPC 38 / IAS 36 (Amendment) - Disclosures about impairment of non-financial assets; and
- (c) OCPC 7 - Notes.

The application of these changes did not impact on these financial statements.

### **Measurement basis**

The financial statements were prepared based on historical cost, except for the following material items in the balance sheets:

- Financial assets available for sale measured at fair value through profit or loss;
- Financial instruments measured at fair value through profit or loss;
- Biological assets measured at fair value less selling expenses; and
- Fixed assets valued at deemed cost.

## **9 Description of significant accounting policies**

The accounting policies described in detail below have been consistently applied to all the year presented in these financial statements.

### **a. Consolidation basis**

#### **(i) Subsidiaries**

The financial statements of subsidiaries are included in the consolidated financial statements as from the date they start to be controlled by the Company until the date such control ceases. The accounting policies of the subsidiaries are aligned with the policies adopted by the Group.

The financial information of subsidiaries is recognized under the equity method in the individual financial statements of the subsidiaries.

*Transactions eliminated in the consolidation*

Intragroup balances and transactions, and any income or expenses derived from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized gains originating from transactions with investee companies recorded using the equity method, are eliminated against the investment in the proportion of the Group's interest in the Investee entities. Unrealized losses are eliminated in the same way as unrealized gains, but only up to the point where there is no evidence of loss due to impairment.

**b. Foreign currency**

**(i) Foreign currency transactions**

Transactions in foreign currency are translated into the functional currency of the Company at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for interest and payments during the quarter, and the amortized cost in foreign currency translated at the foreign exchange rate at the reporting date.

**c. Financial instruments**

**(i) Non-derivative financial assets**

The Company recognizes the loans, receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognized on the date of the negotiation under which the Company becomes a party to the contractual provisions of the instrument.

The Company fails to recognize a financial asset when the contractual rights to the cash flow of the asset expire, or when the Company transfers the rights to the reception of contractual cash flows over a financial asset in a transaction in which essentially all the risks and benefits of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company classifies its financial assets under the following categories: measured at fair value through profit or loss and loans and receivables.

*Financial assets measured at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is held for trading, or stated as such when initially recognized. Financial assets are stated at fair value through profit or loss if the Company manages these investments and makes decisions on investment and redemption based on fair value according to the risk management and strategy of investment documented by the Company. The transaction costs are recognized in income (loss) when incurred. Financial assets recorded at fair value through profit or loss are measured at fair value and changes in the fair value of such assets are recognized in the income for the period.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments, but not quoted on any active market. Such assets are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, reduced by any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade accounts receivable, advances to suppliers, prepaid expenses and other accounts receivable.

*Financial assets available for sale*

Financial assets available for sale are non-derivative financial assets classified as available for sale or not classified in any of the prior categories. Equity instruments that do not have a quoted market price on an active market and whose fair value cannot be reliably measured should be measured at cost.

*Cash and cash equivalents*

Cash and cash equivalents comprise balances of cash and financial investments with original maturities of three months or less as of the contracting date, which are subject to an insignificant risk of change in value and are used to manage short-term obligations.

**(ii) *Non-derivative financial liabilities***

The Company recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized initially on the negotiation date on which the Company becomes a party to the contractual provisions of the instrument. The Company writes off a financial liability when its contractual obligations are discharged or canceled or expired.

The Company classifies non-derivative financial liabilities in the category of other financial liabilities. Such financial liabilities are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, these liabilities are measured at amortized cost using the effective interest rate method.

The Company has the following non-derivative financial liabilities: suppliers, loans and financing, advances from clients and other accounts payable.

Overdraft limits that have to be paid at sight and that form an integral part of cash management of the Company, are included as a component of cash and cash equivalents for purposes of the statement of cash flows.

**(iii) *Capital***

Common and preferred shares are classified as equity.

The compulsory minimum dividends, as established in the By-laws, are recognized as liabilities.

**(iv) *Derivative financial instruments***

The Company holds hedge derivative financial instruments to hedge its risk exposures to changes in foreign currency and prices. Embedded derivatives are separated from their main contracts and recorded individually if the economic characteristics and risks of the main contract and the embedded derivative are not intrinsically related; or an individual instrument in the same conditions of the embedded derivative meets the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

Derivatives are initially recognized at fair value. The attributable transaction costs are recognized in income (loss) when incurred. After the initial recognition, derivatives are measured at fair value and changes are recorded against the results.

**d. *Property, plant and equipment***

**(i) *Recognition and measurement***

Property, plant and equipment items are stated at historical acquisition or construction cost, net of accumulated depreciation and impairment losses, when applicable.

Purchased software that is integral to the functionality of a piece of equipment is capitalized as part of that equipment.

When parts of a property, plant and equipment item have different useful lives, they are accounted for as separate items (major components) of PP&E.

Gains and losses on disposal of a property, plant and equipment item (are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment) and are recognized net within other income or expenses in income (loss).

**(ii) *Maintenance costs***

The Company performs annual maintenance at its manufacturing units, approximately in the period from December to March.

The main maintenance costs include costs of labor, materials, outsourced services and overhead allocated during the off-season period. Said costs are accounted for as a component of the cost of the equipment and depreciated during the following harvest.

**(iii) *Depreciation***

Fixed assets items are depreciated using the straight-line method in the income for the period based on the estimated economic useful life of each component. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date they are installed or available for use or for assets built internally, from the date the asset is ready and available for use.

The annual weighted average rates for depreciation of assets for the current and comparative year are as follows:

	03/31/2015	03/31/2014
Buildings and improvements	2.34%	2.34%
Facilities	6.00%	6.00%
Machinery and equipment	5.78%	5.78%
Furniture and fixtures	10.56%	10.56%
IT equipment	20.31%	20.31%
Vehicles	14.29%	14.29%
Tools and accessories	5.51%	5.51%
Agricultural machinery and implements	9.41%	9.41%

The depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**e. Intangible assets**

**(i) Recognition and measurement**

Intangible assets that are acquired by the Company and which have definite useful lives are stated at cost, less accumulated amortization and, when necessary, impairment losses.

**(ii) Subsequent expenses**

Subsequent expenses are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

**(iii) Amortization**

Amortization is recognized in income on a straight-line basis over the estimated useful lives of the intangible assets as of the date they are available for use. The estimated useful life for the current and comparative periods is 5 years.

The amortization methods, useful lives and residual values are reviewed at the end of the quarter and adjusted if appropriate.

**f. Biological assets**

Biological assets are measured at fair value less sales expenses. Changes in fair value less sales expenses are recognized in results. Sale costs include all costs that are necessary to sell the assets. Uncut sugarcane is transferred to inventories at fair value less estimated sales expenses determined on cut date.

**g. Leased assets**

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. After initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The other leases are operating leases and are not recognized in the balance sheet of the Company.

**h. Inventories**

Inventories are measured at the lower value between the cost and net realizable value. Inventory costs are valued at the average cost of purchase or production and include expenses incurred in the acquisition of inventories, production and conversion costs and other costs incurred in bringing them to their current locations and conditions.

The net realizable value is the estimated price at which inventories can be realized in the normal course of business, less the estimated completion costs and selling expenses.

The cost of biological assets transferred to inventories is the fair value less selling costs, determined on the date of the cut.

**i. Impairment**

**(i) *Financial assets (including receivables)***

A financial asset not measured at fair value through profit or loss is assessed at each reporting date for objective evidence of impairment loss.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of the amount due to the Company and its subsidiary on terms that the Company and its subsidiary would not consider otherwise, indication that the debtor or issuer will file for bankruptcy, or disappearance of an active market for a security. In addition, for an equity instrument, a significant or prolonged decrease in the fair value of the asset, below its cost, is objective evidence of impairment.

*Financial assets measured at the amortized cost*

For its receivables, the Company considers as evidence of impairment both individually and on an aggregate basis. Individually significant receivables are assessed for impairment. All the receivables are material on an individual basis, identified as non-impaired on an individual basis are collectively assessed for any impairment loss not yet identified. Individually significant assets are assessed on an aggregate basis in relation to impairment by grouping the notes with similar risk characteristics.

When assessing impairment on an aggregate basis the Company makes use of historical trends of probability of default, the recovery term and the amounts of losses incurred, adjusted to reflect the management's judgment in relation to the assumptions, if the current economic and credit conditions are such that the actual losses will be higher or lower than those suggested by historical trends.

A decrease in the recoverable value of a financial asset measured at amortized cost is calculated as the difference between the asset's book value and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Losses are recognized in income (loss) for the period in an allowance in a provision account against receivables. Interest on the impaired asset continues to be recognized through the reversal of the discount. When a subsequent event causes reversal the amount of the impairment loss, the decrease in impairment loss is reversed through profit or loss.

*Non-financial assets*

The carrying amounts of the non-financial assets of the Company, except for biological assets, inventories and deferred income and social contribution taxes are reviewed at each reporting date for indication of impairment. If such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset or its CGU (cash generating unit) exceeds its recoverable value.

The recoverable value of an asset or cash-generating unit is the greater of its value in use and its fair value less selling expenses. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions as to the recoverability period of capital and the risks specific to the asset or CGU. For the purpose of impairment testing, the assets that cannot be individually tested are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or group of assets (the cash generating unit or CGU).

Impairment losses are recognized in profit or loss. Impairment losses are reversed only with the condition that the book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

**j. Assets classified as non-current held for sale**

Non-current assets or groups of assets classified as held for sale which are expected to have their values recovered primarily through a sale transaction rather than continuous use, are classified as assets held for sale. Immediately before being classified as assets held for sale, the assets or components of a group of assets classified as held for sale are measured under the Company's accounting policies. Since then, the assets, or group of assets classified as held for sale, are generally measured as the book value or the fair value less selling expenses, whichever is the lowest. No loss should be allocated to the inventories, financial assets, deferred tax assets and biological assets, which continue to be measured in accordance with the Company's accounting policies. Impairment losses determined in the initial classification as held for sale, and the subsequently calculated gains and losses are recognized in profit or loss.

When classified as held for sale, intangible assets and property, plant and equipment are not amortized or depreciated. Investments measured through the equity method are not subject to the equity method when classified as held for sale.

**k. Employee benefits**

*Short-term employee benefits*

Obligations for short-term employee benefits are measured on a non-discounted basis and incurred as expenses as the related service is rendered.

The liability is recognized at the amount expected to be paid under the cash bonus plans or short-term profit sharing if the Company has a legal or constructive obligation to pay this amount as a result of prior service rendered by the employee, and the obligation can be reliably estimated.

**l. Provisions**

A provision is set up when the Company has a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of funds will be required to settle the obligation. Provisions are determined considering the best estimates of the risk involved.

**m. Revenue**

Revenue from sales of products in the normal course of business is measured by the fair value of the installment received or receivable. Operating income is recognized when there is convincing evidence that the risks and rewards inherent to the ownership of the goods have been transferred to the purchaser, it is probable that the financial economic benefits will flow to the Company, the related costs and potential return of goods can be reliably estimated, there is no continued involvement with the goods sold, and the amount of operating income can be reliably measured.

The correct moment for the transfer of risks and benefits varies depending on the individual conditions of each sales agreement. For sugar and ethanol sales in the domestic market, transfer is normally carried out when the product is delivered in the client's premises or when it is picked up by the client in the Company's premises. For sales in the foreign market, the transfer occurs upon loading of goods in the transportation company of the seller harbor.

**n. Government grants**

Government grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis over the same period in which the expenses are recognized.

**o. Leases**

**(i) Lease payments**

Minimum lease payments made under financial leasing are apportioned between financial expenses and reduction of the outstanding liability. Financial expenses are allocated in each period over the lease period in order to produce a continuous and periodic compounding interest rate over the remaining liability balance.

**(ii) Determining whether an agreement contains a lease**

At the inception of an agreement, the Company defines whether the agreement is for or contains a lease. This is the case if the two conditions below are met:

- The fulfilment of the arrangement depends on the use of that specified asset; and
- The arrangement includes the right to use the asset.

At inception of the arrangement or on a reassessment of the arrangement, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes that it is impracticable to separate the payments of a financial lease reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the payments under the financial lease are allocated into financial expense (using the Company's incremental borrowing rate) and reduction of the outstanding liability.



**p. Financial income and expenses**

Financial income substantially comprises earnings from financial investments, foreign exchange, interest, contractual fines and gains on derivative financial instruments. Interest income is recognized in income (loss) under the effective interest method.

Financial expenses substantially comprise interest expenses on loans, bank charges, foreign exchange and losses on derivative financial instruments. Borrowing costs which are not directly attributable to the acquisition, construction, or production of a qualifying asset are accounted for in profit or loss using the effective interest rate method.

**q. Income and social contribution taxes**

Current and deferred income tax and social contribution for the period are calculated based on the rates of 15%, plus a surcharge of 10% on taxable income in excess of R\$ 240, for income tax, and 9% on taxable income for the social contribution on net income, and consider the offsetting of tax loss carryforwards and the negative base of the social contribution, limited to 30% of annual taxable income.

Income tax and social contribution expense comprises both current and deferred taxes. Current taxes and deferred taxes are recognized in income unless they are related to other comprehensive income.

Current taxes are the taxes payable or receivable on the taxable income or loss for the period, at tax rates enacted or substantively enacted on the date of presentation of the financial statements, and any adjustments to taxes payable in relation to prior periods.

Deferred taxes are recognized in relation to the temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the related amounts used for taxation purposes.

Deferred taxes are measured at tax rates expected to be applied to temporary differences when they are reversed, based on laws enacted or substantively enacted up to the reporting date.

To determine current and deferred income tax, the Company takes into consideration the impact of uncertainties on positions taken on taxes and if the additional income tax and interest payment has to be made. The Company believes that the provision for income tax recorded in liabilities is adequate for all outstanding tax periods, based on its evaluation of several factors, including interpretations of tax laws and past experience. This evaluation is based on estimates and assumptions that may involve several judgments on future events. New information may be made available, leading the Company to change its judgment on the adequacy of existing provision; these changes will impact income tax expenses in the year in which they occur.

Deferred tax assets and liabilities are offset when there is a legal enforceable right to set off current tax assets against tax liabilities, and the latter relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred income tax and social contribution asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized.

Deferred income and social contribution tax assets are reviewed at each reporting date and reduced when their realization is no longer probable.

**r. Discontinued operations**

The classification as a discontinued operation is made upon its sale or when the operation fails to meet the criteria for being held for sale, if this occurs before. When an operation is classified as a discontinued operation, the comparative statement of income is reissued as if the operation had been discontinued since the beginning of the comparative period.

**10 New standards and interpretations not yet adopted**

A number of new standards, amendments and interpretations of standards will be effective for fiscal years beginning after April 1, 2015 and have not been adopted in preparing these financial statements. Those that may be relevant to the Company are listed below. The Company does not plan to adopt this standard in advance.

**IFRS 9 Financial Instruments (Instrumentos Financeiros) (2010), IFRS 9 Financial Instruments (Instrumentos Financeiros) (2009)**

IFRS 9, published in July 2014, replacing the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement (Financial Instruments: Recognition and Measurement). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new model of expected credit loss for the calculation of the impairment of financial assets, and new requirements for hedge accounting. The standard retains the existing guidance on the recognition and derecognition of financial instruments IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

**IFRS 15 Revenue from Contracts with Customers (Customer Contracts Revenue)**

IFRS 15 requires an entity to recognize the amount of revenue reflecting the consideration they expect to receive in exchange for control of those goods or services. The new standard will replace most of the detailed guidance on revenue recognition that currently exists in IFRS when the new standard is adopted. The new standard is effective from or after January 1, 2017, with earlier application permitted by IFRS. The standard may be adopted retrospectively using an approach of cumulative effects. The Company is evaluating the effects that IFRS 15 will have on the financial statements and its disclosures. The Company has not yet chosen the method of transition to the new standard not determined the effects of the new standard in today's financial reports.

**Agriculture: Production Plants (changes to IAS 16 and IAS 41)**

These changes require production plants, defined as a living plant, to be recorded as fixed assets and included in the scope of IAS 16 Property, instead of IAS 41 Agriculture.

The amendments are effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

Additionally, it is not expected that the following new standards or modifications can have a significant impact on the Company's financial statements:

- **IFRS 14 - Regulatory Deferral Accounts** (Accounts Regulatory Deferral);
- *Accounting for Aquisitions of Interests in Joint Operations* (Procurement Accounting for interests in jointly Operations) (amendment of IFRS 11);
- *Clarification of Acceptable Methods of Depreciation and Amortisation* (Clarification on Acceptable methods of depreciation and amortization) (amendment of IAS 16 and IAS 38);
- *Defined Benefit Plans: Employee Contributions* (Defined benefit plan: employee contribution) (Amendment to IAS 19);
- Annual Improvements to IFRSs 2010-2012; and
- Annual Improvements to IFRSs 2011-2013.

The Accounting Pronouncements Committee issued accounting pronouncement not yet or change the corresponding current pronouncements of these standards. Early adoption is not permitted.

## **11 Determination of the fair value**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods described. When applicable, additional information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### **(i) Biological assets**

The Company calculated biological assets represented by ratoons, which generate several harvests, and uncut sugarcane at the discounted future cash flow method. Discounted future cash flow is calculated considering assumptions such as sugarcane ton price, productivity, cut, load and transportation costs, crop treatment costs, partnership costs, and taxes, among others. Discount rate used to discount cash flow at present value is calculated based on Weighted Average Cost of Capital (WACC).

### **(ii) Trade accounts receivable and other credits**

The fair value of accounts receivable and other receivables is estimated as the present value of future cash flows, discounted at the market interest rate on presentation date. Such fair value is determined for disclosure purposes

### **(iii) Exchange contracts and cash flow swaps**

The fair value of forward exchange agreements is based on the listed market price, if available. If a listed market price is not available, fair value is estimated by discounting the difference between the contractual forward price and the current forward price by using a risk-free interest rate (based on government bonds).

The fair value of cash flow swap contracts is based on brokers' quotations. These quotations are tested for reasonability through estimated future cash flows discount based on contract conditions and expiration and using market interest rates of a similar instrument on measurement date. Fair values reflect the instrument credit risk and include adjustments to consider the credit risk of the Company and the counterpart, if applicable.

**(iv) Other non-derivative financial liabilities**

The fair value that is determined for disclosure purposes is calculated based on the present value of principal and future cash flows, discounted at market interest rate on the date of presentation of the financial statements. For financial leases, the interest rate is calculated by referring to similar lease agreements.

## 12 Cash and cash equivalents

		<u>Consolidated</u>	<u>Parent company</u>	
		<b>2015</b>	<b>2015</b>	<b>2014</b>
Cash and banks		25,556	26,005	64,601
Financial investments				
<b>Modality post fixed</b>				
CDB	97% to 100% of the CDI- Interbank deposit certificate (*)	9,866	9,866	10,201
CDB	101.4% to 109% of the CDI- Interbank deposit certificate (*)	-	-	4,097
Automatic financial investment		2,939	2,939	515
Deposit margin		380	380	430
		<u><b>38,741</b></u>	<u><b>39,191</b></u>	<u><b>79,844</b></u>

(\*) Weighted average rate

The balance of cash and banks comprises deposits in current accounts available for immediate use. These balances arise from the strategy and the normal flow of the Company's operations.

Financial investments are recorded at cost, plus income earned up till the date of the statement of financial position where the value does not exceed the market value. These investments may be immediately redeemed without penalty or loss.

The Company's exposure to interest rate risks and a sensitivity analysis for the financial assets and liabilities are disclosed in Note 30 - Financial instruments.

## 13 Other investments

		<u>Consolidated</u>	<u>Parent company</u>	
		<b>2015</b>	<b>2015</b>	<b>2015</b>
<b>Current</b>				
Interest earnings bank deposits				
<b>Pos mode fixed</b>				
CDB	98% of the CDI- Interbank deposit certificate (*)	-	-	7,660
CDB	100% of the CDI - Interbank deposit certificate (*)	14	14	7,793
CDB	101% of the CDI - Interbank deposit certificate (*)	-	-	21
		<u><b>14</b></u>	<u><b>14</b></u>	<u><b>15,474</b></u>

**Equity investments**

Centro de Tecnologia Canavieira (a)	3,586	3,586	357
Energisa Bioeletricidade Santa Cândida I S.A. (b)	-	-	17,032
Energisa Bioeletricidade Vista Alegre I S.A. (b)	-	-	20,642
Others (a)	108	108	108
	<u>3,694</u>	<u>3,694</u>	<u>38,139</u>

(\*) Weighted average rate

The Company's exposure to credit and interest rate risks and a sensitivity analysis for the financial assets and liabilities are disclosed in Note 30 - Financial instruments.

(a) Investments recognized at cost.

(b) The Company entered into a strategic partnership with Grupo Energisa S.A, an electric power company in Brazil. In connection with this partnership, the Company sold the co-generation assets to Energisa and entered into the exchange of bagasse for the power and steam produced in power plants that continue to operate. The sale was agreed on December 2011, when the Company agreed to sell shares of four Special Purpose Entities (SPEs): (i) Energisa Bioeletricidade Santa Cândida I SA, (USC I), where all the co-generation assets of the plant in Santa Candida were transferred, (ii) Energisa Bioeletricidade Santa Cândida II SA (USC II), where all rights of construction and operation in the event of expansion of the Santa Candida co-generation plant were transferred, (iii) Energisa Bioeletricidade Vista Alegre I SA (UVA I), where all co-generation assets of the Vista Alegre plant were transferred, and (iv) Energisa Bioeletricidade Vista Alegre II SA (UVA II), where all rights for the construction and operation in the event of expansion of the Vista Alegre co-generation plant were transferred. Pursuant to the terms of the share purchase agreement, Energisa acquired: (i) 85% of the capital of USC I, (ii) 85% of the capital of UVA I, (iii) 100% of the capital of USC II, and (iv) 100% of the capital of UVA II for a total amount of approximately R\$ 150 million. Pursuant to the terms of the agreements, in 20 years' time, Energisa will sell to the Company the assets held by each of these SPEs: USC I, II USC, UVA and UVA II.

These investments are classified as available for sale and the change in fair value related to subsequent measurement is accounted for as other comprehensive income. In the period ended September 30, 2014, the change in fair value was R\$ 5,428, net of taxes.

In September 2014 was signed a purchase and sale agreement between Company and Energisa Bioeletricidade S.A. where Energisa acquired the shares, together with all rights and obligations of companies: Energisa Bioeletricidade Vista Alegre I SA and Energisa Bioeletricidade Santa Candida I SA, totaling R\$ 23 million.

The Company's exposure to credit and interest rate risks and a sensitivity analysis for the financial assets and liabilities are disclosed in Note 30 - Financial instruments.

## 14 Accounts receivable, net

	<u>Consolidated</u>	<u>Parent company</u>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
Accounts receivable - Foreign market	962	962	7,387
Accounts receivable - Domestic market	20,555	20,555	-
Trade accounts receivable - Related parties (note 31)	-	-	535
Allowance for doubtful accounts	(281)	(281)	(373)
	<u>21,236</u>	<u>21,236</u>	<u>7,549</u>

Accounts receivable of the foreign market are originated in U.S. dollars, which are translated into the Reais on the presentation date of the financial statements.

The Company as of March 31, 2015 did not have any operation that generated a significant effect in adjustment to present value.

The Company's exposure to credit and currency risks and losses through impairment related to trade accounts receivable are disclosed in Note 30 - Financial Instruments.

## 15 Inventories

	<b>Consolidated</b>	<b>Parent company</b>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
Warehouse, raw material and others	31,282	31,282	31,424
Finished goods			
Sugar	1,134	1,134	1,880
Ethanol	20,088	20,088	19,799
Yeast	12	12	12
Oil	20	20	31
	<b>54,536</b>	<b>54,536</b>	<b>53,146</b>

On March 31, 2015, storeroom materials and others, goods and changes in finished products, recognized as sales costs, totaled R\$ 736,590 - Consolidated and Parent company (R\$ 549,501 - Parent Company as of March 31, 2014).

## 16 Advances to suppliers

	<b>Consolidated</b>	<b>Parent company</b>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
Advances to other suppliers	640	640	4,135
Advances to sugar cane suppliers	129,517	129,517	104,908
Advances to suppliers - Related parties (Note 31)	3,302	3,302	3,990
	<b>133,459</b>	<b>133,459</b>	<b>113,033</b>
Total classified as current assets	(32,920)	(32,920)	(75,968)
Total classified as non-current assets	100,539	100,539	37,065

Advances to sugar cane suppliers are represented substantially by amounts advanced to rural partners, as provided for by contract, and the products will be delivered during the next crop season.

## 17 Recoverable taxes

	<b>Consolidated</b>	<b>Parent company</b>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
Contribution for Social Security Funding - COFINS	15,388	15,388	20,071
Value added tax on sales and services - ICMS	19,557	19,557	22,083
Social Integration Program-PIS	3,664	3,664	3,278
Withholding income tax - IRRF	6,083	6,083	5,487
Excise Tax - IPI	895	895	887
Other taxes recoverable	955	955	948
	<b>46,542</b>	<b>46,542</b>	<b>52,754</b>
Total classified as current assets	(13,034)	(13,034)	(50,051)
Total classified as non-current assets	33,508	33,508	2,703

## 18 Assets held for sale

Non-current assets held for sale as of March 31, 2014 (R\$ 3,028) refer to the fixed assets of a substation for connection to the power distribution network located in the municipality of Maracaju, state of Mato Grosso do Sul. On June 30, 2014, the Company decided to donate those items.

## 19 Income and social contribution taxes

The breakdown of expense calculated by the combined statutory rates and the income and social contribution tax expense charged to net income is presented below:

	<u>Consolidated and Parent company</u>	<u>Parent company</u>
	<b>2015</b>	<b>2014</b>
Accounting loss before income and social contribution taxes	(882,510)	(199,617)
Combined tax rate	34%	34%
Income tax and social contribution using the combined rate	300,053	67,870
Permanent additions (exclusions)	(65,166)	(7,645)
Write-off by merger	<u>-</u>	<u>(36,066)</u>
Income tax and social contribution in income for the year	<u>234,887</u>	<u>24,159</u>
Effective rate	27%	12%

The changes in the period ended March 31, 2015 are presented as follows:

	<b>2014</b>	<b>Recognized in income (loss)</b>	<b>Recognized in comprehensive income</b>	<b>2015</b>
Provision for contingencies	2,830	(120)	-	2,709
Allowance for doubtful accounts	593	(32)	-	561
Temporary provisions	8,714	(669)	-	8,045
Deferred IR/CS on tax loss and negative basis	111,162	61,279	-	172,441
Deferred income tax and social contribution on goodwill	3,786	(14,147)	-	(10,361)
Deferred taxes on the surplus value of property, plant and equipment	(44,919)	4,319	-	(40,600)
Deferred taxes on the surplus value of biological assets	(79,974)	(37,411)	-	(117,385)
Accelerated depreciation incentive	(4,942)	-	-	(4,942)
Fair value of investments	(7,895)	10,691	(3,894)	(1,098)
Exchange variation - cash method calculation	32,359	210,532	-	242,891
Revaluation reserve	(3,053)	446	-	(2,608)
<b>Total</b>	<u>18,660</u>	<u>234,887</u>	<u>(3,894)</u>	<u>249,654</u>

Management considers that tax deferred assets resulting from timing differences will be realized in proportion to the final resolution of contingencies and events.

The expected recoverability of the tax credits is based on the projections of future taxable income taking into consideration various business and financial assumptions at the end of the year. Accordingly, these estimates may differ from the effective taxable income in the future due to the inherent uncertainties involving these estimates.

Deferred tax assets, in according with the Company's expected future profitability will be realized within six years.

## 20 Investments

	<u>Consolidated</u>	<u>Parent company</u>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
<b>Investments in subsidiar (a)</b>			
Auto Posto Santa Cândida de Bocaina Ltda. (i)	2,430	2,430	4,095
	<b>2,430</b>	<b>2,430</b>	<b>4,095</b>

### a. Investments in subsidiaries

They represent investments in subsidiaries valued using the equity accounting method in the individual financial statements and in the advances for future capital increase, where the breakdown is listed in the table below:

	<u>2015</u>		
	<b>Tonon Luxembourg</b>	<b>Auto Posto (i)</b>	<b>Total</b>
Capital	97	99	-
Number of quotas/shares held	97	99	-
Ownership interest	100%	99%	-
Total interest on shareholders' equity as of March 31, 2014	-	4,095	4,095
Capital on May 7, 2014	97	-	96
Income (loss) for the period	(593)	(1,665)	(2,258)
Provision for investment loss	496	-	67
Total interest on shareholders' equity as of March 31, 2015	-	2,430	2,430
<b>Total amount of investment</b>	<b>-</b>	<b>2,430</b>	<b>2,430</b>

- (i) On October 18, 2012, the Company acquired from Tonon Holding 100% of the capital of Auto Posto Santa Cândida de Bocaina Ltda., a gas station located near the Santa Candida unit. The cost of acquisition was R\$ 4,600. On January 9, 2014, Tonon Holding S.A. was admitted as a partner of Auto Posto upon the assignment of one (1) quota. Therefore, the Company started holding 99 thousand quotas, representing 99% of the total number of shares. The investments were not consolidated.

### *Change in the year*

	<u>2015</u>		
	<b>Tonon Luxembourg</b>	<b>Auto Posto</b>	<b>Total</b>
Balance of the investment as of March 31, 2014	-	4,095	4,095
Capital on May 7, 2014	97	-	99
Equity in income of subsidiaries and associated companies	(593)	(1,665)	(2,258)
Provision for investment loss	496	-	67
Balance of the investment as of March 31, 2015	<b>-</b>	<b>2,430</b>	<b>2,430</b>



## 14 Property, plant and equipment

Consolidated													
Cost	Land	Buildings and improvements	Facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Vehicles	Tools and accessories	Agricultural machinery and implements	Off-season maintenance	Property, plant and equipment in progress	Advances to suppliers	Total
Balance on March 31, 2013	6,334	67,381	87,044	159,532	1,287	3,228	18,465	164	45,225	64,037	4,146	-	456,843
Additions	-	-	695	3,024	106	160	942	14	1,957	99,758	23,908	-	130,563
Write-offs	-	-	-	(512)	-	-	(727)	-	(5,055)	(72,216)	(396)	-	(78,906)
Merger	666	53,577	-	177,090	1,839	-	23,607	-	39,710	10,141	3,974	-	310,603
AAP - Investment	77	-	-	9,192	50	-	408	-	-	-	-	-	9,728
Capitalized interest on property, plant and equipment	-	-	-	-	-	-	-	-	-	-	2,100	-	2,100
Transfers	-	441	519	10,082	44	766	29	48	1,232	(722)	(12,440)	-	-
Balance on March 31, 2014	7,077	121,399	88,258	358,408	3,326	4,154	42,725	226	83,069	100,998	21,292	-	830,932
Balance on March 31, 2014	7,077	121,399	88,258	358,408	3,326	4,154	42,725	226	83,069	100,998	21,292	-	830,932
Additions	-	698	-	370	28	33	166	-	-	119,200	49,313	39,487	120,564
Write-offs	-	-	-	(1,817)	(47)	-	(1,514)	-	(11,297)	(134,976)	(3,256)	(13,103)	(113,436)
Capitalized interest on property, plant and equipment	-	-	-	-	-	-	-	-	-	-	2,209	-	754
Transfers	-	353	5,025	6,486	53	624	130	16	606	-	(13,004)	-	291
Transf. of assets held for sale	-	1,783	937	1,088	-	-	-	-	-	-	-	-	3,808
Balance on March 31, 2015	7,077	124,233	94,220	364,536	3,360	4,811	41,506	242	72,378	85,222	56,553	26,384	880,521
Accumulated depreciation	Land	Buildings and improvements	Facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Vehicles	Tools and accessories	Agricultural machinery and implements	Off-season maintenance	Property, plant and equipment in progress	Advances to suppliers	Total
Balance on March 31, 2013	-	(7,872)	(25,016)	(46,276)	(602)	(2,050)	(8,516)	(104)	(11,553)	-	-	-	(101,989)
Additions	-	(2,852)	(5,424)	(12,081)	(250)	(553)	(4,640)	(60)	(8,186)	-	-	-	(34,047)
Write-offs	-	-	-	320	-	-	400	-	4,456	-	-	-	5,206
Merger	-	(11,237)	-	(60,924)	(1,101)	-	(18,502)	-	(13,703)	-	-	-	(105,467)
Balance on March 31, 2014	-	(21,960)	(30,440)	(118,962)	(1,953)	(2,603)	(31,227)	(164)	(28,987)	-	-	-	(236,296)
Balance on March 31, 2014	-	(21,960)	(30,440)	(118,962)	(1,953)	(2,603)	(31,227)	(164)	(28,987)	-	-	-	(236,296)
Additions	-	(3,184)	(5,679)	(17,143)	(301)	(709)	(3,263)	(73)	(10,832)	-	-	-	(41,185)
Write-offs	-	-	-	870	24	-	1,387	-	9,961	-	-	-	12,242
Transf. of assets held for sale	-	(366)	(192)	(223)	-	-	-	-	-	-	-	-	(781)
Balance on March 31, 2015	-	(25,510)	(36,310)	(135,458)	(2,230)	(3,312)	(33,102)	(237)	(29,859)	-	-	-	(266,020)
Net Book value													
On 03/31/2013	6,334	59,509	62,028	113,256	685	1,178	9,949	60	33,672	64,037	4,146	-	354,854
On 03/31/2014	7,077	99,438	57,819	239,446	1,374	1,551	11,498	61	54,082	100,998	21,292	-	594,636
On 03/31/2015	7,077	98,722	57,910	229,077	1,130	1,498	8,404	4	42,519	85,222	56,553	26,384	614,501

	Parent Company												
Cost	Land	Buildings and improvements	Facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Vehicles	Tools and accessories	Agricultural machinery and implements	Off-season maintenance	Property, plant and equipment in progress	Advances to suppliers	Total
Balance on March 31, 2013	6,334	67,381	87,044	159,532	1,287	3,228	18,465	164	45,225	64,037	4,146	-	456,843
Additions	-	-	695	3,024	106	160	942	14	1,957	99,758	23,908	-	130,563
Write-offs	-	-	-	(512)	-	-	(727)	-	(5,055)	(72,216)	(396)	-	(78,906)
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AAP - Investment	77	-	-	9,192	50	-	408	-	-	-	-	-	9,728
Capitalized interest on property, plant and equipment	-	-	-	-	-	-	-	-	-	-	2,100	-	2,100
Transfers	-	441	519	10,082	44	766	29	48	1,232	(722)	(12,440)	-	-
Balance on March 31, 2014	7,077	121,399	88,258	358,408	3,326	4,154	42,725	226	83,069	100,998	21,292	-	830,932
Balance on March 31, 2014	7,077	121,399	88,258	358,408	3,326	4,154	42,725	226	83,069	100,998	21,292	-	830,932
Additions	-	698	-	370	28	33	166	-	-	119,200	49,313	39,487	120,564
Write-offs	-	-	-	(1,817)	(47)	-	(1,514)	-	(11,297)	(134,976)	(3,256)	(13,103)	(113,436)
Capitalized interest on property, plant and equipment	-	-	-	-	-	-	-	-	-	-	2,209	-	754
Transfers	-	353	5,025	6,486	53	624	130	16	606	-	(13,004)	-	291
Transf. of assets held for sale	-	1,783	937	1,088	-	-	-	-	-	-	-	-	3,808
Balance on March 31, 2015	7,077	124,233	94,220	364,536	3,360	4,811	41,506	242	72,378	85,222	56,553	26,384	880,521
Accumulated depreciation	Land	Buildings and improvements	Facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Vehicles	Tools and accessories	Agricultural machinery and implements	Off-season maintenance	Property, plant and equipment in progress	Advances to suppliers	Total
Balance on March 31, 2013	-	(7,872)	(25,016)	(46,276)	(602)	(2,050)	(8,516)	(104)	(11,553)	-	-	-	(101,989)
Additions	-	(2,852)	(5,424)	(12,081)	(250)	(553)	(4,640)	(60)	(8,186)	-	-	-	(34,047)
Write-offs	-	-	-	320	-	-	400	-	4,456	-	-	-	5,206
Merger	-	(11,237)	-	(60,924)	(1,101)	-	(18,502)	-	(13,703)	-	-	-	(105,467)
Balance on March 31, 2014	-	(21,960)	(30,440)	(118,962)	(1,953)	(2,603)	(31,227)	(164)	(28,987)	-	-	-	(236,296)
Balance on March 31, 2014	-	(21,960)	(30,440)	(118,962)	(1,953)	(2,603)	(31,227)	(164)	(28,987)	-	-	-	(236,296)
Additions	-	(3,184)	(5,679)	(17,143)	(301)	(709)	(3,263)	(73)	(10,832)	-	-	-	(41,185)
Write-offs	-	-	-	870	24	-	1,387	-	9,961	-	-	-	12,242
Transf. of assets held for sale	-	(366)	(192)	(223)	-	-	-	-	-	-	-	-	(781)
Balance on March 31, 2015	-	(25,510)	(36,310)	(135,458)	(2,230)	(3,312)	(33,102)	(237)	(29,859)	-	-	-	(266,020)
Net Book value													
On 03/31/2013	6,334	59,509	62,028	113,256	685	1,178	9,949	60	33,672	64,037	4,146	-	354,854
On 03/31/2014	7,077	99,438	57,819	239,446	1,374	1,551	11,498	61	54,082	100,998	21,292	-	594,636
On 03/31/2015	7,077	98,722	57,910	229,077	1,130	1,498	8,404	4	42,519	85,222	56,553	26,384	614,501

Maintenance expenditures incurred during the off-season period are allocated to property, plant and equipment and fully depreciated in the next harvest season.

The fixed assets pledged as collateral for loans and financing are presented in Note 25 - Loans and financing.

The Company evaluates each period if there is objective evidence that impairment losses have occurred. Model and assumptions used to determine fair value represent the best Management estimate on financial statements date and are reviewed on an annual basis.

## 22 Biological assets

The Company's biological assets comprise the cultivation and planting of sugar cane, through contracts with cane lessees and partners, for use as a material in its sugar and ethanol industrial processes. The cultivation of sugarcane is initiated with the plantation of seedlings on land owned by third-party landowners, and the first cutting occurs after a period of 12 to 18 months after planting, when the sugarcane is cut and the root ("ratoon") continues in the soil. After each cut or year/harvest, the treated root stock grows again, giving on average a total of five or six harvests, varying based on the culture and genetic material to which it is related to.

Movements of Company's biological assets are stated as follows:

	<u>Consolidated</u>	<u>Parent company</u>	
	2015	2015	2014
Biological assets at the beginning of the year	740,067	740,067	471,376
Increase due to merger	-	-	147,541
Increase from purchases	860	860	-
Increase resulting from plantations and treatment	202,162	202,162	216,699
Amortization of plantation and treatment	(229,246)	(229,246)	(144,135)
Variation of the fair value	110,038	110,038	48,586
<b>Biological assets at the end of the year</b>	<b><u>823,880</u></b>	<b><u>823,880</u></b>	<b><u>740,067</u></b>

Biological assets will be realized in the following crops:

	<u>Consolidated</u>	<u>Parent company</u>	
	2015	2015	2014
2014/2015	-	-	207,752
2015/2016	240,673	240,673	184,179
2016/2017	193,345	193,345	145,677
2017/2018	154,225	154,225	110,179
2018/2019	112,098	112,098	65,043
2019/2020	74,487	74,487	21,647
2020/2021	49,053	49,053	5,590
	<b><u>823,880</u></b>	<b><u>823,880</u></b>	<b><u>740,067</u></b>

Planted areas refer only to sugarcane plants, and do not consider planted land.

The following assumptions were used in the determination of the fair value:

	<b>Parent company</b>	
	<b>2015</b>	<b>2014</b>
Estimated harvest area (ha)	96,673	81,951
Estimated productivity (ton/ha)	78.56	80.87
Amount of TRS per ton of cane sugar (kg / TRS ton)	137.69	140.00
Average projected price of TRS (R\$/kg TRS)	0.56	0.49

The fair value of the sugar cane plantations was determined using the discounted cash flow method, considering:

- Cash inflows obtained by multiplying (i) estimated production measured in pounds of TRS (Total Recoverable Sugar) (ii) sugarcane futures market price, which is estimated based on public data and future estimated sugar and ethanol prices; and
- Cash outflows represented by estimates of (i) necessary costs for the biological transformation of sugarcane (handling of harvest) up till the harvest, (ii) costs associated with the harvest/cutting, loading and transport (CCT), and (iii) costs of leasing and agricultural partnership.

Based on the estimates of income and expenses, the Company determines the discounted cash flows that will be generated and the present value and amount, assuming an actual discount rate of 4.17% per year, consistent with the return on investment in the circumstances. Changes in fair value are presented as “Changes in fair value of biological assets.”

Model and assumptions used to determine fair value represent the best Management estimate on financial statements date and are reviewed on an annual basis.

The increase or decrease in the fair value is determined by the difference between the fair value of biological assets at the beginning of the period and at the end of the period, less plantation costs incurred in the development and depreciation of biological assets during the year.

The Company is exposed to several risks related to its plantations:

### **Regulatory and environmental risks**

The Company is subject to the laws and regulations of the country in which it operates. The Company established environmental policies and procedures focused on the compliance with environmental laws and others. The Management carries out regular analyses to identify environmental risks and assure that systems under operation are appropriate to manage those risks.

### **Supply and demand risk**

The Company is exposed to risks resulting from the prices fluctuation and sales volume of its plantations. Whenever possible, the Company manages this risk by aligning its extraction volume to the market's offer and demand. The management analyzes on a regular basis the trend of the industry to ensure that a price structure of the Company is in accordance with market and to ensure that estimated volumes of extraction are consistent with expected demand.

### **Climatic risks and others**

The Company's plantations are exposed to the risk of damage due to climate changes, pests, fires and other forces of nature. The Company has extensive processes in place focused on monitoring and reducing these risks, including regular inspections in the cane fields and analyses and control of diseases and pests.

## **23 Intangible assets**

Description	Parent company and Consolidated			
	Cost	Accumulated amortization	Net 2015	Net 2014
Software and others	12,372	(2,459)	9,913	9,958
Fair value of contracts with third-parties (a)	16,856	(3,727)	13,129	14,925
Goodwill in business combinations - CPC 15 (b)	127,682	-	127,682	113,924
<b>Total</b>	<b>156,910</b>	<b>(6,186)</b>	<b>150,724</b>	<b>138,807</b>

- (a) Paraíso has a contract with third-parties where an investment was made in a plant attached to Paraíso for the production of other products derived from sugar cane molasses sold by Paraíso. This plant entered into operation at the end of the 2012/13 crop. This contract establishes the acquisition of molasses equivalent to the crushing of 500 thousand tons of sugarcane per crop which represents a production equivalent to 45 thousand m<sup>3</sup> of hydrous ethanol.
- (b) Refers to goodwill on acquisition and merger of Paraíso, as described in Note 2 - Acquisition and merger of a subsidiary. The goodwill in the amount of R\$ 13,758 was adjusted for the period due to the difference in the acquisition price identified after the review of net debt, as provided for in the contract.

## **24 Suppliers**

	Consolidated	Parent company	
	2015	2015	2014
Sundry suppliers	102,291	102,291	96,136
Cane supplier	13,799	13,799	5,109
Suppliers - related parties (Note 31)	1,279	1,279	883
	<b>117,369</b>	<b>117,369</b>	<b>102,128</b>
Total classified as current liabilities	(115,300)	(115,300)	(98,053)
Total classified as non-current liabilities	2,069	2,069	4,075

The sugarcane harvest period, between April and December of each year, on average, has direct impact on the balance of suppliers of sugarcane and respective cutting, loading and transportation services.

Amounts payable to sugarcane suppliers and agricultural partners take into consideration sugarcane delivered and not yet paid, and possible supplementation of sugarcane price calculated based on the final harvest price, using the Total Recoverable Sugar (TRS) index disclosed by Consecana - Sao Paulo State Council of Sugarcane, Sugar and Alcohol Producers.

The Company's exposure to currency and liquidity risks, related to accounts payable to suppliers, is disclosed in Note 30 - Financial Instruments.

## 25 Loans and financing

	<u>Consolidated</u>	<u>Parent company</u>	
	<b>2015</b>	<b>12/31/2014</b>	<b>2014</b>
<b>Current liabilities</b>			
Working capital	101,528	101,528	120,809
Bonds	17,698	17,689	2,856
Advance on exchange contract (ACC)	94,603	94,603	18,782
Export pre-payment (PPE)	88,803	88,803	217,572
FINAME	-	-	6,702
Syndicated loan	-	-	199,484
Agricultural funding (Pesa)	475	475	662
Secured Account	-	-	1,994
	<b>303,107</b>	<b>303,098</b>	<b>568,861</b>
<b>Non-current liabilities</b>			
Working capital	21,850	21,850	10,260
Bonds	1,635,179	1,635,141	656,260
Advance on exchange contract (ACC)	48,120	48,120	-
Export pre-payment (PPE)	106,757	106,757	116,605
FINAME	-	-	10,833
Agricultural funding (Pesa)	-	-	2,618
	<b>1,811,906</b>	<b>1,811,868</b>	<b>796,576</b>
<b>Total</b>	<b>2,115,013</b>	<b>2,114,966</b>	<b>1,365,437</b>

Terms and conditions of outstanding loans were as follows:

<u>Consolidated</u>					
Description	Index	Currency	Average interest rate (p.a.)	Year of maturity	2015
Advance on Exchange Contract (ACC)	Pre-fixed rate + exchange variation	USD	7,23%	2015 and 2017	142,723
Bonds	Pre-fixed rate + exchange variation	USD	9,77%	2019 and 2020	1,652,877
Working capital	Pre-fixed rate + CDI	R\$	20,31%	2015	23,837
Working capital	Pre-fixed rate + exchange variation	USD	9,25%	2015 - 2017	99,541
Export pre-payment (PPE)	Pre-fixed rate + CDI/Libor + exchange variation	USD	8,19%	2015 - 2017	195,561
Agricultural funding (Pesa)	IGPM	R\$	4,56%	2019	475
					<b>2,115,013</b>

<b>Parent company</b>						
<b>Description</b>	<b>Index</b>	<b>Currency</b>	<b>Average interest rate (p.a.)</b>	<b>Year of maturity</b>	<b>2015</b>	<b>2014</b>
Advance on Exchange Contract (ACC)	Pre-fixed rate + exchange variation	USD	7,23%	2015 and 2017	142,723	18,782
Bonds	Pre-fixed rate + exchange variation	USD	9,77%	2019 and 2020	1,652,830	659,117
Working capital	Pre-fixed rate + CDI	R\$	20,31%	2015	23,837	41,535
Working capital	Pre-fixed rate + exchange variation	USD	9,25%	2015 - 2017	99,541	89,534
Export pre-payment (PPE)	Pre-fixed rate + CDI/Libor + exchange variation	USD	8,19%	2015 - 2017	195,561	334,117
Agricultural funding (Pesa)	IGPM	R\$	4,56%	2019	475	-
Syndicated Loan	Pre-fixed rate + CDI	USD	20,50%	2017	-	98,075
Syndicated Loan	Pre-fixed rate	R\$	11,50%	2017	-	101,410
					<b>2,114,966</b>	<b>1,365,437</b>

Loan and financing balances represented in current liabilities are segregated into principal and interest, as follows:

<b>Consolidated</b>			
<b>2015</b>			
	<b>Principal</b>	<b>Accrued interest</b>	<b>Total</b>
Working capital	100,811	717	101,528
Bonds	-	17,698	17,698
Advance on Exchange Contract (ACC)	88,711	5,892	94,603
Export pre-payment (PPE)	85,119	3,685	88,803
Agricultural funding (Pesa)	-	475	475
	<b>274,640</b>	<b>28,467</b>	<b>303,107</b>
<b>Parent company</b>			
<b>2015</b>			
	<b>-Principal</b>	<b>Accrued interest</b>	<b>Total</b>
Working capital	100,811	717	101,528
Bonds	-	17,689	17,689
Advance on Exchange Contract (ACC)	88,711	5,892	94,603
Export pre-payment (PPE)	85,119	3,685	88,803
Agricultural funding (Pesa)	-	475	475
	<b>274,640</b>	<b>28,457</b>	<b>303,098</b>
<b>2014</b>			
	<b>Principal</b>	<b>Accrued interest</b>	<b>Total</b>
Working capital	116,699	4,110	120,809
Bonds	-	2,856	2,856
Advance on Exchange Contract (ACC)	18,782	-	18,782
Export pre-payment (PPE)	213,231	4,340	217,572
Agricultural funding (Pesa)	-	662	662
FINAME	6,659	43	6,702
Syndicated loan	194,822	4,663	199,484
Secured Account	1,994	-	1,994
	<b>552,187</b>	<b>16,674</b>	<b>568,861</b>

The portions of financing classified as non-current liabilities maturing between 2016 and 2020, have the following payment schedule.

	<u>Consolidated</u>	<u>Parent company</u>	
<b>Crop maturity year:</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
2015/2016	-	-	57,242
2016/2017	90,092	90,092	65,472
2017/2018	86,635	86,635	14,598
2018/2019	-	-	386
2019/2020	1,635,179	1,635,141	658,878
	<u>1,811,906</u>	<u>1,811,868</u>	<u>796,576</u>

### Guarantees

With guarantees:

<b>Description</b>	<b>Guarantee</b>	<b>2015</b>	<b>2014</b>
Bonds	Fixed assets/Assignment of receivables/Agricultural Liens	231,031	-
Working capital	Property, plant and equipment / Investment / Pledge of sugarcane / Ethanol	45,018	60,267
FINAME	Property, plant and equipment	-	17,535
Export pre-payment (PPE)	Property, plant and equipment	19,586	156,787
Syndicated loan	Pledge of sugarcane	-	46,654
		<u>295,635</u>	<u>281,243</u>

On March 31, 2015 the Company did not comply with certain contractual obligations (covenants) related to financial indicators, and reclassified the amount of R\$ 35,296 of non-current liabilities balances to current liabilities. However, as mentioned in Note 40, the Company obtained the waiver after the close of the year.

The portions of financing classified as non-current liabilities maturing between 2016 and 2020, before accounting reclassification, have the following payment schedule:

	<u>Consolidated</u>	<u>Parent company</u>	
<b>Crop maturity year:</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
2015/2016	-	-	57,242
2016/2017	125,388	125,388	65,472
2017/2018	86,635	86,635	14,598
2018/2019	-	-	386
2019/2020	1,635,179	1,635,141	658,878
	<u>1,847,202</u>	<u>1,847,164</u>	<u>796,576</u>



## 26 Taxes payable

	<b>Consolidated</b>	<b>Parent company</b>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
Social Security Charges - INSS	577	577	1,361
Withholding income tax - IRRF	492	492	1,243
Value added taxes on sales and services - ICMS	601	601	63
Service tax - ISS	641	641	220
Other taxes payable	39	39	(40)
	<b>2,349</b>	<b>2,349</b>	<b>2,847</b>

## 27 Tax installments

	<b>Consolidated</b>	<b>Parent company</b>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
Value-added tax on sales and services - ICMS (ii)	10,769	10,769	6,147
Social Security Charges - INSS (i)	12,561	12,561	4,942
Social Integration Program (PIS) and Contribution for Social Security Funding (COFINS) (i)	989	989	1,040
Contribution to the Severance Indemnity Fund - FGTS.	2,250	2,250	477
Corporate Income Tax - IRPJ (i)	81	81	239
Social Contribution on Net Income (CSLL) (i)	39	39	40
Other	162	162	352
	<b>26,851</b>	<b>26,851</b>	<b>13,237</b>
Total classified as current liabilities	(8,128)	(8,128)	(6,317)
Total classified as non-current liabilities	18,723	18,723	6,920

- (i) The Company joined the Tax Recovery program (Refis) for federal debts, approved by Law 11941 of 27 May 2009 and in July 2011 substantially consolidated its debts related to INSS, PIS, COFINS and IRPJ/CSLL.
- (ii) It basically refers to ICMS debts that were included in the Program for Payment in Installment incentivized by the State of São Paulo (PPI). The total amounts of the installments are being paid in 120 monthly installments.

Schedule of payments of taxes in installment classified in current and non-current liabilities:

	<b>Consolidated</b>	<b>Parent company</b>	
<b>Year of maturity</b>	<b>2015</b>	<b>2015</b>	<b>2014</b>
2014	-	-	6,317
2015	8,128	8,128	2,169
2016	5,502	5,502	2,042
2017	4,210	4,210	1,398
2018-2024	9,012	9,012	1,311
	<b>26,851</b>	<b>26,851</b>	<b>13,237</b>

## 28 Advances from clients

	<u>Consolidated</u>	<u>Parent company</u>	
	2015	2015	2014
Advances from clients - Domestic market (i)	6.571	6.571	6,847
Advances from clients - Foreign market (ii)	147.454	147.454	68,592
Advances from clients - Sundry	68.855	68.855	4,573
	<u>222,281</u>	<u>222,281</u>	<u>80,012</u>
Total classified as current liabilities	(63,648)	(63,648)	(22,760)
Total classified as non-current liabilities	159,233	159,233	57,252

- (i) The amount refers to the advances made by clients, purchasers of ethanol.
- (ii) The amount refers to the advances made by clients, purchasers of sugar.

## 29 Provision for contingencies

The Company is party to lawsuits of a civil, labor and tax nature, all due in the normal course of operations. The Management, based on its legal advisors' opinion and, whenever applicable, grounded on specific opinion issued by experts, assesses the expectation of the outcome of the proceeding in course and determines the need or not for constituting a provision for contingencies.

As of March 31, 2015, the provision for contingencies in the amount of R\$ 7,570 refers to lawsuits considered as probable losses, based on the opinions of the legal advisors, is considered sufficient by Management to cover possible losses, as follows:

	Civil and environmental	Labors	Tax	Total
<b>Balance on March 31, 2014</b>	<u>1,089</u>	<u>8,250</u>	<u>1,015</u>	<u>10,354</u>
Provisions during the year	-	301	-	301
Write-offs during the year	(192)	(2,893)	-	(3,085)
<b>Balance on March 31, 2015</b>	<u>897</u>	<u>5,658</u>	<u>1,015</u>	<u>7,570</u>

### Tax lawsuit

Refer to: taxes whose payment is being challenged in court by the Company, in which the challenged amounts have been deposited in court; and success fees to be paid to the lawyers retained by the Company for defenses in tax lawsuits.

### Civil and environmental lawsuits

Refer to: compensation for material damages and pain and suffering; public civil lawsuits for abstaining from burning cane sugar straw and formation of a legal reserve; and execution actions of an environmental nature.

### Labor lawsuits

These refer to labor claims mainly related to: overtime; commuting hours; elimination of breaks during shifts; hazardous duty and health hazard premiums; return of amounts deducted from the

payroll, such as contributions to unions; night work pay; and recognition of a single employment contract with the consequent payment of the 13th-month salary and vacation pay plus a vacation bonus equivalent to one third of the salary.

### **Contingent liabilities**

The Company has other contingent liabilities involving labor, tax and civil issues in the estimated amount of R\$ 60,930 (R\$ 50,141 as of March 31, 2014). Due to the current stage of these suits and as the lawyers consider a favorable outcome possible, no provision for loss was recorded in the financial statements.

## **30 Financial instruments**

### **Financial risk management**

#### ***Overview***

The Company is exposed to the following risks from the use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operating risk; and
- Capital structure risk.

This note presents information on the Company's exposure to each one of the abovementioned risks, the Company's goals, policies and processes for the measurement and management of risk, and the Company's capital management.

#### ***Risk management framework***

The Company has a risk management policy that defines the methodologies and instruments to be applied for the permanent control of the risks to which it is exposed.

This policy aims at creating mechanisms for the maintenance of the Company's economic and financial balance, through the use of hedges for assets and liabilities. The procedures and instruments used for this are evaluated by the Controllershship, Finance and Marketing Committees, and subsequently proposed for approval by the Board of Directors.

The hedges to mitigate the main risks are managed as follows:

- For volatility of sugar prices on the international market, instruments are defined that include the amount of production of VHP sugar estimate for the harvest;
- For the exchange rate the amounts to be received in each period, are observed, in accordance with the forecast cash flow for the harvest; and

- For interest rates of financial liabilities only the transactions where the interest rates present significant historical volatility are hedged.

All the positions taken are constantly evaluated aiming at resizing the hedged volumes as necessary, as the Company uses derivative financial instruments for the sole purpose of hedging its assets and liabilities.

### ***Credit risk***

Credit risk is the possibility of a financial loss if a client or a counterpart of a financial instrument fails to fulfill its contractual obligations arising mainly from trade accounts receivable and investments of the Company.

The Company's main scope of its credit risk management is to contract operations only with financial institutions recognized by the market as a solid institution, which are approved in advance by the Board of Directors. Within this scope, the opening of new positions in the New York exchange (ICE Futures US) with the intermediation of INTL FCStone is authorized.

For client credit risk, the Company conducts analyzes prior to registration to ensure the suitability of the prospective client, as well as spot contracts to ensure the advanced receipt of the physical delivery of the product sold, trying to maintain a low average turnover of receipt from its clients.

In order to mitigate such risks, the Company adopts as practice an analysis of the financial and equity situation of their counterparties.

### ***Exposure to credit risk***

The carrying amounts of financial assets classified as loans and receivables represent the maximum credit exposure. The maximum credit risk exposure on balance sheet date was:

	<u>Consolidated</u>	<u>Parent company</u>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
Cash and banks	25,936	26,385	65,301
Interest earnings bank deposits	12,806	12,806	14,813
Other investments	14	14	15,474
Trade accounts receivable	21,236	21,236	7,549
Other accounts receivable	48	48	465
	<u><b>60,040</b></u>	<u><b>60,489</b></u>	<u><b>103,332</b></u>

Management in order to mitigate credit risks spreads its financial investments and other investments in financial institutions deemed by the market as first tier institutions.

### ***Impairment loss***

The allowance for doubtful accounts on trade accounts receivable was recorded in an amount considered by management as sufficient in the face of possible losses.

The composition of accounts receivable by maturity age is as follows:

	<u>Consolidated</u>	<u>Parent company</u>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
<b>Overdue</b>			
Up to 30 days	115	115	623
31-60 days	146	146	123
After 61 days	13	13	300
Over 121 days	518	518	1,201
	<b>792</b>	<b>792</b>	<b>2,247</b>
<b>Falling due</b>			
Up to 30 days	20,242	20,242	5,302
Over 31 days	203	203	-
	<b>20,444</b>	<b>20,444</b>	<b>5,302</b>
<b>Total</b>	<b>21,236</b>	<b>21,236</b>	<b>7,549</b>

The changes in allowance for impairment loss in relation to accounts receivable during the quarter was as follows:

<b>Balance on March 31, 2014</b>	<b>(373)</b>
Changes	91
<b>Balance on March 31, 2015</b>	<b>(281)</b>

### ***Liquidity risk***

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset.

The Company's approach in liquidity management is to guarantee, as much as possible, that it always has sufficient liquidity to perform its obligations upon maturity, under normal and stress conditions, without causing unacceptable losses or with a risk of sullyng the Company's reputation.

The contractual maturities of financial liabilities are shown below, including payment of estimated interest.

<b>Consolidated</b>					
<b>2015</b>					
	<b>Cash flow</b>	<b>Less than one year</b>	<b>Between two and three years</b>	<b>Between four and five years</b>	<b>Over 5 years</b>
<b>Financial liabilities</b>					
Suppliers	117,369	115,300	2,069	-	-
Derivative financial instruments	1,218	1,218	-	-	-
Loans and financing	2,115,013	303,107	176,727	1,635,179	-
Other accounts payable	2,845	2,845	-	-	-
	<b>2,236,447</b>	<b>422,472</b>	<b>178,796</b>	<b>1,635,179</b>	<b>-</b>
<b>Parent company</b>					
<b>2015</b>					
	<b>Cash flow</b>	<b>Less than one year</b>	<b>Between two and three years</b>	<b>Between four and five years</b>	<b>Over 5 years</b>
<b>Financial liabilities</b>					
Suppliers	117,369	115,300	2,069	-	-
Derivative financial instruments	1,218	1,218	-	-	-
Loans and financing	2,114,966	303,098	176,727	1,635,141	-
Other accounts payable	3,342	3,342	-	-	-
	<b>2,236,896</b>	<b>422,959</b>	<b>178,796</b>	<b>1,635,141</b>	<b>-</b>
<b>2014</b>					
	<b>Cash flow</b>	<b>Less than one year</b>	<b>Between two and three years</b>	<b>Between four and five years</b>	<b>Over 5 years</b>
<b>Financial liabilities</b>					
Suppliers	102,128	98,053	4,075	-	-
Derivative financial instruments	2,115	2,115	-	-	-
Loans and financing	1,365,437	568,861	137,312	386	658,878
Other accounts payable	7,494	7,494	-	-	-
	<b>1,477,174</b>	<b>676,523</b>	<b>141,387</b>	<b>386</b>	<b>658,878</b>

The gross inflows of entries / (exits), disclosed in the table above represent cash flows related to derivative and non-derivative financial liabilities held for risk management purposes which are not usually closed before the contractual maturity.

### **Market risk**

Market risk is the risk that changes in market prices, such as exchange rates and interest rates. The objective of market risk management is to manage and control exposures to market risks, within acceptable parameters, and at the same time to optimize the return.

***Foreign exchange risk***

The exchange rate risk to which the Company is exposed is the appreciation of the real against the dollar, as a significant portion of its revenue arises from exports received in U.S. dollars which in the event of appreciation of the real against the dollar causes a decrease in their income.

The hedging mechanisms aim at ensuring an average receipt compatible with the results projected by the Company for the harvest year. For hedging receipts from export income, the Company uses the "Currency forwards" (NDF) with the various financial institutions with which it operates.

The balances of loans and financing exposed to U.S. dollars refer materially to operations for Advances on Exchange Contract, Export Credit Notes, and Prepayment of Exports and Bonds. The Company therefore believes that there is a natural hedge, since the operations will be paid with funds from the delivery of sugar, also in U.S. dollars, which mitigates the risk of an impact on the Company's cash flow.

***Exposure to foreign currency***

The Company's exposure is substantially linked to the U.S. dollars (USD) on the base-dates presented below:

<b>Consolidated</b>		
	<b>2015</b>	
<b>Assets</b>	<b>R\$</b>	<b>USD</b>
<b>Current assets</b>		
Cash and cash equivalents	25,456	7,935
Accounts receivable - Foreign market	962	300
Margin deposits	380	118
<b>Total assets</b>	<b>26,798</b>	<b>8,354</b>
	<b>2015</b>	
<b>Liabilities</b>	<b>R\$</b>	<b>USD</b>
<b>Current liabilities</b>		
Loans and financing	278,795	86,906
Derivative financial instruments		
Cash flow swap	1,218	380
<b>Non-current liabilities</b>		
Loans and financing	1,811,906	564,809
<b>Total liabilities</b>	<b>2,091,919</b>	<b>652,094</b>
<b>Net liability exposure</b>	<b>2,065,121</b>	<b>643,741</b>

**Parent company**

	<b>2015</b>		<b>2014</b>	
	<b>R\$</b>	<b>USD</b>	<b>R\$</b>	<b>USD</b>
<b>Assets</b>				
<b>Current assets</b>				
Cash and cash equivalents				
Cash and cash equivalents	25,905	8,075	-	-
Margin deposits	380	118	430	190
Accounts receivable - Foreign market	962	300	7,387	3,264
<b>Total assets</b>	<b>27,247</b>	<b>8,493</b>	<b>7,817</b>	<b>3,454</b>
	<b>2015</b>		<b>2014</b>	
	<b>R\$</b>	<b>USD</b>	<b>R\$</b>	<b>USD</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Loans and financing	278,786	86,903	178,101	78,701
Derivative financial instruments				
Forward foreign currency contracts - NDF	-	-	2,088	923
Cash flow swap	1,218	380	27	12
<b>Non-current liabilities</b>				
Loans and financing	1,811,868	564,797	1,024,736	452,822
<b>Total liabilities</b>	<b>2,091,872</b>	<b>652,080</b>	<b>1,204,952</b>	<b>532,458</b>
<b>Net liability exposure</b>	<b>2,064,625</b>	<b>643,586</b>	<b>1,197,135</b>	<b>529,004</b>

Monetary assets and liabilities were restated and recorded in the balance sheet as of March 31, 2014 and March 31, 2015 with the foreign exchange rate calculated by the Central Bank of Brazil, respectively, R\$ 2.2630 and R\$ 3.2080 per US\$ 1.00.

The balances of loans and financing refer to operations of Advances on Exchange Contracts, Export Credit Notes, Export Prepayment and Bonds, therefore although the exchange rate effect has an impact on the financial statements, there is a natural hedge since the operations will be paid with funds from the delivery of sugar, also in U.S. dollars, which mitigates the risk of impact on the cash flow of the Company.

*Sensitivity analysis*

The probable scenario was adopted based on the position of the Company on March 31, 2015. For other scenarios, management used 25% for a possible scenario and a change of 50% for a remote scenario.

	<b>Consolidated</b>				
<b>Operations</b>	<b>Remote (-50%)</b>	<b>Possible (-25%)</b>	<b>Probable</b>	<b>Possible (+25%)</b>	<b>Remote (+50%)</b>
Loans and financing	1,045,350	1,568,026	2,090,701	2,613,376	3,136,051



<b>Parent company</b>					
<b>Operations</b>	<b>Remote (-50%)</b>	<b>Possible (-25%)</b>	<b>Probable</b>	<b>Possible (+25%)</b>	<b>Remote (+50%)</b>
Loans and financing	1,045,327	1,567,990	2,090,654	2,613,317	3,135,981

(\*) Changes were calculated on the referential rate of each transaction, which is the rate that would be negotiated with the counterparties as of March 31, 2015.

### ***Interest rate risk***

The Company's indebtedness costs are substantially tied to variable rates and thus it is exposed to the volatility of the following interest rates: Libor, TJLP and CDI. Occasionally, when significant volatilities are found in some interest rate to which it is exposed, the Company Hedges itself against interest rates by contracting Cash Flow Swaps tied to be some long-term operations, such Prepayment of Export and Export Credit Notes, which are contracted with several financial institutions with which the Company operates.

### ***Breakdown of financial instruments with variable interest rates***

On the date of the financial statements, the profile of financial instruments remunerated at interest with variable rates was concentrated in investments and loans and financing.

### ***Variable rate instruments***

The Company does not conduct sensitivity analysis for financial instruments tied to variable interest rates, since it considers that the possible impacts are immaterial to its financial statements.

### ***Price risk***

The Company is exposed to risks of changes in commodity prices due to the products produced, such as sugar and ethanol.

The Company operates in the management of price risk for volumes of sugar corresponding to the expected production for the harvest. The management of the positions is done in order to enable adjustments in the positions established, in response to market conditions, operating on the futures markets of the New York Stock Exchange (ICE Future US. - Intercontinental Exchange) and OTC markets.

On March 31, 2015, our sugar prices established for the 2015-16 crop for our trade partners or by means of derivative financial instruments amounted to 164,766 thousand tons at the average price of US\$15.94/lb (US dollar cents per pound weight) priced through futures contract No. 11 for gross sugar of ICE Futures, New York USA.

### ***Sensitivity analysis***

The assumptions used for the sensitivity analysis considers that there is a difference of more or less 10% from the indexes used for determining the fair value on March 31, 2015.

The Company does not show the mark to market of OTC contracts - Sugar.

### ***Operating risk***

Operating risk is the risk of direct or indirect losses arising from different causes related to the processes, personnel, technology and infrastructure of the Company and its subsidiaries, and external factors, except credit, market and liquidity risks, as those arising from legal and regulatory requirements and from generally accepted corporate behavior standards. Operating risks are associated to all operations of the Company.

The Company's goal is to manage the operational risk to avoid the occurrence of financial losses and damage to its reputation, and to pursue cost effectiveness and avoid control procedures that restrict initiative and creativeness.

### ***Capital structure risk***

Results from the choice between own capital (capital transfers and profit retention) and third party capital that the Company makes to finance its operations. To mitigate the liquidity risks and the optimization of the weighted average cost of capital, the Company permanently monitors the indebtedness levels according to market standards.

### ***Capital management***

The risk assessment for capital management has the main purpose of ensuring the satisfactory continuity of the Company's operation, with a structure capable of generating value for shareholders with adequate levels of borrowings and the benefits and the security permitted by a sound capital position. The Board of Directors defines the performance indicator to be analyzed and actions to achieve the desired level.

The indicator used by the Company is the ratio of net debt divided by the EBITDA (earn before interest, taxes, depreciation and amortization, including amortization of the plantation, accumulated in the last 12 months). Net debt includes total loans and financing from the first quarter to the third quarter less total cash and cash equivalents, other investments and finished product inventory value. For the fourth quarter (crop end), net debt includes total loans and financing less total cash and cash equivalents and other investments, and EBITDA accumulated in the last 12 months.

Revisions to the Company's dividend policy, investment policy and asset management are acceptable as actions to enable the fulfillment of the capital management goals and targets.

The ratio deemed satisfactory by the Company must be equal to or lower than three, in other words., the debt must no more than three times the EBITDA.

The index recorded in the period ended March 31, 2015 was 4.75 (3.4 on March 31, 2014), in accordance with the minimum ratio established by the Company.

The Company's debt to adjusted capital ratio at the end of the quarter is presented as follows:

	<u>Consolidated</u>	<u>Parent company</u>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
Total loans and financing	2,115,013	2,114,966	1,365,437
Less: Cash and cash equivalents	(38,741)	(39,191)	(79,844)
Less: Other investments (*)	(14)	(14)	(15,474)
Less: Finished product inventory	(23,254)	(23,254)	(21,679)
<b>Net debt</b>	<b><u>2,053,004</u></b>	<b><u>2,052,507</u></b>	<b><u>1,248,440</u></b>
Total shareholders' equity	(370,235)	(370,235)	253,340
<b>Net debt / shareholders' equity</b>	<b>(5.55)</b>	<b>(5.54)</b>	<b>4.93</b>

(\*) Other investments exclude investment recognized at cost in Centro de Tecnologia Canavieira, Energisa Bioeletricidade Santa Cândida I S.A., Energisa Bioeletricidade Vista Alegre I S.A. and Auto Posto Santa Cândida.

### ***Accounting classifications and fair values***

Statement of financial instruments and their respective category classification:

	<u>Consolidated</u>	<u>Parent company</u>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
<b>Financial instruments recorded at fair value through profit or loss</b>			
Other investments	14	14	15,474
Derivative financial instruments - liabilities	(1,218)	(1,218)	(2,115)
<b>Assets held at amortized cost</b>			
Cash and cash equivalents	38,742	39,191	79,844
<b>Loans and receivables</b>			
Trade accounts receivable	21,236	21,236	7,549
Other accounts receivable	48	48	465
<b>Liabilities held at amortized cost</b>			
Suppliers	(117,369)	(117,369)	(102,128)
Loans and financing	(2,115,013)	(2,114,966)	(1,365,437)
Other accounts payable	(2,847)	(3,343)	(7,494)

During the year ended March 31, 2015, no reclassification of financial instruments was carried out among the categories above.

*Book value versus fair value*

The fair values of the financial assets and liabilities, together with the book values presented in the balance sheet, are as follows:

		<b>Consolidated 2015</b>	
		<b>Book value</b>	<b>Fair value</b>
<b>Assets</b>			
Cash and cash equivalents		38,742	38,742
Other investments		14	14
Trade accounts receivable		21,236	21,236
Other accounts receivable		48	48
<b>Liabilities</b>			
Suppliers		(117,369)	(117,369)
Derivative financial instruments		(1,218)	(1,218)
Loans and financing		(2,115,013)	(2,115,013)
Other accounts payable		(2,847)	(2,847)

		<b>Parent company</b>			
		<b>2015</b>		<b>2014</b>	
		<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
<b>Assets</b>					
Cash and cash equivalents		39,191	39,191	79,844	79,844
Other investments		14	14	15,474	15,474
Trade accounts receivable		21,236	21,236	7,549	7,549
Other accounts receivable		48	48	465	465
<b>Liabilities</b>					
Suppliers		(117,369)	(117,369)	(102,128)	(102,128)
Derivative financial instruments		(1,218)	(1,218)	(2,115)	(2,115)
Loans and financing		(2,114,966)	(2,114,966)	(1,365,437)	(1,365,437)
Other accounts payable		(3,343)	(3,343)	(7,494)	(7,494)

*Fair value hierarchy*

The table below provides an analysis of financial instruments that are measured at fair value after first-time recognition, grouped in Levels 1 to 3 based on the observable level of fair value:

- **Level 1 measurements of fair value** - are obtained from (unadjusted) prices quoted in active markets for identical assets and liabilities;
- **Level 2 fair value measurements** - are obtained through other variables in addition to quoted prices included in Level 1, which are verifiable directly for the asset or liability (that is, as prices) or indirectly (that is, based on prices); and
- **Level 3 fair value measurements** - Are obtained through evaluation techniques that include variables for the asset or liability, but that are not based on verifiable market data (non-verifiable data).

	<b>Consolidated 2015</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>			
Cash and cash equivalents	25,936	12,806	-
Other investments	14	-	-
<b>Liabilities</b>			
Cash flow swap	-	1,218	-

	<b>Parent company</b>					
	<b>2015</b>			<b>2014</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>						
Cash and cash equivalents	26,385	12,806	-	64,601	14,813	-
Other investments	14	-	-	15,474	-	-
<b>Liabilities</b>						
Cash flow swap	-	1,218	-	-	27	-
Forward foreign currency contracts - NDF	-	-	-	-	2,088	-

### ***Derivative instruments***

On March 31, 2015, the balances of assets and liabilities related to transactions involving derivative financial instruments were as follows:

	<b>Parent company</b>	
	<b>2015</b>	<b>2014</b>
<b>Derivative liabilities</b>		
Forward foreign currency contracts - NDF	-	2,088
Cash flow swap	1,218	27
<b>Total liabilities</b>	<b>1,218</b>	<b>2,115</b>
Total current liabilities	1,218	2,115

The amounts of margin deposits refer to funds held in a current account with the broker INTL FCStone to cover initial margins and daily adjustments resulting from fluctuations in sugar prices, to ensure the outstanding operations that the Company has with the broker.

The balance of forward contracts, NDF, refers to the negative result of Hedge transactions contracted in the form of NDF.

The balance of cash flow swaps refers to the negative result calculated for cash flow Hedges for export pre-payments.

### ***Guarantee margins***

On March 31, 2015, the Company held amounts deposited as guarantee margins, as required by the Nova York ICE Future US exchange, as follows:

<b>Broker INTL FCStone</b>	<b>Parent company</b>	
	<b>2015</b>	<b>2014</b>
OTC account	380	-
	<b>380</b>	<b>-</b>

### ***Forward contracts - NDF***

The counterparties to foreign currency forward contracts as of March 31, 2014 are with banks considered as prime banks. On March 31, 2015 doesn't have balances with NDF.

<b>2014</b>						
<b>Position</b>	<b>Maturity</b>	<b>US\$ thousand</b>	<b>Average fixed rate R\$ / US\$</b>	<b>Reference value - R\$</b>	<b>Fair value - R\$</b>	<b>Effect payable - R\$</b>
Sold	May 2014	500	2.4280	1,214	62	62
Sold	July 2014	2,250	2.2851	5,141	(76)	(76)
Sold	July 2014	7,750	2.2660	17,561	(555)	(555)
Sold	August 2014	9,000	2.2895	20,605	(604)	(604)
Sold	September 2014	8,250	2.3132	19,084	(509)	(509)
Sold	October 2014	6,500	2.3325	15,161	(403)	(403)
Sold	November 2014	500	2.4100	1,205	(3)	(3)
		<b>34,750</b>				<b>(2,088)</b>

### ***Impact of derivative financial instruments in income (loss)***

	<b>Consolidated</b>	<b>Parent company</b>	
	<b>2015</b>	<b>2015</b>	<b>2014</b>
<b>Income and expenses on derivatives by category</b>			
Income			
Futures contracts - Sugar	-	-	215
Currency forward contracts - NDF	2,968	2,968	142
Cash flow swap	-	-	49
<b>Total income</b>	<b>2,968</b>	<b>2,968</b>	<b>406</b>
Expenses			
Futures contracts - Sugar	(3,731)	(3,731)	(5,012)
Currency forward contracts - NDF	(1,773)	(1,773)	(19,540)
Cash flow swap	(2,521)	(2,521)	(566)
<b>Total expenses</b>	<b>(8,075)</b>	<b>(8,075)</b>	<b>(25,118)</b>
<b>Net Income (loss)</b>	<b>(5,107)</b>	<b>(5,107)</b>	<b>(24,712)</b>

## **31 Related parties**

### **Remuneration of key management personnel**

	<b>Parent company</b>	
	<b>2015</b>	<b>2014</b>
Salaries and wages	2,588	3,206
Fees and bonuses	1,991	-
Social security and social contributions	484	304
Profit sharing program	9	9
Other	19	100
	<b>5,090</b>	<b>3,619</b>

The remuneration paid to key management personnel, composed of Directors and Board members, as of March 31, 2015 was R\$ 5,090 (R\$ 3,619 on March 31, 2014) and includes short-term variable salaries and benefits. The Company does not grant benefits with long-term characteristics to the key management personnel.

## Other related party transactions

	Parent company and consolidated	Parent company
	2015	2014
<b>Breakdown of balances of assets</b>		
<b>Accounts receivable</b>		
Estrela Dalva Tecnologia em limpeza	-	45
Silvia de Barros Brisola	-	130
Flavio de Albuquerque Pinheiro	-	126
Wilson Helio de Albuquerque Pinheiro Junior	-	116
Renata de Albuquerque Pinheiro	-	118
	<u>-</u>	<u>535</u>
<b>Total accounts receivable - related parties (note 14)</b>	<u>-</u>	<u>535</u>
<b>Advances to suppliers</b>		
Abelmir BortoloTonon	41	40
Alfredo Tonon and others	15	245
Aparecida T. Tonon Ghiselli	16	47
Auto Posto Santa Cândida de Bocaina Ltda.	626	845
DioneteTonon	2	96
José Antônio Tonon	512	476
Mauro de Albuquerque Pinheiro	150	517
Renato José Tonon	303	316
Tereza de Francisco	34	39
Tonon Holding	500	500
Vera Tonon Durante	733	555
Wilson Helio Albuquerque Pinheiro Junior	369	314
	<u>3,302</u>	<u>3,990</u>
<b>Total advances to suppliers - Related parties (note 16)</b>	<u>3,302</u>	<u>3,990</u>
<b>Suppliers</b>		
ABT Participações Ltda.	13	12
Alfredo Tonon and others	54	9
ALT Participações Ltda.	13	12
ANT Participações Ltda.	13	12
CAJRT Participações Ltda.	13	12
Celso Roberto Tonon	69	26
Flavio de Albuquerque Pinheiro	109	65
JAT Participações Ltda.	13	12
J. Tonon Transp. Ltda.	2	31
RJT Participações Ltda.	13	12
Renata de Albuquerque Pinheiro	45	-
Silvia de Barros Brisola	23	-
TononAgroimóveis Rurais Ltda.	367	659
Pinhal Administração de bens próprios	489	21
Wilson Helio Albuquerque Pinheiro Junior	44	-
	<u>1,279</u>	<u>883</u>
<b>Total suppliers - related parties (note 24)</b>	<u>1,279</u>	<u>883</u>



	2015								
	Purchase of fuel	Purchase of sugarcane	Services received	Sureties taken	Retainer expenses	Purchase of property, plant and equipment	Acquisition of Paraiso	Payment for over- accruals	Total
AbelmirBortoloTonon	-	-	-	33	-	-	-	-	33
ABT Participações Ltda.	-	-	-	-	153	-	-	-	153
Alfredo Tonon	-	505	-	49	-	-	-	-	554
Alfredo Tonon e Outros	-	46	-	-	-	-	-	-	46
ALT Participações Ltda.	-	-	-	-	153	-	-	-	153
ANT Participações Ltda.	-	-	-	-	153	-	-	-	153
Antônio Tonon	-	-	-	21	-	-	-	-	21
Aparecida T. Tonon Ghiselli	-	236	-	-	-	-	-	-	236
Auto Posto Santa Cândida de Bocaina Ltda.	24,562	-	-	-	-	-	-	-	24,562
CAJRTParticipações Ltda.	-	-	-	-	153	-	-	-	153
Celso Roberto Tonon	-	286	-	38	-	-	-	-	324
DioneteTonon	-	147	-	-	-	-	-	-	147
Flavio Albuquerque Pinheiro	-	19	-	188	-	-	-	-	207
J. Tonon Transportes Ltda.	-	-	493	-	-	-	-	-	493
JAT Participações Ltda.	-	-	-	-	153	-	-	-	153
José Antônio Tonon	-	151	-	40	-	-	-	-	191
Mauro Albuquerque Pinheiro	-	748	-	-	-	-	-	-	748
Pinhal Administração de Bens	-	1,349	-	-	-	-	-	-	1,349
Renata de Albuquerque Pinheiro	-	19	-	188	-	-	-	-	207
Renato José Tonon	-	173	-	38	-	-	-	-	211
RJT Participações Ltda.	-	-	-	-	153	-	-	-	153
Silvia de Barros Brisola	-	10	-	94	-	-	-	-	104
Tereza de Francisco Delbuque	-	86	-	-	-	-	-	-	86
Tonon Agro Imóveis Rurais Ltda.	-	7,355	-	-	-	-	-	-	7,355
Wilson Helio A. Pinheiro Jr.	-	19	-	188	-	-	-	-	207
<b>Total</b>	<b>24,562</b>	<b>11,149</b>	<b>493</b>	<b>877</b>	<b>920</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>38,001</b>

**2014**

	<b>Purchase of fuel</b>	<b>Purchase of sugarcane</b>	<b>Services received</b>	<b>Sureties taken</b>	<b>Retainer expenses</b>	<b>Purchases of property, plant and equipment</b>	<b>Acquisition of Paraiso</b>	<b>Total</b>
AbelmirBortoloTonon	-	-	-	130	-	1,960	-	2,090
ABT Participações Ltda.	-	-	-	-	144	-	-	144
Alfredo Tonon	-	346	-	190	-	-	-	536
Alfredo Tonon and others	-	10	-	-	-	-	-	10
ALT Participações Ltda.	-	-	-	-	144	-	-	144
ANT Participações Ltda.	-	-	-	-	144	-	-	144
Antônio Tonon	-	-	-	81	-	-	-	81
Aparecida T. Tonon Ghiselli	-	249	-	-	-	-	-	249
Auto Posto Santa Cândida de Bocaina Ltda.	28,674	-	-	-	-	-	-	28,674
CAJRTParticipações Ltda.	-	-	-	-	144	-	-	144
Carlos Eduardo B. Tonon	-	-	-	-	-	30	-	30
Celso Roberto Tonon	-	315	-	147	-	-	-	462
DioneteTonon	-	137	-	-	-	-	-	137
Flavio Albuquerque Pinheiro	-	61	-	121	-	-	14,286	14,468
J. Tonon Transportes Ltda.	-	-	497	-	-	-	-	497
JAT Participações Ltda.	-	-	-	-	144	-	-	144
José Antônio Tonon	-	187	-	156	-	-	-	343
Pinhal Administração de Bens	-	1,006	-	-	-	-	-	1,006
Renata de Albuquerque Pinheiro	-	61	-	121	-	-	14,286	14,468
Renato José Tonon	-	47	-	147	-	-	-	194
RJT Participações Ltda.	-	-	-	-	144	-	-	144
Silvia de Barros Brisola	-	30	-	61	-	-	7,142	7,233
Tonon Agro Imóveis Rurais Ltda.	-	10,375	-	-	-	-	-	10,375
Transbilin Transportes Ltda.	-	-	-	-	-	1,475	-	1,475
Transbocainense Transportes Ltda.	-	-	-	-	-	2,351	-	2,351
Wilson Helio A. Pinheiro Jr.	-	61	-	121	-	-	14,286	14,468
<b>Total</b>	<b>28,674</b>	<b>12,885</b>	<b>497</b>	<b>1,275</b>	<b>864</b>	<b>5,816</b>	<b>50,000</b>	<b>100,011</b>

## 32 Shareholders' equity - Parent company

### Capital

On June 26, 2014, the capital was increased by FIP Terra Viva in the amount of R\$ 13,758 through the capitalization of receivables arising from the purchase price adjusting mechanism resulting from the acquisition, by the Company, of shares issued by Paraíso Bioenergia S.A.. Also, there was a capital increase made by Tonon Holding S.A. in the amount of R\$ 2,731 arising from an Agreement for Indemnity and Other Covenants.

On March 31, 2015, capital is R\$ 104,754 divided into 55,545,498 registered common shares with no par value and 34,707,533 registered preferred shares, with no par value. The capital is comprised by the following shareholders:

	2015		2014	
	Shares (thousands)	R\$	Shares (thousands)	R\$
Tonon Holding S.A. (i)	55,545	57,931	55,200	55,200
FIP - Terra Viva (ii)	34,707	46,823	33,065	33,065
	<b>104,754</b>		<b>88,265</b>	

- (i) Nominative common shares with no par value. Preferred shares guarantee voting rights in the General Meeting; and
- (ii) Registered preferred shares with no par value. Preferred shares entitle their holders to vote in the general meetings, and to priority in capital reimbursements.

All capital is fully subscribed and paid in.

### Capital reserve

Represented by the excess amount of the issue price of the subscription of shares by the fund FIP Terra Viva.

### Goodwill special reserve

Represented by the tax benefit generated by the goodwill through corporate mergers made by the Company.

The Company, for corporate purposes, wrote off this goodwill since for accounting practices adopted in Brazil this goodwill does not meet the requirements of accounting recognition, however, the portion of the tax benefit to which the Company is entitled was maintained in accordance with the legal opinion of its legal counsel.

### Legal reserve

The legal reserve is set up at the rate of 5% of the net income determined in each financial year, pursuant to article 193 of Law 6404/76 up to the limit of 20% of the share capital.

### Dividends

If there is a profit in the year, the Company's prevailing bylaws require that the Annual General Meeting decides on the distribution of dividends, which is at least 30% of the net income for the year, adjusted in accordance with article 202 of Law 6404/76.

### **Equity evaluation adjustment**

Refers to the adoption of the deemed cost for property, plant and equipment on the transition date, less the respective deferred income tax and social contribution and it is being realized through depreciation, disposal or write off of the assets which it originated from.

### **Advances for future capital increase**

Refers to the allocation of the purchase price of the acquisition of the subsidiary Paraíso Bioenergia S.A. in the amount of R\$ 50 million. This amount must be subscribed to the capital Tonon Bioenergia S.A. through common shares by the seller or paid in local currency up to May 2015, in accordance with the option of Tonon Bioenergia S.A., determined in the contract for purchase and sale.

## **33 Revenue**

The Company's operating income consist of the sale of sugar, ethanol and electric power for domestic and foreign markets.

The reconciliation between the gross and net income is as follows.

	<b>Consolidated</b>		<b>Parent company</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Gross revenue from domestic sales	346,346	343,035	346,346	242,398
Gross revenue from foreign sales	426,604	502,188	426,604	426,942
Gross revenue from sales and services	6,336	6,014	6,336	5,551
Gross revenue from resales	4,751	-	4,751	-
	<b>784,036</b>	<b>851,237</b>	<b>784,036</b>	<b>674,891</b>
Less:				
Deductions and rebates	(17,305)	(14,904)	(17,305)	(14,767)
Sales tax	(33,630)	(31,782)	(33,630)	(15,164)
Resales tax	(1,250)	-	(1,250)	-
	<b>(52,184)</b>	<b>(46,686)</b>	<b>(52,184)</b>	<b>(29,931)</b>
<b>Net revenue</b>	<b>731,852</b>	<b>804,551</b>	<b>731,852</b>	<b>644,960</b>

## 34 Expenses and other operating income

	Consolidated		Parent company	
	2015	2014	2015	2014
<b>Operating expenses by type</b>				
Agreements	(7,590)	-	(7,590)	-
Losses from partnership agreements	(46,855)	(52,179)	(46,855)	(47,132)
Commercial expenses of shipments and freight	(20,739)	(20,937)	(20,739)	(18,176)
Personnel expenses	1,915	(2,675)	1,915	(2,625)
Expenses/income with taxes fees and contributions	(3,436)	(5,638)	(3,436)	(5,007)
Other expenses	(7,214)	(7,367)	(7,214)	(6,030)
Third party services	(2,639)	(2,318)	(2,639)	(2,050)
Depreciation and amortization	(7,364)	(802)	(7,364)	(802)
Loss in the sale of investments	5,823	13,215	5,823	9,087
Other net operating income	91	-	91	-
	<b>(87,418)</b>	<b>(78,702)</b>	<b>(87,418)</b>	<b>(72,735)</b>
<b>Operating expenses by function</b>				
Administrative expenses	(6,380)	(17,151)	(6,380)	(11,169)
Sales expenses	(48,416)	(53,724)	(48,416)	(48,677)
General expenses	(26,510)	(17,979)	(26,510)	(18,578)
Other operating expenses, net	(6,112)	10,152	(6,112)	5,687
	<b>(87,418)</b>	<b>(78,702)</b>	<b>(87,418)</b>	<b>(72,735)</b>

## 35 Net financial

	Consolidated		Parent company	
	2015	2014	2015	2014
<b>Receitas financeiras</b>				
Gains with derivative financial instruments	2,968	7,666	2,968	4,802
Yields from financial investments	3,258	7,696	3,258	7,488
Discounts granted	225	715	225	704
Asset interest	1,366	4,217	1,366	1,317
Asset foreign exchange fluctuation	1,347,273	269,025	1,021,949	250,362
	<b>1,355,090</b>	<b>289,319</b>	<b>1,029,766</b>	<b>264,672</b>
<b>Despesas financeiras</b>				
Losses with derivative financial instruments	(8,075)	(33,361)	(8,075)	(25,248)
Interest expense and bank charges	(225,480)	(112,014)	(225,480)	(94,678)
Contractual fines	(315)	-	(315)	-
Liability foreign exchange fluctuations	(2,019,947)	(452,206)	(1,694,031)	(401,711)
	<b>(2,253,817)</b>	<b>(597,581)</b>	<b>(1,927,900)</b>	<b>(521,637)</b>
<b>Net financial</b>	<b>(898,727)</b>	<b>(308,262)</b>	<b>(898,134)</b>	<b>(256,965)</b>

## 36 Parent company

The Company has a state tax incentive program with the State of Mato Grosso do Sul in the form of deferral of payment of Value Added Tax on Sales and Services (ICMS). The Company's use of the tax incentive is contingent on fulfillment of all the obligations set forth in the agreement, whose conditions refer to factors under the Company's control.

The benefit related to the reduction in the payment of this tax is calculated on the outstanding balance calculated in each calculation period by applying the percentage of the discount given by the tax incentive.

The amount of the subsidy calculated during the period was recorded in the income statement as a deduction under sales taxes.

For the periods ended March 31, 2014 and 2015, the amount of the incentive which impacted the results was R\$ 4,553 and R\$ 9,099, respectively.

### **37 Firm commitments - Parent company**

Expected production for 2015/2016 crop, with respective obligation volumes with clients, obligations referring to contracts already executed with clients and suppliers for the coming crops, partners and sugarcane leases are as follows:

#### **Forecast production versus commitments with clients**

	Sugar values (in tons)		
	Forecast production + Inventory	Commitments with clients	Committed volume (%)
12/31/2015	501,632	500,156	99,71

#### **Commitments with clients for the next harvest for sale of sugar**

Year / Crop	Tons of sugar
2015/2016	500,156
2016/2017	486,000
2017/2018	350,000
2018/2019	276,000
2019/2020	70,000
	<b>1,682,156</b>

#### **Contracts closed for 2015 and subsequent years for suppliers and partners and leases**

Future crops	Commitments with suppliers in thousands of R\$
2015/2016	140,697
2016/2017	118,219
2017/2018	92,333
2018/2019	50,375
2019/2020	33,550
Crop from 2020/2021 to 2029/2030	173,900
	<b>609,074</b>

For valuation of payment commitments of suppliers, partners and leases, the TRS amount in effect in March, 2015, of R\$ 0.4909 kg/TRS and in other crops for commitments assumed was used.

### **38 Profit sharing program - Parent company**

In accordance with the collective labor agreement, signed with its employees, the Company implemented the program for employee profit sharing based on agreements and operating and financial targets previously established, based on the budgetary plan.

The operating and financial indicators agreed between the Company and the employees, through the unions that represent them, are related to the following aspects: (i) agribusiness operating indexes; (ii) budgetary index; (iii) safety, health and environmental statistical indexes; (iv) economic gains with changes in processes and the related quality; and (v) economic and financial performance.

The amount of profit sharing, which was recorded as operating expenses is as follows:

	<b>Parent company</b>	
	<b>2015</b>	<b>2014</b>
Profit sharing	7,427	9,438

### **39 Environmental aspects**

The Group considers that the facilities and activities are subject to environmental regulations and reduces the risks associated with environmental matters, by operational procedures and investment controls in pollution control equipment and systems. The Group believes that no allowance for loss relating to environmental matters is required at present, based on the current laws and regulations in force.

### **40 Subsequent events**

As mentioned in Note 25, on March 31, 2015 the Company did not meet certain financial indicators (covenants) arising from contractual obligations financing and May 20, 2015 the Administration obtained the contractual amendment and the consent (waiver) of creditors of financial operations.

**Tonon Bioenergia S.A.**

**Financial statements**  
**March 31, 2014 and 2013**

(A free translation of the original report in Portuguese as issued in Brazil  
containing Financial Statement prepared in accordance with accounting  
practices adopted in Brazil)



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## Independent auditors' report on financial statements

To  
Executive board and Shareholders of  
Tonon Bioenergia S.A.  
Bocaina - SP

We have audited the financial statements of Tonon Bioenergia S.A. (“the Company”), which comprises: the individual balance sheets as at March 31, 2014; the individual and consolidated statements of income and statements of comprehensive income for the year ended March 31, 2014; the individual statements of changes in equity for the year ended March 31, 2014; the individual and consolidated statements of cash flows for the year ended March 31, 2014; and notes to the interim financial statements.

### Management’s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of the individual financial statements in accordance with accounting practices adopted in Brazil (BR GAAP) and of the consolidated financial statements in accordance with accounting practices adopted in Brazil (BR GAAP) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board - IASB, and for such internal control as management determines necessary to enable the preparation of the financial statements free from material misstatement, whether caused by fraud or error.

### Auditors’ Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence on the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Opinion on individual financial statements**

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of Tonon Bioenergia S.A. as of March 31, 2014, the results of its operations and its cash flows for the year then ended in accordance with accounting practices adopted in Brazil (BR GAAP).

**Opinion on consolidated financial statements**

In our opinion, the consolidated financial statements present fairly, in all material respects, the results of its operations and its cash flows for the year ended March 31, 2014, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board - IASB and accounting practices adopted in Brazil (BR GAAP).

Ribeirão Preto, June 16, 2014.

KPMG Auditores Independentes  
CRC 2SP014428/O-6  
*Original report in Portuguese signed by*  
André Luiz Monaretti  
Accountant CRC-1SP160909/O-3

# Tonon Bioenergia S.A.

## Balance sheets march 31, 2014 and 2013

(In thousands of reais)

Assets	Note	2014	2013	Liabilities	Note	2014	2013
Cash and cash equivalents	7	79,844	304,586	Suppliers	19	98,053	41,726
Other investments	8	15,474	19,324	Derivatives	25	2,115	1,749
Derivatives	25	-	1,373	Loans and financing	20	568,861	107,451
Accounts receivable, net	9	7,549	1,466	Salaries and social charges		28,705	14,522
Inventories	10	53,146	31,821	Taxes payable	21	2,847	2,675
Advances to suppliers	11	75,968	38,111	Taxes payable in installments	22	6,317	5,265
Prepaid expenses		479	226	Advances from customers	23	22,760	7,114
Recoverable taxes	12	50,051	29,306	Other accounts payable		7,494	3,205
Assets held for sale	13	3,028	3,028				
Income and social contribution taxes		151	151				
Other receivables		465	1,653				
<b>Total current assets</b>		<b>286,155</b>	<b>431,045</b>	<b>Total current liabilities</b>		<b>737,152</b>	<b>183,707</b>
<b>Long-term assets</b>							
Prepaid expenses		39	-	Suppliers	19	4,075	12
Other investments	8	38,139	29,273	Derivatives	25	-	2,879
Advances to suppliers	11	37,065	33,430	Loans and financing	20	796,576	822,558
Deferred tax assets	14	18,660	-	Advances from customers	23	57,252	-
Recoverable taxes	12	2,703	475	Deferred tax liability	14	-	6,546
Judicial deposits		5,302	3,063	Provision for contingencies	24	10,354	6,588
				Tax installments	22	6,920	5,839
		101,908	66,241	<b>Total non-current liabilities</b>		<b>875,177</b>	<b>844,424</b>
<b>Investments</b>	15	4,095	4,895				
<b>Property, plant and equipment</b>	16	594,636	354,854	<b>Shareholders' equity</b>			
<b>Biological assets</b>	17	740,067	471,376	Capital		88,265	79,310
<b>Intangibles, net</b>	18	138,807	2,259	Advances for future capital increase		50,000	-
				Legal reserve		993	993
				Capital reserve		167,216	106,170
				Special premium reserve		34,806	34,806
				Profit reserve		-	35,940
				Revaluation reserve		5,175	-
				Equity valuation adjustment		81,973	45,319
				Accumulated losses		(175,088)	-
<b>Total non-current assets</b>		<b>1,579,513</b>	<b>899,625</b>	<b>Total shareholders' equity</b>	27	<b>253,340</b>	<b>302,539</b>
				<b>Total liabilities</b>		<b>1,612,328</b>	<b>1,028,131</b>
<b>Total assets</b>		<b>1,865,668</b>	<b>1,330,670</b>	<b>Total liabilities and shareholders' equity</b>		<b>1,865,668</b>	<b>1,330,670</b>

See the accompanying notes to the financial statements.

# Tonon Bioenergia S.A.

## Statements of incomes

Years ended March 31, 2014 and 2013

(In thousands of reais)

		Consolidated IFRS/CPC	Parent - CPC	
	Note	2014	2014	2014
Net revenue	28	804,551	644,960	594,103
Cost of goods sold and services rendered		(678,759)	(549,501)	(486,555)
Changes in the fair value of biological assets	17	51,829	48,586	47,547
<b>Gross profit</b>		<b>177,621</b>	<b>144,045</b>	<b>155,095</b>
Administrative expenses	29	(17,151)	(11,169)	(5,220)
Selling expenses	29	(53,724)	(48,677)	(36,030)
General expenses	29	(17,979)	(18,578)	(14,023)
Equity in net income of subsidiaries	15	(946)	(13,962)	-
Other operating income (expenses), net	29	10,152	5,689	(544)
		<b>(79,648)</b>	<b>(86,697)</b>	<b>(55,817)</b>
<b>Income before financial income (expenses) liquid and taxes</b>		<b>97,973</b>	<b>57,348</b>	<b>99,278</b>
Financial income	30	289,319	264,672	79,148
Financial expenses	30	(597,581)	(521,637)	(212,890)
<b>Financial expenses, net</b>	30	<b>(308,262)</b>	<b>(256,965)</b>	<b>(133,742)</b>
<b>Loss before taxes</b>		<b>(210,289)</b>	<b>(199,617)</b>	<b>(34,464)</b>
Deferred income and social contribution taxes	14	34,832	24,159	19,524
<b>Loss from continued operations</b>		<b>(175,458)</b>	<b>(175,458)</b>	<b>(14,940)</b>
<b>Discontinued operations</b>		<b>-</b>	<b>-</b>	<b>729</b>
<b>Loss for the year</b>		<b>(175,458)</b>	<b>(175,458)</b>	<b>(14,211)</b>

See the accompanying notes to the financial statements.

# Tonon Bioenergia S.A.

## Statements of comprehensive income

Years ended March 31, 2014 and 2013

*(In thousands of reais)*

		Consolidated IFRS/CPC	Parent - CPC	
	Note	2014	2014	2013
Loss for the year		(175,458)	(175,458)	(14,211)
Net variation in the fair value of financial assets available for sale		8,670	8,670	11,692
Income and social contribution taxes on other comprehensive income	14	<u>(2,948)</u>	<u>(2,948)</u>	<u>(3,975)</u>
<b>Other comprehensive income, net of income and social contribution taxes</b>		<u>5,722</u>	<u>5,722</u>	<u>7,717</u>
<b>Comprehensive income total</b>		<u><u>(169,736)</u></u>	<u><u>(169,736)</u></u>	<u><u>(6,494)</u></u>

See the accompanying notes to the financial statements.

**Tonon Bioenergia S.A.**

**Statements of changes in shareholders' equity**

**Years ended March 31, 2014 and 2013**

*(In thousands of reais)*

Note	Capital	Advances for future capital increase	Capital reserves	Special premium reserve	Profit reserve		Revaluation reserve	Equity evaluation adjustment	Accumulated loss	Total
					Legal reserve	Unrealized profit reserve				
<b>Balance at March 31, 2012</b>	<b>67,424</b>	<b>-</b>	<b>74,057</b>	<b>34,806</b>	<b>993</b>	<b>32,084</b>	<b>-</b>	<b>55,669</b>	<b>-</b>	<b>265,033</b>
Capital increase	11,886	-	32,113	-	-	-	-	-	-	44,000
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Realization of deemed cost	-	-	-	-	-	7,717	-	-	-	7,717
Advances for future capital increase	-	-	-	-	-	10,350	-	(10,350)	-	-
Loss for the year	-	-	-	-	-	(14,211)	-	-	-	(14,211)
<b>Balance at March 31, 2013</b>	<b>79,310</b>	<b>-</b>	<b>106,170</b>	<b>34,806</b>	<b>993</b>	<b>35,940</b>	<b>-</b>	<b>45,319</b>	<b>-</b>	<b>302,539</b>
Capital increase	8,955	-	61,046	-	-	-	-	-	-	70,000
Other Comprehensive Income	-	-	-	-	-	5,722	-	-	-	5,722
Realization of deemed cost	-	-	-	-	-	8,814	-	(8,814)	-	-
Advance for future capital increase	-	50,000	-	-	-	-	-	-	-	50,000
Revaluation reserve - Merger	-	-	-	-	-	-	5,175	-	(5,175)	-
Equity valuation adjustment - cost - Merger	-	-	-	-	-	-	-	45,468	(45,468)	-
Loss for the year	-	-	-	-	-	538	-	-	(175,458)	(174,921)
Offset accumulated losses	-	-	-	-	-	(51,014)	-	-	51,014	-
<b>Balance at March 31, 2014</b>	<b>88,265</b>	<b>50,000</b>	<b>167,216</b>	<b>34,806</b>	<b>993</b>	<b>-</b>	<b>5,175</b>	<b>81,973</b>	<b>(175,088)</b>	<b>253,340</b>

See the accompanying notes to the financial statements.

# Tonon Bioenergia S.A.

## Statements of cash flows – Indirect method

Years ended March 31, 2014 and 2013

(In thousands of reais)

	Consolidated IFRS / CPC	Parent - CPC	
	2014	2014	2013
<b>Cash flows from operating activities</b>			
<b>Loss for the year</b>	(175,458)	(175,458)	(14,211)
Adjusted by:			
Depreciation of propert, plant and equipment	41,812	34,047	38,572
Amortization of intangible assets	560	528	521
Realization of inter-harvest maintenance carried out	79,857	72,216	55,434
Amortization of crops and handling costs	176,494	144,135	98,945
Change in fair value of biological assets	(51,829)	(48,586)	(47,547)
Provision for doubtful accounts	(64)	-	(4,011)
Provision for contingencies	2,838	3,010	(13,797)
Deferred tax assets and liabilities	(34,832)	(24,159)	(19,524)
Interest and exchange variation on loans and financing	265,938	223,600	104,088
Change in financial instrument´s fair value	(4,868)	(7,457)	2,840
Residual value of fixed assets sold	3,762	1,483	839
Equity income	946	13,962	(1,752)
	<b>305,156</b>	<b>237,320</b>	<b>200,398</b>
<b>Changes in assets and liabilities</b>			
(Increase) decrease in other investments	(13,145)	(4,908)	28,198
(Increase)/decrease in trade accounts receivable	(1,911)	17,557	6,457
(Increase) decrease in inventories	(1,926)	(1,587)	(3,351)
(Increase) decrease in advances to suppliers	(15,234)	(21,606)	(16,622)
(Increase) decrease in prepaid expenses	226	118	321
(Increase) decrease in recoverable taxes	(18,189)	(18,028)	(1,722)
(Increase) decrease in other accounts receivable	1,188	1,208	145,005
(Increase) decrease in judicial deposits	(1,899)	(1,920)	187
Increase (decrease) in suppliers	15,392	17,401	(48,151)
Increase (decrease) in salaries and social security charges	4,137	2,910	1,560
Increase (decrease) in taxes payable	(5,631)	(6,071)	(5,048)
Increase (decrease) in advances from clients	69,860	53,550	(46,698)
Increase (decrease) in other accounts payable	2,546	4,099	3,104
Increase (decrease) in taxes payable in installments	(11,394)	(7,339)	716
Interest paid on loans and financing	(135,429)	(115,838)	(81,174)
<b>Net cash provided by operating activities</b>	<b>193,746</b>	<b>156,865</b>	<b>183,181</b>
<b>Cash flow of investment activities</b>			
Acquisition of Paraiso Bioenergia S.A	(50,000)	(50,000)	-
Capital increase in investees	-	(70,000)	-
Investment in Property, plant and equipment	(133,150)	(130,563)	(89,783)
Acquisition of intangible assets	(7,662)	(7,642)	(363)
Investment in biological assets	(241,364)	(216,700)	(124,665)
Cash and cash equivalents from merger	-	38,616	-
<b>Cash flow used in investment activities</b>	<b>(432,175)</b>	<b>(436,289)</b>	<b>(214,811)</b>
<b>Cash flow of financing activities</b>			
Loans and financings	229,456	224,780	1,034,848
Amortization of principal on loans and financing	(216,220)	(170,098)	(763,384)
Capital contribution from shareholders	283	-	44,000
Payment of dividends	-	-	(7,475)
<b>Net cash generated in financing activities</b>	<b>13,519</b>	<b>54,682</b>	<b>307,989</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(224,910)</b>	<b>(224,742)</b>	<b>276,359</b>
<b>Statement of changes in cash and cash equivalents</b>			
At the end of the year	79,844	79,844	304,586
At the beginning of the year	304,754	304,586	28,227
	<b>(224,910)</b>	<b>(224,742)</b>	<b>276,359</b>

See the accompanying notes to the financial statements.



## Notes to the financial statements

*(In thousands of reais)*

### 1 Operations

Tonon Bioenergia S.A. ("The Company") is a non-public corporation, with headquarters located in the Rod. Jaú Araraquara, km 129, Fazenda Santa Cândida, municipal district of Bocaina, state of São Paulo, Brazil. Its operating structure is made up of three (3) units: one is located in the State of Mato Grosso do Sul, in the town of Maracajú, and is called "Vista Alegre Unit", and the other two are located in the State of São Paulo, one in the city of Brotas, "Paraíso Unit", and the other in the town of Bocaina, "Santa Cândida Unit". The Company's corporate purpose and main activity is the planting of sugarcane, the manufacture and sale of sugar, ethanol and other products derived from sugarcane; co-generation of electricity; agricultural exploitation of products and raw materials.

About 75% of the sugarcane used in the manufacture of products comes from its own plantations and agricultural partnerships and 25% from third-party suppliers.

### 2 Acquisition and merger of subsidiary

#### Acquisition of subsidiary

On March 20, 2013 the Company entered into a purchase and sale contract of shares of Paraíso Bioenergia SA for an amount of R\$ 170 million with the individual sellers and FIP Terra Viva DGF. On April 10, 2013 the Company received final approval for the acquisition of the regulator CADE (Administrative Council for Economic Defense) and on May 3, 2013 the Company made a payment of R\$ 120 million consisting of R\$ 50 million in cash and R\$ 70 million of new shares issued for the FIP Terra Viva DGF. The remaining R\$ 50 million will be paid by the Company's option, in cash or by issuing new shares, as agreed in the purchase contract.

The Company determined the acquisition date of May 3, 2013 for accounting purposes in accordance with CPC 15 - Business Combinations and IFRS 3

The acquisition accounting related to measurement at fair value of the assets acquired, liabilities assumed and consideration transferred and their related disclosures are presented in the tables below:

#### Fair value adjustments of assets acquired and liabilities assumed

Balances at April 30, 2013	R\$
Inventories	(547)
Property, plant and equipment	9,727
Intangible assets	16,856
Deferred tax liabilities	(9,040)
Contingencies	(541)
	<hr/>
<b>Total identifiable assets, net</b>	<b><u><u>16,455</u></u></b>

## **Goodwill on acquisition**

Goodwill recognized as the result of the acquisition was identified as follows:

<b>Total amount of consideration transferred</b>	<b>R\$</b>
Amount of the share purchase agreement	170,000
Shareholders' equity value of the acquired company prior to the acquisition	(39,621)
(-) Fair value of identifiable net assets	(16,455)
	<hr/>
<b>Goodwill on acquisition</b>	<b>113,924</b>
	<hr/>

The fair value of the acquired subsidiary was obtained through an appraisal report of the Company at market value, according to the usual evaluation techniques for this type of transaction.

Goodwill is mainly attributable to the increase in cash flow forecast for the coming years. In the Company's individual balance sheets and financial statements, the goodwill presented above is recorded in the investment's carrying amount and in intangible assets, respectively.

### **a. Corporate restructuring - merger**

On September 30, 2013, the Company's Extraordinary Shareholders' Meeting decided and approved the merger of Paraíso Bioenergia S.A. ("Paraíso") by the Company, pursuant to the terms of the Merger Agreement.

This merger, whose base date is September 30, 2013, is included in the Project for simplifying the corporate structure of Tonon Bioenergia S.A. and should yield the reduction of operating, administrative and financial costs. As a result of this merger, Paraíso was dissolved, for all due purposes, and the Company became its successor.

Paraíso's shareholders' equity as of July 31, 2013, based on its book value, was R\$ 80,050. Net book value of asset merged is as follows:

<b>Assets</b>	
Cash and cash equivalents	5,646
Other investments	3,650
Accounts receivable, net	22,859
Inventories	16,619
Advances to suppliers	23,749
Prepaid expenses	267
Recoverable taxes	4,836
Financial loan	15,989
<b>Total current assets</b>	<b>93,615</b>
Other investments	108
Deferred tax assets	20,785
Recoverable taxes	301
Financial loan	242
Judicial deposits	325
Prepaid expenses	48
Property, plant and equipment	211,693
Biological assets	145,185
Intangible, net	613
<b>Total non-current assets</b>	<b>379,300</b>
<b>Total assets</b>	<b>472,915</b>
<b>Liabilities</b>	
Suppliers	38,194
Derivatives	10,404
Loans and financing	67,554
Salaries and social charges	9,278
Taxes payable	4,394
Taxes payable installments	5,465
Advances from customers	5,212
Other accounts payable	598
<b>Total current liabilities</b>	<b>141,099</b>
Suppliers	5,534
Loans and financing	240,244
Financial loan	83
Provision for contingencies	584
Taxes payable installments	5,321
<b>Total non-current liabilities</b>	<b>251,765</b>
<b>Total liabilities</b>	<b>392,865</b>
<b>Net assets</b>	<b>80,050</b>

As a result of the corporate restructuring above, which resulted in Paraíso being merged into the Company, the Company is not presenting consolidated balance sheets. Nevertheless, the Company is presenting the consolidated statements of income for the year ended March 31, 2014 that is comprised by:

- 12 months of the Company's operations; plus
- the period from May 1, 2013 to September 30, 2013 of Paraíso's operations.

### 3 Group entities

The Company has an ownership interest, as follows:

Entity	City / State-Country		Equity interest	
			2013	
			Direct	Indirect
Auto Posto Santa Cândida Ltda (a)	Bocaina/SP-Brasil	Subsidiary	100%	-
Energisa Bioeletricidade Santa Cândida I S.A. (b)	Bocaina/SP-Brasil	Associate	15%	-
Energisa Bioeletricidade Vista Alegre I S.A. (b)	Maracaju/MS-Brasil	Associate	15%	-

- (a) Financial statements have not been consolidated due to immateriality of subsidiary's balances; and
- (b) Investment recorded at fair value.

### 4 Basis of preparation

#### a. Statements of compliance

The financial statements of the Parent Company were prepared in accordance with accounting practices generally accepted in Brazil (BR GAAP), which comprise Brazilian Corporation Law, the pronouncements, orientations and interpretations issued by the Accounting Pronouncements Committee (CPC) and rules issued by the Federal Accounting Council (CFC), collectively referred as BR GAAP.

The consolidated statements of income and statements of comprehensive income were prepared in accordance with BR GAAP and the International Financial Reporting Standards (IFRS).

The individual financial statements of the Parent Company were prepared in accordance with accounting practices adopted in Brazil, and, in the case of the Company, these practices differ from the IFRS applicable to separate financial statements due to the fact that investments in subsidiaries under accounting practices adopted in Brazil were recorded using the equity method, until it was merged into the Company, whereas, for IFRS, these investments would be carried at cost of acquisition or fair value.

However, there is no difference between the consolidated results presented by the Company and the results of the Parent Company in the individual financial statements. Accordingly, the consolidated income and comprehensive income of the Company and its subsidiaries and the Parent Company's individual income and comprehensive income statements are being presented side by side in a single set of financial statements.

The financial statements were approved by the Company's Board of Directors on June 16, 2014.

**b. Measurement basis**

The financial statements were prepared based on the historical cost, except for the following material items recognized in the balance sheets:

- Financial assets available for sale measured at fair value through profit or loss;
- Derivative financial instruments measured at fair value through profit or loss; and
- Biological assets are measured at fair value less cost to sell.

**c. Functional currency and presentation currency**

These financial statements are being presented in Brazilian Real, functional currency of the Company. All financial information presented in Brazilian reais has been rounded to the nearest value, except otherwise indicated.

**d. Use of estimates and judgments**

The preparation of financial statements according to CPC and IFRS requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods.

Information about critical judgment referring to the accounting policies adopted which impact the amounts recognized in the financial statements are described in the following notes:

- Note 9 - Allowance for doubtful accounts;
- Note 14 - Deferred tax assets and liabilities; and
- Note 25 - Financial instruments.

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the next financial exercise are included in the following notes:

- Note 16 - Useful life of the property, plant and equipment;
- Note 17 - Biological assets; and
- Note 24 - Provision for contingencies.

## **5 Description of significant accounting policies**

The accounting policies described below have been applied consistently to all periods presented in these financial statements.

### **a. Foreign currency**

#### ***Foreign currency transactions***

Transactions in foreign currency were converted to the functional currency of the Company by the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated and established in foreign currencies on the presentation date are reconverted to the functional currency at the exchange rate in force on that date. The exchange rate gain or loss in monetary items is the difference between the amortized cost of the functional currency at the beginning of the financial year, adjusted by interest and payments made during the financial year, and the amortized cost in foreign currency at the exchange rate at the end of the financial year of presentation.

### **b. Financial instruments**

#### **(i) *Non-derivative financial assets***

The Company initially recognizes loans, receivables and deposits on the date they are originated. All other financial assets (including assets designated at fair value through profit and loss) are initially recognized on the transaction date on which the Company became party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the asset's cash flows expire or when the Company transfers the rights to receive the contractual cash flows of a financial asset in a transaction where essentially all the risks and rewards of ownership of financial assets are transferred to the buyer. Any interest that is created or retained by the Company in financial assets is recognized as an individual asset or liability.

Financial assets or liabilities are offset and their net amount presented in the statement of financial position when, and only when, the Company is legally entitled to offset the amounts and intends to settle on a net basis or realize the asset and settle the liability simultaneously.

The Company classifies its financial assets under the following categories:

#### ***Financial assets measured by fair value through profit or loss***

A financial asset is classified at fair value through profit or loss if it is held for trading and designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages these investments and makes purchase and sales decisions based on their fair value in accordance with the investment strategy and risk management documented by the Company. The costs of the transaction are recognized in the result as incurred. Financial assets recorded at fair value through the profit or loss are measured at fair value and changes in the fair value of such assets are recognized in the income (loss) for the year.

Financial assets designated as fair value through profit or loss comprise equity instruments that otherwise would be classified as available for sale.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The loans and receivables cover cash and cash equivalents, accounts receivable, advances to suppliers, prepaid expenses and other receivables.

*Financial assets available for sale*

Financial assets available for sale are non-derivative financial assets classified as available for sale or not classified in any of the prior categories. Equity instruments that are not quoted in an active market and whose fair value cannot be measured reliably are carried at cost.

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and financial investments with original maturity of three months or less from the original maturity date, which are subject to insignificant risk of change in value, and are used in the management of short term commitments.

**(ii) *Non-derivative financial liabilities***

The Company initially recognizes debt securities issued and subordinated liabilities on the date they originated. All other financial liabilities are initially recognized on the transaction date on which the Company became party to the contractual provisions of the instrument. The Company writes off a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies the non-derivative financial liabilities in the category of other financial liabilities. Such financial liabilities are recognized initially by fair value added any costs of assignable transactions. After the initial recognition, these liabilities are measured by the amortized cost using the effective interest rate method.

The Company has the following non-derivative financial liabilities: suppliers, loans and financing and other accounts payable.

Limits of bank overdrafts that have been paid in cash and are an integrated part of the cash management of the Company are included with a component of the cash equivalents for purposes of the statement of cash flows.

**(iii) *Capital***

As of March 31, 2014, common and preferred stock are classified as equity.

Mandatory minimum dividends, as defined in statute, are recognized as liabilities.

**(iv) *Derivative financial instruments***

The Company has derivative instruments of financial hedge to protect its exposures to the risk of variation of foreign currency and price. Embedded financial derivatives are separated from their principal contracts and are recorded individually, if the economic characteristics and risks of the principal contract and the embedded financial derivative are not intrinsically related, or if an individual instrument with the same conditions of the embedded financial derivative satisfies

the definition of derivative, and the combined instrument is not measured by fair value through profit or loss.

Derivatives are recognized initially by fair value. The costs of attributed transactions are recognized in the profit or loss when incurred. After the initial recognition, the derivatives are measured by the fair value, and variations in the fair value are recorded in profit or loss.

**c. Property, plant and equipment**

***Recognition and measurement***

Property, plant and equipment items are stated at historical acquisition or construction cost, net of accumulated depreciation and any impairment losses.

The cost includes expenses that are directly attributed to the acquisition of an asset.

Software purchased as an integral part of a piece of equipment is capitalized as a part of this equipment.

When parts of an item of equipment have different useful lives, these useful lives are recorded as separate items (principal components) of fixed assets.

Gains and losses in the disposal of an item of fixed assets (calculated as the difference between the resources originating from the disposal and the book value of the fixed assets) are recognized in other operating income/expenses, net in the statement of income.

***Costs of maintenance***

The Company carries out maintenance services annually in its industrial units, approximately in the period between December and March. The main costs of maintenance include costs of labor, materials, external services and indirect general expenses allocated during the inter-harvest period. These costs are registered as a component of cost of the equipment and depreciated during the following harvest.

***Depreciação***

Items of the property, plant and equipment are depreciated using the straight-line method in profit or loss over the estimated useful lives of each component. Land is not depreciated.

Items of the property, plant and equipment are depreciated from the date on which they are installed and are ready for use or in respect of internally constructed assets, from the date that the asset is completed and are ready for use.



The annual weighted average rates for depreciation of the assets, for the current and comparative year, are:

	<b>2014</b>	<b>2013</b>
Buildings and improvements	2.34%	3.38%
Facilities	6.00%	9.17%
Machinery and equipment	5.78%	10.49%
Furniture and fixtures	10.56%	10.27%
IT equipment	20.31%	20.87%
Vehicles	14.29%	15.39%
Tools and accessories	5.51%	32.00%
Agricultural machinery and implements	9.41%	9.01%

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**d. Intangible assets**

***Recognition and measurement***

Intangible assets acquired by the Company with finite useful lives, are measured at cost, presented net of accrued amortization and, whenever necessary, by impairment losses.

***Subsequent expenditures***

Subsequent expenditures are capitalized only when they increase the future economic benefits incorporated into the specific asset they relate to. All other expenditures are recognized in profit or loss as incurred.

***Amortization***

Amortization is recognized in profit or loss based on the straight-line method according to the estimated useful life, as per the date on which they are ready for use. The estimated useful life for the current and comparative periods is 5 years.

Amortization methods, useful life and residual values are reviewed at the end of every year and adjusted if appropriate.

**e. Biological assets**

Biological assets are measured at fair value less costs to sell. Adjustments to the fair value less costs to sell are recognized in profit or loss. Costs to sell include all costs that are necessary to sell the assets. Sugarcane is transferred to inventories at its fair value, deducting the estimated costs of the sales established on the cutting date.

**f. Leased assets**

Leases in which the Company assumes the risks and rewards of ownership are classified as financial leases. At initial recognition, the leased asset is measured at the lower amount of its fair value and the present value of the minimum payments. After initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognized in the balance sheet.

**g. Inventories**

Inventories are measured at the lower of cost and net realizable value. Inventory costs are valued at the average cost of purchase or production and include expenses incurred in the acquisition of inventories, production and conversion costs and other costs incurred in bringing them to their current locations and conditions.

The net realizable value is the estimated sale price in the normal course of business, less estimated completion costs and selling expenses.

The cost transferred from biological assets to inventory is the fair value less cost to sell at the date of harvest.

**h. Impairment**

***Financial assets (including receivables)***

A financial asset not measured at fair value through profit or loss is assessed at each reporting date for impairment. Financial assets not measured at fair value through profit and loss are assessed at each reporting date for impairment. An asset is impaired if there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes nonpayment or late payment by the debtor, restructuring of the amount owed to the Company on terms that it would not normally accept in other transactions, evidence that the debtor or issuer is going to enter bankruptcy proceedings or the disappearance of an active market for a security. Furthermore, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment.

***Financial assets measured by the amortized cost***

The Company takes into account evidence of impairment for receivables, both individually and collectively. All individually significant receivables are tested for impairment. All individually significant receivables found not to have incurred individual impairment are then tested collectively for any impairment that may have occurred, but not yet been identified. Individually important assets are evaluated collectively as to the loss of value per combined grouping of these securities with characteristics of similar risks.

When testing for impairment, collectively, the Company uses historical trends of default probability, recovery terms and the size of losses incurred, adjusted to reflect management's judgment as to whether the current economic credit conditions mean that the actual losses will probably be higher or lower than those suggested by historic trends.

Impairment of a financial asset measured at amortized cost is calculated as the difference between the book value and the present value of future estimated cash flows, discounted at the asset's effective original interest rate. Losses are recognized in the statement of income for the year and recorded in a provision against receivables. Interest on the impaired asset is still recognized by reversing the discount. When a subsequent event indicates a reversal of the impairment, the decrease in the impairment is reversed and credited to the statement of income.

*Non-financial assets*

The carrying amount of the company's non-financial assets, which are not biological assets, deferred tax and inventory, are reviewed on every presentation date to determine if there is indication of loss in the recoverable value. If this indication exists, then the recoverable value of the asset is estimated.

A loss through a reduction in recoverable value is recognized if the carrying amount of the asset or "cash-generating unit" (CGU) exceeds its recoverable value.

The recoverable value of an asset or reporting unit is the higher of the value in-use and fair value less costs to sell. When determining value in-use, the estimated future cash flows are discounted to their present values at a pre-tax discount rate that reflects the current market terms regarding the capital recoverability period and the asset's specific risks or CGU. For impairment testing purposes, assets that cannot be tested individually are grouped in the smallest group of assets that generate cash for continuous use and which are largely independent from the cash flows from other assets or groups of assets ("reporting unit" or "CGU").

Losses as a result of a reduction in the recoverable value are recognized in the profit or loss. Impairment is reversed only to the extent that the carrying amount of the asset does not exceed the book value of the assets, net of depreciation or amortization, had the loss in value not been recognized.

**i. Assets classified as held for sale**

The non-current assets or groups classified as held for sale, on which the values are expected to be recovered, primarily through a sales transaction instead of continuous use, are classified as assets held for sale. Immediately prior to being classified as assets held for sale, the assets, or components of a group of assets classified as held for sale, are measured according to the accounting policies of the Company. Thereafter, the assets, or group of assets classified as held for sale, are measured by the lowest amount of the book value and the fair value less costs to sell. No impairment should be allocated to the inventories, financial assets, deferred tax assets and biological assets, which continue to be measured according to the accounting policies of the Company. The impairment established in the initial classification as held for sale and the gains and losses subsequently established are recognized in the profit or loss.

Once classified as held for sale, intangible and property, plant and equipment are not amortized or depreciated. Investments subject to equity pick up are no longer accounted for under the equity method.

**j. Employee benefits**

*Short-term employee benefits*

Short term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized in the expected amount to be paid under the bonus plans in cash for short-term profit shares if the Company has a legal or constructive obligation to pay this amount because of the services provided by the employee and the obligation can be reliably estimated.

**k. Provision**

A provision is recognized if, as a result of a past event, the Company has a legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provisions are established based on the best estimates of the risk involved.

**l. Revenue**

Revenue from the sale of products in the normal course of business is recognized at fair value of the consideration received or receivable. Revenue is recognized when there is persuasive evidence that significant risks and rewards of ownership have been transferred to the buyer, that it is probable that the financial economic benefits will flow to the Company, that the associated costs and possible return of goods can be estimated reliably, that there is no continuous involvement with the products sold, and that the revenue can be measured reliably.

The moment of transfer of risks and rewards varies depending on the individual terms of each sales contract. For sugar and ethanol sales in the domestic market, the transfer normally occurs when the product is delivered to the establishment of the client or when it is picked up by the client directly from the Company. In the case of export sales to the international market the transfer occurs by loading the goods onto the relevant shipping company at the seller's port. For sales of electric energy, the Company uses power meters installed for clients, whereby at the end of each month this quantity is calculated and the consequent recognition of the revenue is computed.

**m. Government grants**

Government grants that compensate the Company for expenses incurred are recognized in profit or loss on a systematic basis over the same period in which the expenses are recognized.

**n. Leases**

**(i) Lease payments**

Minimum lease payments made under financial leases are allocated between the financial expenses and reduction of the outstanding liabilities. Financial expenses are allocated to each period during the lease term in order to produce a periodic rate of interest on the remaining balance of liabilities.

**(ii) Determining whether an agreement contains a lease**

At the inception of an arrangement, the Company determines whether such an arrangement is or contains lease. This is the case if both of the following conditions below are met:

- a.** The fulfilment of the arrangement depends on the use of that specified asset; and
- b.** The arrangement includes the right to use the asset.

At inception of the arrangement or on a reassessment of the arrangement, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes that it is impracticable to separate the payments of a financial lease reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset.

Subsequently the payments under the financial lease are allocated into financial expense (using the Company's incremental borrowing rate) and reduction of the outstanding liability.

**o. Financial income and financial expenses**

Financial income is comprised of interest on financial instruments, exchange rate variation, gains with derivative instruments. Interest income is recognized in profit or loss using the effective interest rate method.

Financial expenses are comprised of interest on loans, bank fees, exchange rate variation and losses with derivative instruments. Interest on loans that are not directly attributed to acquisition, building or production of a qualified asset are charged to profit or loss using the effective interest rate method.

**p. Income and social contribution taxes**

Income and social contribution taxes, both current and deferred, are calculated at the rate of 15% plus a surcharge of 10% on taxable income in excess of R\$240 for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carry forwards and negative basis of social contribution, limited to 30% of annual taxable profit.

Income and social contribution expenses consist of current and deferred taxes. Current and deferred taxes are recognized in the income statement, except for those related to other comprehensive income.

Current income is the tax payable or receivable on the expected taxable income or loss for the year, at rates effective or substantially effective at the reporting date of the financial statements and any adjustment to the taxes payable in relation to prior years.

Deferred taxes are recognized in relation to temporary differences between the book values of assets and liabilities for accounting purposes and the corresponding amounts used for tax purposes.

Deferred taxes are measured at the expected rates to apply to the temporary differences when they are reversed, based on the laws in effect or substantially in effect as at the reporting date of the financial statements.

In the determination of the current and deferred taxes, the Company takes into consideration the impact of uncertainties related to tax positions taken and if any additional payments of taxes and interest have been made. The Company believes that the provision for income taxes within liabilities is appropriate based on its evaluation of several factors, including interpretations of tax laws, historical experience and periods still subject to review. This evaluation is based on estimates and assumptions that could involve a series of judgments on future events. New information can be made available enabling the Company to change its judgment as to the adequacy of the existing provision; such alterations will impact the expense with income taxes in the year in which they are made.

Deferred tax assets and liabilities are offset if there is a legal right to offset current tax assets and liabilities, and they are related to income taxes levied by the same tax authority on the same entities subject to taxation.

Deferred income and social contribution tax assets are recognized on deductible tax losses, tax credits and temporary differences not used when it is probable that future taxable earnings will be generated against which they can be offset.

Deferred income and social contribution tax assets are reviewed at each reporting date and are reduced to the extent that realization is no longer probable.

**q. Discontinued operations**

Classification as discontinued operation occurs on disposal or when the operation meets the criteria to be classified as held for sale, if this occurs first. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued since the start of the comparative period.

**6 Determination of the fair value**

A number of accounting policies and disclosures of the Company requires that fair value be determined for both financial assets and liabilities and non-financial assets and liabilities. Fair values have been determined for the purpose of measurement and/or disclosure, based on the methods below. When applicable, additional information about the assumptions made to determine fair values is disclosed in specific notes relating to that asset or liability.

**(i) Biological assets**

The methodology adopted by the Company, to satisfy the calculation requirement of biological assets corresponding to the plantation, that generate several harvests, and the standing sugarcane, was the future discounted cash flow method. The future discounted cash flow method, considers assumptions like the price per ton of sugarcane, productivity, cutting, loading and transport costs, cost of crop handling, and costs of partnership and taxes, among others. The discount rate used to determine the present value of the cash flow is calculated based on the Weighted Average Cost of Capital - WACC.

**(ii) Accounts receivable and other credits**

The fair value of accounts receivable and other credits is estimated as the present value of future cash flows, discounted by the market interest rates established on the presentation date of the financial statements. This fair value is determined for disclosures purposes.

**(iii) Exchange rate and swap contracts of cash flows**

The fair value of fixed-term exchange rate contracts is based on the listed market price, whenever available. If the listed market price is not available, fair value is estimated by discounting the difference between the forward contract price and the current forward price for the residual maturity period of the contract, using a risk-free interest-rate (benchmarked on government bonds).

The fair value of cash flow swaps is based on quotes from brokers. These quotes are tested as to reasonability through the discount of future cash flows estimated based on the terms and maturity of each contract, and using market interest rates for a similar instrument used on the date of measurement. The fair values reflect the credit risk of the instrument and include adjustments to consider the credit risk of the Company and counterpart, whenever appropriate.

(iv) **Other non-derivative financial liabilities**

Fair value, determined for disclosures purposes, is calculated based on the present value of the principal and future cash flows, discounted by the market interest rate at the reporting date. For financial leases, the interest rate is established through comparison with similar lease contracts.

## 7 Cash and cash equivalents

		<b>2014</b>	<b>2013</b>
Cash and banks		64,601	2,809
Financial investments			
<b>Modality post fixed</b>			
CDB	97% a 100% of CDI Interbank Deposit Certificate	10,201	-
CDB	97% a 100% of CDI Interbank Deposit Certificate	-	156,200
CDB	101% a 102.3% of CDI - Interbank Deposit Certificate (*)	-	145,387
CDB	109% of variation of CDI	4,097	-
Automatic Financial application		515	190
Deposit Margin		430	-
		<b>79,844</b>	<b>304,586</b>

(\*) Weighted average rate

The balance of cash and banks comprises deposits in current accounts available for immediate use. These balances arise from normal flow of the Company's operations.

Financial investments are recorded at cost, plus income earned until the statement of financial position date upon which the value does not exceed the market value. These investments can be readily redeemed without penalty or loss.

The Company's exposure to interest rate risks and a sensitivity analysis for the financial assets and liabilities are disclosed in Note 25 - Financial instruments.

## 8 Other investments

		<b>2014</b>	<b>2013</b>
<b>Current</b>			
Financial investments			
<b>Pos mode fixed</b>			
CDB	98% CDI - Interbank Deposit Certificate (*)	7,660	-
CDB	100% CDI - Interbank Deposit Certificate (*)	7,793	7,137
CDB	101% CDI - Interbank Deposit Certificate (*)	21	29
CDB	101,6% CDI - Interbank Deposit Certificate (*)	-	8,620
Shares		-	3,538
		<b>15,474</b>	<b>19,324</b>

**Equity investments**

Centro de Tecnologia Canavieira (a)	357	357
Energisa Bioeletricidade Santa Cândida I S.A. (b)	17,032	13,261
Energisa Bioeletricidade Vista Alegre I S.A. (b)	20,642	15,655
Others (a)	108	-
	<u>38,139</u>	<u>29,273</u>

(\*) Weighted average rate

The Company's exposure to credit and interest rate risks and a sensitivity analysis for the financial assets and liabilities are disclosed in Note 25 - Financial instruments.

(a) Investments recognized at cost.

(b) The Company recently entered into a strategic partnership with Grupo Energisa S.A., or Energisa, an energy company in Brazil. In connection with this partnership, we sold co-generation assets to Energisa and agreed to exchange bagasse for energy and steam produced at the power plants which we continue to operate. The sale was agreed in December 2011, when we executed four share purchase and sale agreements with Energisa pursuant to which we agreed to sell shares of four Special Purpose Entities, or SPEs: (i) Energisa Bioeletricidade Santa Cândida I S.A., or USC I, into which we transferred all of our co-generation assets at our Santa Cândida mill; (ii) Energisa Bioeletricidade Santa Cândida II S.A., or USC II, into which we transferred all of our construction and operation rights in case of expansion of our Santa Cândida co-generation plant; (iii) Energisa Bioeletricidade Vista Alegre I S.A., or UVA I, into which we transferred all of our co-generation assets at our Vista Alegre mill; and (iv) Energisa Bioeletricidade Vista Alegre II S.A., or UVA II, into which we transferred all of our construction and operation rights in case of expansion of our Vista Alegre co-generation plant. In August 2012, pursuant to such share purchase and sale agreements, Energisa acquired: (i) 85% of the capital stock of USC I; (ii) 85% of the capital stock of UVA I; (iii) 100% of the capital stock of USC II; and (iv) 100% of the capital stock of UVA II from us for an aggregate amount of approximately R\$150.0 million. Pursuant to the terms of the agreements, in approximately 20 years Energisa will sell back the assets owned by each of USC I, USC II, UVA I and UVA II to us.

These investments are classified as available for sale and the change in fair value related to subsequent measurement are recognized as other comprehensive income. In the exercise ended March 31, 2014, the change in fair value was R\$ 5,722, net of taxes.

The Company's exposure to credit and interest rate risks and a sensitivity analysis for the financial assets and liabilities are disclosed in Note 25 - Financial instruments.



## 9 Accounts receivable, net

	<b>2014</b>	<b>2013</b>
Accounts receivable - Foreign market	7,387	-
Accounts receivable - Related parties (note 26)	535	1,466
Provision for doubtful accounts	(373)	-
	<u><b>7,549</b></u>	<u><b>1,466</b></u>

Accounts receivable of the external market are originated in U.S. dollars, which are translated into the Reais on the presentation date of the interim financial statements.

As of March 31, 2014, the Company did not have any operations that generated a material effect from adjustments to present value.

The Company's exposure to credit and currency risks and losses through impairment related to trade accounts receivable are disclosed in Note 25 - Financial Instruments.

## 10 Estoques

	<b>2014</b>	<b>2013</b>
Warehouse, raw material and others	31,424	19,767
Finished goods		
Sugar	1,880	6,503
Ethanol	19,799	5,543
Yeast	12	-
Oil	31	8
	<u><b>53,146</b></u>	<u><b>31,821</b></u>

As of March 31, 2014, warehouse materials and others, goods and changes in finished goods recognized in the selling cost amounted to R\$ 549,501 (R\$ 486,555 as of March 31, 2013).

## 11 Advances to suppliers

	<b>2014</b>	<b>2013</b>
Advances to other suppliers	4,135	425
Advances to sugar suppliers	104,908	61,464
Advances to suppliers - Related parties (Note 26)	3,990	9,652
	<u><b>113,033</b></u>	<u><b>71,541</b></u>
Current	75,968	38,111
Non-current	37,065	33,430

Advances to sugarcane suppliers are represented substantially by amounts advanced to rural partners, as provided for by contract, and the products will be delivered during the next harvest season.

## 12 Recoverable taxes

	2014	2013
Contribution for funding of social security funding - COFINS	20,071	18,482
Tax on the circulation of goods and services - ICMS	22,083	3,055
Social Integration Program - PIS	3,278	3,840
Withholding income tax - IRRF	5,487	2,808
Tax on industrialized products - IPI	887	466
Other taxes recoverable	948	1,130
	<u>52,754</u>	<u>29,781</u>
Current	50,051	29,306
Non-Current	2,703	475

## 13 Assets held for sale

Non-current assets held for sale at March 31, 2014 (R\$ 3,028) refer to the property, plant and equipment of a substation for connection with the power distribution network, located in the city of Maracaju/MS, which is under negotiation with the power distribution company of the state of Mato Grosso do Sul.

## 14 Income and social contribution taxes

The breakdown of expense calculated by the combined statutory rates and the income and social contribution tax expense charged to net income is presented below:

	2014	2013
Accounting loss before income and social contribution taxes	(199,617)	(34,464)
Combined tax rate	34%	34%
Income tax and social contribution using combined tax rate	67,870	11,718
Permanent additions (exclusions)	(7,645)	7,806
Write-off by merger	(36,066)	-
Income tax and social contribution in income for the period	24,159	19,524
Effective rate	12%	57%

The changes in the period ended March 31, 2014 are presented as follows:

	2013	Merger Paraíso	Recognized in income (loss)	Recognized in comprehensive income	2014
Provision for contingencies	1,884	-	946	-	2,830
Allowance for doubtful accounts	593	-	-	-	593
Temporary provisions	641	13,321	1,196	-	15,157
Deferred income tax and social contribution on tax loss forwards and negative basis	55,591	36,066	55,571	-	147,228
Deferred income tax and social contribution on goodwill	14,742	-	(3,210)	-	11,532
Deferred taxes on the surplus value of property, plant and equipment	(13,797)	(32,464)	(2,843)	-	(49,104)
Incentivized accelerated depreciation	-	(4,942)	-	-	(4,942)
Deferred taxes on appreciation of biological assets	(58,572)	(4,960)	(16,521)	-	(80,053)
Fair value of investments	(5,440)	-	-	(2,948)	(8,388)
Exchange variation - cash method calculation	(2,188)	-	26,281	-	24,093
Temporary exclusions	-	-	388	-	388
Revaluation reserve	-	(3,026)	(1,583)	-	(4,609)
Write-off of deferred income tax and social contribution on net income on negative basis due to merger	-	-	(36,066)	-	(36,066)
<b>Total</b>	<b>(6,546)</b>	<b>3,995</b>	<b>24,159</b>	<b>(2,948)</b>	<b>18,660</b>

Management considers that tax deferred assets resulting from timing differences will be realized in proportion to the final resolution of contingencies and events.

The expected recoverability of the tax credits is based on the projections of future taxable income taking into consideration various business and financial assumptions at the end of the quarter. Accordingly, these estimates may differ from the effective taxable income in the future due to the inherent uncertainties involving these estimates.

Deferred tax assets, in according with the Company's expected future profitability will be realized within five years.

## 15 Investments

	2014	2013
<b>Investments in subsidiary (a)</b>		
Auto Posto Santa Cândida de Bocaina Ltda. (i)	4,095	4,895
	<b>4,095</b>	<b>4,895</b>

**a. Investments in subsidiary**

They represent investments in subsidiaries valued using the equity accounting method in the individual financial statements and in the advances for future capital increase, where the breakdown is listed in the table below:

	<u><b>2014</b></u>
	<b>Auto Posto</b>
Capital	100
Number of quotas	100
Ownership percentage (i)	100%
Quotaholders' equity at March 31, 2013	4,895
Income (loss) for the year	(800)
Quotaholders' equity at March 31, 2014	<u>4,095</u>
<b>Total amount of investment</b>	<u><b>4,095</b></u>

- (i) On October 18, 2012, the Company acquired from Tonon Holding 100% of the capital of Auto Posto Santa Cândida de Bocaina Ltda., a gas station located near the Santa Candida unit. The cost of acquisition was R\$ 4,600. The investments were not consolidated.

***Change in the year***

	<u><b>2014</b></u>
	<b>Auto Posto</b>
Balance of the investment as of March 31, 2013	4,895
Equity income	<u>(800)</u>
Balance of the investment on March 31, 2014	<u><b>4,095</b></u>

## 16 Property, plant and equipment

Cost	Land	Buildings and improvements	Facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Vehicles	Tools and accessories	Machinery and Agricultural implements	Inter-harvest maintenance	Constructions in progress	Total
<b>Balance at March 31, 2012</b>	<b>5,794</b>	<b>74,483</b>	<b>83,852</b>	<b>157,263</b>	<b>1,078</b>	<b>2,900</b>	<b>13,889</b>	<b>125</b>	<b>35,401</b>	<b>47,927</b>	<b>620</b>	<b>423,332</b>
Additions	540	93	20	3,207	85	188	1,725	30	8,304	71,544	4,048	89,784
Write-offs	-	-	-	(839)	-	-	-	-	-	(55,434)	-	(56,273)
Transfers to assets held for sale	-	(7,195)	3,172	(99)	124	140	2,851	9	1,520	-	(522)	-
<b>Balance at March 31, 2013</b>	<b>6,334</b>	<b>67,381</b>	<b>87,044</b>	<b>159,532</b>	<b>1,287</b>	<b>3,228</b>	<b>18,465</b>	<b>164</b>	<b>45,225</b>	<b>64,037</b>	<b>4,146</b>	<b>456,843</b>
Additions	-	-	695	3,024	106	160	942	14	1,957	99,758	23,908	130,563
Write-offs	-	-	-	(512)	-	-	(727)	-	(5,055)	(72,216)	(396)	(78,906)
Merger	666	53,577	-	177,090	1,839	-	23,607	-	39,710	10,141	3,974	310,603
Interest capitalized	77	-	-	9,192	50	-	408	-	-	-	-	9,728
Capitalized interest on property, plant and equipment	-	-	-	-	-	-	-	-	-	-	2,100	2,100
Transfers	-	441	519	10,082	44	766	29	48	1,232	(722)	(12,440)	-
<b>Balance at March, 31, 2014</b>	<b>7,077</b>	<b>121,399</b>	<b>88,258</b>	<b>358,408</b>	<b>3,326</b>	<b>4,154</b>	<b>42,725</b>	<b>226</b>	<b>83,069</b>	<b>100,998</b>	<b>21,292</b>	<b>830,932</b>

Accumulated depreciation	Land	Buildings and improvements	Facilities	Machinery and equipment	Furniture and fixtures	IT equipment	Vehicles	Tools and accessories	Machinery and Agricultural implements	Inter-harvest maintenance	Constructions in progress	Total
Additions	-	(2,839)	(9,382)	(16,648)	(109)	(499)	(3,140)	(53)	(5,902)	-	-	(38,572)
Transfers to assets held for sale	-	(1,386)	5,384	(3,537)	(124)	(146)	2,468	67	(2,727)	-	-	-
<b>Balance at March 31, 2013</b>	<b>-</b>	<b>(7,872)</b>	<b>(25,016)</b>	<b>(46,276)</b>	<b>(602)</b>	<b>(2,050)</b>	<b>(8,516)</b>	<b>(104)</b>	<b>(11,553)</b>	<b>-</b>	<b>-</b>	<b>(101,988)</b>
Additions	-	(2,852)	(5,424)	(12,081)	(250)	(553)	(4,640)	(60)	(8,186)	-	-	(34,047)
Write-offs	-	-	-	320	-	-	431	-	4,456	-	-	5,206
Merger	-	(11,237)	-	(60,924)	(1,101)	-	(18,502)	-	(13,703)	-	-	(105,467)
Transfers	-	-	-	-	-	-	-	-	-	-	-	-
<b>Balance at March 31, 2014</b>	<b>-</b>	<b>(21,960)</b>	<b>(30,440)</b>	<b>(118,962)</b>	<b>(1,953)</b>	<b>(2,603)</b>	<b>(31,227)</b>	<b>(164)</b>	<b>(28,987)</b>	<b>-</b>	<b>-</b>	<b>(236,296)</b>

<b>Net Book Value</b>												
<b>March 31, 2012</b>	<b>5,794</b>	<b>70,836</b>	<b>62,834</b>	<b>131,172</b>	<b>709</b>	<b>1,495</b>	<b>6,045</b>	<b>7</b>	<b>32,477</b>	<b>47,927</b>	<b>620</b>	<b>359,916</b>
<b>March 31, 2013</b>	<b>6,334</b>	<b>59,509</b>	<b>62,028</b>	<b>113,256</b>	<b>685</b>	<b>1,178</b>	<b>9,949</b>	<b>60</b>	<b>33,672</b>	<b>64,037</b>	<b>4,146</b>	<b>354,854</b>
<b>March 31, 2014</b>	<b>7,077</b>	<b>99,438</b>	<b>57,819</b>	<b>239,446</b>	<b>1,374</b>	<b>1,551</b>	<b>11,498</b>	<b>61</b>	<b>54,082</b>	<b>150,998</b>	<b>21,292</b>	<b>594,636</b>

Maintenance expenditures incurred during the inter-harvest period are recognized to property, plant and equipment and fully depreciated in the next harvest season.

The fixed assets pledged as collateral for loans and financing are presented in Note 20 - Loans and financing.

The Company evaluates each quarter if there is objective evidence that impairment losses have occurred. The model and the assumptions used in determining the fair value represent management's best estimate on the date of the quarterly consolidated interim financial statements and are reviewed annually.

## 17 Biological assets

Biological assets comprise the cultivation and plantation of sugarcane, through contracts with leaseholders and sugarcane partners, for the use as raw material in its industrial processes of sugar and ethanol. The cultivation of sugarcane is initiated with the plantation of seedlings on land owned by third-party landowners, and the first cutting occurs after a period of 12 to 18 months after planting, when the sugarcane is cut and the root ("shoot") continues in the soil. After each cutting or year/harvest, the treated shoot grows again, giving on average a total of five or six harvests, which varies based on the species and genetic material to which it refers.

Movements of Company's biological assets are stated as follows:

	2014	2013
Biological assets at beginning of year	471,376	398,109
Increase due to merger	147,541	-
Increase resulting from plantations	113,150	65,915
Increase resulting from treatment	103,549	58,750
Amortization of farming	(74,485)	(51,312)
Amortization of treatment	(69,650)	(47,633)
Change in fair value	48,586	47,547
<b>Biological assets at the end of year</b>	<b>740,067</b>	<b>471,376</b>

Biological assets will be realized in the following harvests:

	2014	2013
Harvest 2013/2014	-	112,936
Harvest 2014/2015	207,752	100,732
Harvest 2015/2016	184,179	90,013
Harvest 2016/2017	145,677	69,435
Harvest 2017/2018	110,179	49,257
Harvest 2018/2019	65,043	34,751
Harvest 2019/2020	21,647	14,252
Harvest 2020/2021	5,590	-
	<b>740,067</b>	<b>471,376</b>

Planted areas refer only to sugarcane plants, and do not consider planted land.

The following assumptions were used in the determination of the fair value:

	<b>2014</b>	<b>2013</b>
Estimated harvest area (ha)	81,951	55,267
Estimated productivity (ton/ha)	80.87	76.79
Quantity of TRS per ton of sugarcane (kg ATR/ton)	140.00	140.00
Average TRS price per Kg projected (R\$/Kg)	0.49	0.49

The fair value of the sugarcane crops was determined using the methodology of the discounted cash flow, considering:

- Cash inflows from a combination of (i) estimated production, measured in kilos of ATR (Total Recoverable Sugar) and of (ii) future market price of sugarcane, which is estimated based on market information and estimates of the future prices of sugar and ethanol; and
- Cash outflows represented by the estimate of (i) necessary costs for the biological transformation of sugarcane (crop handling) until harvest; (ii) costs associated with the harvest/ Cutting, Shipment and Transport (CCT); and (iii) costs of leasing and agricultural partnership.

Based on the estimates of income and costs, the Company determines the discounted cash flows that will be generated and present value that amount, considering an actual discount rate of 6.26% a year, compatible with the compensation of the investment in the circumstances. Changes in the fair value are presented as “Changes in the fair value of the biological assets”.

The model and the assumptions used to determine the fair value represent the best estimate of the Board on the date of the financial statements, which are reviewed annually.

The increase or decrease in the fair value is determined by the difference between the fair value of the biological assets at the beginning of the period and at the end of the period, less the costs incurred with the plantation in the development and depreciation of the biological assets in the period.

The Company is exposed to a series of risks related to its plantations as follows:

#### **Regulatory and environmental risks**

The Company is subject to Brazilian laws and regulations. The Company determined environmental policies and procedures focused on the compliance of environmental and other laws. The Management conducts regular analyses to identify environmental risks and to guarantee that the systems in operation are appropriate to manage these risks.

#### **Risk supply and demand**

The Company is exposed to risks originating from the fluctuation of prices and sales volume of its plantations. Whenever possible, the Company manages this risk aligning its volume of extraction with the supply and demand of the market. The Management makes regular analyses of the trend of the industry to guarantee that the price structure of the Company is according to the market and to guarantee that the projected volumes of extraction are consistent with the demand expected.

### Climate risks and others

The plantations of the Company are exposed to the risks of damage caused by climate changes, plagues, fires and other forces of nature. The Company has extensive processes in operation focused on the monitoring and on the reduction of these risks, including regular inspections in the sugarcane plantations, and analyses and control of disease and plagues.

## 18 Intangibles

Description	Cost	Amortization	Net 2014	Net 2013
Software and others	11.626	(1.668)	9.958	2.259
Fair value of contracts with third-parties (a)	16.856	(1.931)	14.925	-
Goodwill in business combinations - CPC 15 (b)	113.924	-	113.924	-
<b>Total</b>	<b>137.406</b>	<b>(3.599)</b>	<b>138.807</b>	<b>2.259</b>

- (a) As part of the acquisition accounting the company registered a contract entered by Paraíso with third parties where an investment was made by these third parties in a plant attached to Paraíso for the production of other products from sugarcane molasses. This plant entered into operation at the end of the 2012/13 harvest. This contract establishes the acquisition of molasses equivalent to the crushing of 500 thousand tons of sugarcane per harvest, which represents a production equivalent to 45 thousand m<sup>3</sup> of hydrous ethanol.
- (b) Refers to the goodwill from the acquisition and merger of Paraíso, as described in Note 2 – Acquisition and merger of subsidiary.

## 19 Suppliers

	2014	2013
Domestic suppliers	96,136	38,463
Sugarcane suppliers	5,109	3,176
Suppliers - related parties (Note 26)	883	99
	<b>102,128</b>	<b>41,738</b>
Current	98,053	41,726
Non-current	4,075	12

The sugarcane harvest period, between April and December of each year, on average, has direct impact on the balance of suppliers of sugarcane and respective cutting, loading and transportation services.

Amounts payable to sugarcane suppliers and agricultural partners take into consideration sugarcane delivered and not yet paid, and possible supplementation of sugarcane price calculated based on the final harvest price, using the Total Recoverable Sugar (TRS) index disclosed by Consecana - Sao Paulo State Council of Sugarcane, Sugar and Alcohol Producers.

The Company's exposure to currency and liquidity risks, related to accounts payable to suppliers, is disclosed in Note 25 - Financial Instruments.



## 20 Loans and financing

	2014	2013
<b>Current liabilities</b>		
Working capital	120,809	85,303
Bonds	2,856	10,245
Advance on exchange contract (ACC)	18,782	-
Export pre-payment (PPE)	217,572	10,551
Leasing	-	191
Governement Agency for Machinery and Equipment Financing - FINAME	6,702	1,161
Syndicated loan	199,484	-
Agricultural funding (Pesa)	662	-
Guaranteed account	1,994	-
	<b>568,861</b>	<b>107,451</b>
<b>Non-current liabilities</b>		
Working capital	10,260	213,763
Bonds	656,260	575,552
Export pre-payment (PPE)	116,605	28,797
Governement Agency for Machinery and Equipment Financing - FINAME	10,833	4,446
Agricultural funding (Pesa)	2,618	-
	<b>796,576</b>	<b>822,558</b>
<b>Total</b>	<b>1,365,437</b>	<b>930,009</b>

Terms and conditions of outstanding loans were as follows:

Description	Index	Currency	Average annual interest rate	Year of maturity	2014
Advance on Exchange Contract (ACC)	Fixed rate + exchange variation	USD	4.50%	2015	18,782
Bonds	Fixed rate + exchange variation	USD	9.25%	2020	659,117
Working capital	Fixed rate + CDI	BRL	17.44%	2014 a 2015	41,535
Working capital	Fixed rate + exchange variation	USD	11.66%	2014 a 2017	89,534
Finame	Fixed rate + TJLP	BRL	6.39%	2014 a 2018	17,535
	Fixed rate + CDI/Libor + exchange variation	USD	7.26%	2014 a 2017	334,177
Export pre-payment (PPE)	Fixed rate + CDI	BRL	20.05%	2017	98,075
Syndicated loan	Fixed rate + exchange variation	USD	11.50%	2017	101,410
Syndicated loan	IGPM - price index	BRL	7.31%	2019	3,279
Agricultural funding (Pesa)	-	BRL	-	2014	1,994
Guaranteed account	-	BRL	-	2014	1,994
					<b>1,365,437</b>

Loan and financing balances represented in current liabilities are segregated into principal and interest, as follows:

<b>2014</b>			
	<b>Principal</b>	<b>Accrued interest</b>	<b>Total</b>
Working capital	116,699	4,109	120,809
Bonds	-	2,856	2,856
Advance on Exchange Contract (ACC)	18,782	-	18,782
Export pre-payment (PPE)	213,231	4,341	217,571
Agricultural funding (Pesa)	-	662	662
FINAME	6,659	43	6,702
Facility	184,822	4,663	199,485
Guaranteed account	1,994	-	1,994
	<b>542,187</b>	<b>16,674</b>	<b>558,861</b>

<b>2013</b>			
	<b>Principal</b>	<b>Accrued interest</b>	<b>Total</b>
Working capital	80,218	5,085	85,303
Bonds	-	10,245	10,245
Export pre-payment (PPE)	9,676	875	10,551
Leases	189	2	191
FINAME	1,157	4	1,161
	<b>91,240</b>	<b>16,211</b>	<b>107,451</b>

The portions of financing classified as non-current liabilities maturing between 2015 and 2020, have the following payment schedule.

<b>Maturity year</b>	<b>2014</b>	<b>2013</b>
2014/2015	-	80,663
2015/2016	57,242	60,625
2016/2017	65,472	42,121
2017/2018	14,598	40,922
2018/2019	386	22,675
2019/2020	658,878	575,552
	<b>796,576</b>	<b>822,558</b>

### Guarantees

With guarantees:

<b>Description</b>	<b>Guarantees</b>	<b>2014</b>	<b>2013</b>
Capital de giro	Fixed assets / Application / Pledge cane / ethanol	60,267	101,923
FINAME	Fixed assets	17,535	6,917
Leasing	Fixed assets	-	1,455
Pré-pagamento à exportação (PPE)	Fixed assets	156,787	61,492
Sindicalizada	Pledge of sugarcane	46,654	96,941
		<b>281,243</b>	<b>268,728</b>

On March 31, 2014 the Company did not comply with certain contractual obligations (covenants) related to certain financial indicators and reclassified the amount of R\$ 314,115 from non-current liabilities to current liabilities. Additionally, on May 14, 2014 the Company raised bonds totaling US\$ 230 million for early extinguishment of various operations, as described in Note 34 - Subsequent Events and Note 35 - Additional Information.

The schedule of payments of financing classified as non-current liabilities, before accounting reclassification, as follows:

<b>Maturity year:</b>	<b>2014</b>
2014/2015	-
2015/2016	184,346
2016/2017	170,177
2017/2018	96,904
2018/2019	386
2019/2020	658,878
	<b><u>1.110.691</u></b>

## 21 Taxes payable

	<b>2014</b>	<b>2013</b>
Social Security Charges - INSS	1,361	2,226
Withholding income tax - IRRF	1,243	277
Value added taxes on sales and services - ICMS	63	1
Service tax - ISS	220	171
Other taxes payable	(40)	-
	<b><u>2,847</u></b>	<b><u>2,675</u></b>

## 22 Taxes payable in installments

	<b>2014</b>	<b>2013</b>
Value-added tax on sales and services - ICMS (ii)	6,147	6,017
Social Security Charges - INSS (i)	4,942	4,792
Social Integration Program (PIS) and Contribution for Social Security Funding (COFINS) (i)	1,040	-
Contribution to the Severance Indemnity Fund - FGTS	477	-
Corporate Income Tax - IRPJ (i)	239	253
Social Contribution on Net Income (CSLL) (i)	40	42
Others	352	-
	<b><u>13,237</u></b>	<b><u>11,104</u></b>
Current	6,317	5,265
Non-current	6,920	5,839

- (i) The Company adhered the Tax Recovery program (Refis) for federal debts, approved by Law 11,941 of 27 May 2009 and in July 2011 substantially consolidated its debts related to INSS, PIS, COFINS and IRPJ/CSLL.
- (ii) It refers to ICMS debts that were included in the Program for Payment in Installment incentivized by the State of São Paulo (PPI). The total amounts of the installments are being paid in 120 monthly installments.

Schedule of payments of taxes in installment classified in current and non-current liabilities:

<b>Year of maturity</b>	<b>2014</b>	<b>2013</b>
2013	-	5,265
2014	6,317	2,970
2015	2,169	1,093
2016	2,042	-
2017	1,398	-
2018 a 2024	1,311	1,776
	<b>13,237</b>	<b>11,104</b>

## 23 Advances from customers

	<b>2014</b>	<b>2013</b>
Advances from customers - Domestic market (i)	6,847	1,151
Advances from customers - Foreign market (ii)	68,592	-
Advances from customers - Performance	4,573	5,963
	<b>80,012</b>	<b>7,114</b>
Current	22,760	7,114
Non-Current	57,252	-

- (i) The amount refers to the advances made by clients purchasing of ethanol.
- (ii) The amount refers to the advances made by clients purchasing of sugar.

## 24 Provision for contingencies

The Company is party to lawsuits of a civil, labor and tax nature, all due in the normal course of operations. Management, based on its legal advisors' opinion and, whenever applicable, based on specific opinion issued by specialists, assesses the expectation of the outcome of the proceeding in course and determines the need or not for constituting a provision for contingencies.

As of March 31, 2014, the provision for contingencies in the amount of R\$ 10,354 refers to lawsuits considered as probable losses, based on the opinions of the legal advisors, is considered sufficient by Management to cover possible losses, as follows:

	<b>Civil and environmental</b>	<b>Labor</b>	<b>Tax</b>	<b>Total</b>
<b>Balance at March 31, 2013</b>	<b>697</b>	<b>4,991</b>	<b>900</b>	<b>6,588</b>
Merger	380	496	120	996
Provisions during the year	112	3,449	115	3,676
Write-offs during the year	-	(906)	-	(906)
Reclassifications	(100)	220	(120)	-
<b>Balance at March 31, 2014</b>	<b>1,089</b>	<b>8,250</b>	<b>1,015</b>	<b>10,354</b>

### Tax proceedings

Refer to taxes whose payment is being challenged in court by the Company, in which the challenged amounts have been deposited in court; and success fees to be paid to the lawyers contracted by the Company for defenses in tax lawsuits.

### **Civil and environmental proceedings**

Refer to compensation for property and moral damages; public civil actions to prohibit the burning of sugarcane straw and establishment of a legal reserve; and execution actions of an environmental nature.

### **Labor proceedings**

These refer to labor claims mainly related to overtime; commuting hours; elimination of breaks during shifts; hazardous duty and health hazard premiums; return of amounts deducted from the payroll, such as contributions to unions; night work pay; and recognition of a single employment contract with the consequent payment of the 13th-month salary and vacation pay plus a vacation bonus equivalent to one third of the salary.

### **Contingent liabilities**

The Company has other contingent liabilities involving labor, tax and civil issues in the estimated amount of R\$ 50,141 (R\$ 48,063 as of March 31, 2013). Due to the current stage of these suits and as the lawyers consider a favorable outcome possible, no provision for loss was recorded in the interim financial statements.

## **25 Financial instruments**

### **Financial risk management**

#### ***Overview***

The Company is exposed to the following risks from the use of financial instruments:

- Credit risk;
- Liquidity risk;
- Market risk;
- Operational risk; and
- Capital structure risk.

This note presents information on the Company's exposure to each one of the abovementioned risks, the Company's goals, policies and processes for the measurement and management of risk, and the Company's capital management.

#### ***Risk management structure***

The Company has a risk management policy that defines the methodologies and instruments to be applied for the permanent control of the risks to which it is exposed.

This policy aims at creating mechanisms for the maintenance of the Company's economic and financial balance, through the use of hedges for assets and liabilities. The procedures and instruments used for this are evaluated by the Controllershship, Finance and Marketing committees, and subsequently proposed for approval by the Board of Directors.

- The hedges to mitigate the main risks are managed as follows:

- For volatility of sugar prices on the international market, instruments are defined that include the amount of production of VHP sugar estimate for the harvest; and
- 
- For the exchange rate the amounts to be received in each period, are observed, in accordance with the forecast cash flow for the harvest.

For interest rates of financial liabilities, only the transactions where the interest rates present significant historical volatility are hedged.

All the positions taken are constantly evaluated aiming at resizing the hedged volumes as necessary, as the Company uses derivative financial instruments for the sole purpose of hedging its assets and liabilities.

### ***Credit risk***

Credit risk is the possibility of a financial loss if a client or a counterpart of a financial instrument fails to fulfill its contractual obligations arising mainly from trade accounts receivable and investments of the Company.

The Company's main scope of its credit risk management is to contract operations only with financial institutions recognized by the market as a solid institution, which are approved in advance by the Board of Directors. Within this scope, the opening of new positions in the New York exchange (ICE Futures US) with the intermediation of INTL FCStone is authorized.

For client credit risk, the Company conducts analyzes prior to registration to ensure the suitability of the prospective client, as well as spot contracts to ensure the advanced receipt of the physical delivery of the product sold, trying to maintain a low average turnover of receipt from its clients.

In order to mitigate such risks, the Company adopts as practice an analysis of the financial and equity situation of their counterparties.

### ***Exposure to credit risk***

The carrying amounts of financial assets classified as loans and receivables represent the maximum credit exposure. The maximum credit risk exposure on the date of the quarterly interim financial statements was:

	<b>2014</b>	<b>2013</b>
Cash and banks	65,031	2,809
Financial application	14,813	301,777
Other investments	15,474	19,324
Derivative financial instruments	-	1,373
Trade accounts receivable	7,549	1,466
Other accounts receivable	465	1,653
	<b>103,332</b>	<b>328,402</b>

Management in order to mitigate credit risks spreads its financial investments and other investments in financial institutions deemed by the market as first tier institutions.

### **Impairment loss**

The allowance for doubtful accounts on trade accounts receivable was recorded in an amount considered by management as sufficient in the face of possible losses

The composition of accounts receivable by maturity age is as follows:

	<b>2014</b>	<b>2013</b>
<b>Overdue</b>		
Up to 30 days	623	-
31-60 days	123	-
After 61 days	300	-
> 121 days	1,201	-
	<u><b>2,247</b></u>	<u><b>-</b></u>
<b>Falling due</b>		
Up to 30 days	5,302	1,466
	<u><b>5,302</b></u>	<u><b>1,466</b></u>
<b>Total</b>	<u><b>7,549</b></u>	<u><b>1,466</b></u>

The changes in allowance for impairment loss in relation to accounts receivable during the quarter was as follows:

<b>Balance at March 31, 2013</b>	<u><b>-</b></u>
Merger	<u>(373)</u>
<b>Balance at March 31, 2014</b>	<u><u><b>(373)</b></u></u>

### **Liquidity risk**

Liquidity risk is the risk of the Company encountering difficulties in performing the obligations associated with its financial liabilities that are settled with cash payments or with another financial asset.

The Company's approach in liquidity management is to guarantee, as much as possible, that it always has sufficient liquidity to perform its obligations upon maturity, under normal and stress conditions, without causing unacceptable losses or with a risk of sully the Company's reputation.

The contractual maturities of financial liabilities are shown below, including payment of estimated interest:

	<b>2014</b>				
	<b>Cash flow</b>	<b>Up to 1 year</b>	<b>Between two and three years</b>	<b>Between four and five years</b>	<b>&gt; 5 years</b>
<b>Financial liabilities</b>					
Suppliers	102,128	98,053	4,075	-	-
Derivative financial instruments	2,115	2,115	-	-	-
Loans and financing	1,365,437	568,861	137,312	386	658,878

Other accounts payable	7,494	7,494	-	-	-
	<u>1,477,174</u>	<u>676,523</u>	<u>141,387</u>	<u>386</u>	<u>658,878</u>

<b>2013</b>					
	<b>Cash flow</b>	<b>&lt; 1 year</b>	<b>Between two and three years</b>	<b>Between four and five years</b>	<b>&gt; 5 years</b>
<b>Financial liabilities</b>					
Suppliers	41,738	41,726	12	-	-
Derivative financial instruments	4,628	1,749	-	2,879	-
Loans and financing	930,009	107,451	54,270	192,736	575,552
Other accounts payable	3,205	3,205	-	-	-
	<u>979,580</u>	<u>154,131</u>	<u>54,282</u>	<u>195,615</u>	<u>575,552</u>

The gross inflows of entries / (exits), disclosed in the table above represent cash flows related to derivative and non-derivative financial liabilities held for risk management purposes, which are not usually closed before the contractual maturity.

### **Market risk**

Market risk is the risk that changes in market prices, such as exchange rates and interest rates. The objective of market risk management is to manage and control exposures to market risks, within acceptable parameters, and at the same time to optimize the return.

### **Foreign exchange risk**

The exchange rate risk to which the Company is exposed is the appreciation of the real against the dollar, as a significant portion of its revenue arises from exports received in USD, which in the event of appreciation of the real against the dollar causes a decrease in their revenues.

The hedging mechanisms aim at ensuring an average receipt compatible with the results projected by the Company for the harvest year. For hedging receipts from export revenues, the Company uses the "Currency forwards" (NDF) with the various financial institutions with which it operates.

The balances of loans and financing exposed to U.S. dollars refer materially to operations for Advances on Exchange Contract, Export Credit Notes, and Prepayment of Exports and Bonds. The Company therefore believes that there is a natural hedge, since the operations will be paid with funds from the delivery of sugar, also in U.S. dollars, which mitigates the risk of an impact on the Company's cash flow



**Exposure to foreign currency**

The Company's exposure is substantially linked to the U.S. dollars (USD) on the base-dates presented below:

	<b>2014</b>		<b>2013</b>	
	<b>R\$</b>	<b>US.</b>	<b>R\$</b>	<b>US.</b>
<b>Assets</b>				
<b>Current assets</b>				
Cash and Cash Equivalents				
Margin deposits	430	190	-	-
Accounts receivable - external market	7,387	3,264	-	-
Instrumentos Financeiros Derivativos				
Forward contracts for foreign currency - NDF	-	-	1,369	680
Margin deposits	-	-	4	2
<b>Total assets</b>	<b>7,817</b>	<b>3,454</b>	<b>1,373</b>	<b>682</b>
	<b>2014</b>		<b>2013</b>	
	<b>R\$</b>	<b>US.</b>	<b>R\$</b>	<b>US.</b>
<b>Liabilities</b>				
<b>Current liabilities</b>				
Loans and financing	178,101	78,701	54,653	27,141
Derivative financial instruments				
Future options (marked to market)	-	-	-	-
Forward foreign currency contracts - NDF	2,088	923	-	-
Cash flow swap	27	12	1,749	869
<b>Non-current liabilities</b>				
Loans and financing	1,024,736	452,822	737,655	366,300
Derivative financial instruments				
Cash flow swap	-	-	2,879	1,430
<b>Total liabilities</b>	<b>1,204,952</b>	<b>532,458</b>	<b>796,936</b>	<b>395,737</b>
<b>Net liability exposure</b>	<b>1,195,805</b>	<b>528,416</b>	<b>795,563</b>	<b>395,055</b>

Monetary assets and liabilities were updated and recorded in the balance sheet as of March 31, 2013 and 2014 with the exchange rate calculated by the Central Bank of Brazil, being, respectively, R\$ 2,0138 and R\$ 2,2630 per USD 1.00.

The balances of loans and financing refer to operations of Advances on Exchange Contracts, Export Credit Notes, Export Prepayment and Bonds, therefore although the exchange rate effect has an impact on the interim financial statements, there is a natural hedge since the operations will be paid with funds from the delivery of sugar, also in U.S. dollars, which mitigates the risk of impact on the cash flow of the Company.

### *Sensitivity analysis*

The likely scenario was adopted based on the position of the Company at March 31, 2014. For other scenarios, management used 25% for a possible scenario and a change of 50% for a remote scenario.

<b>Overdue</b>	<b>Remote (-50%)</b>	<b>Possible (-25%)</b>	<b>Probable</b>	<b>Possible (+25%)</b>	<b>Remote (+50%)</b>
Forward foreign currency contracts - NDF (*)	(17.486)	(2.806)	2.088	21.660	41.233
Loans and financing	601.419	902.128	1.202.837	1.503.546	1.804.256

(\*) Changes were calculated on the referential rate of each transaction, which is the rate that would be negotiated with the counterparties as of March 31, 2014.

### *Interest rate risk*

The Company's indebtedness costs are substantially tied to variable rates and thus it is exposed to the volatility of the following interest rates: Libor, TJLP and CDI. Occasionally, when significant volatilities are found in some interest rate to which it is exposed, the Company hedges itself against interest rates by contracting Cash Flow Swaps tied to be some long-term operations, such Prepayment of Export and Export Credit Notes, which are contracted with several financial institutions with which the Company operates.

### *Breakdown of financial instruments with variable interest rates*

On the date of the quarterly consolidated interim financial statements, the profile of financial instruments remunerated at variable rates was concentrated in investments and loans and financing.

### *Variable rate instruments*

The company does not conduct sensitivity analysis for financial instruments tied to variable interest rates, since it considers that the possible impacts are immaterial to its quarterly interim consolidated financial statements.

### *Price risk*

The Company is exposed to risks of changes in commodity prices due to the products produced, such as sugar and ethanol.

The Company operates in the management of price risk for volumes of sugar corresponding to the expected production for the harvest. The management of the positions is done in order to enable adjustments in the positions established, in response to market conditions, operating on the futures markets of the New York Stock Exchange (ICE Future US. - Intercontinental Exchange) and OTC markets.

On March 31, 2014, our price fixing of sugar for 14/15 season, with commercial partners or through derivatives, totaled 183.49 million tons at an average price of US\$ 17.41 cents / lb (cents U.S. per pound) priced by the futures contract for raw sugar No. 11 ICE Futures, New York US. and 7.5 million tons at an average price of US\$ 475.38 / t (US. dollar per tonne) overpriced of white sugar futures contract No. 407 of Euro next LIFFE.

### *Sensitivity analysis*

The assumptions used for the sensitivity analysis considers that there is a difference of more or less 10% from the indexes used for determining the fair value at March 31, 2014.

The Company does not show the mark to market of OTC contracts - Sugar.

### ***Operational risk***

Operating risk is the risk of direct or indirect losses arising from different causes related to the processes, personnel, technology and infrastructure of the Company, and external factors, except credit, market and liquidity risks, as those arising from legal and regulatory requirements and from generally accepted corporate behavior standards. Operating risks are associated to all operations of the Company.

The Company's goal is to manage the operational risk to avoid the occurrence of financial losses and damage to its reputation, and to pursue cost effectiveness and avoid control procedures that restrict initiative and creativeness.

### ***Capital structure risk***

Results from the choice between own capital (capital transfers and profit retention) and third party capital that the Company makes to finance its operations. To mitigate the liquidity risks and the optimization of the weighted average cost of capital, the Company permanently monitors the indebtedness levels according to market standards.

### ***Capital management***

The risk assessment for capital management has the main purpose of ensuring the satisfactorily continuity of the Company's operation, with a structure capable of generating value for shareholders with adequate levels of borrowings and the benefits and the security permitted by a sound capital position. The Board of Directors defines the performance indicator to be analyzed and actions to achieve the desired level.

The indicator used by the Company is the ratio of net debt divided by the EBITDA (income before interest, taxes, depreciation and amortization, including amortization of the plantation, accumulated in the last 12 months). Net debt includes total loans and financing from the first quarter to the third quarter less total cash and cash equivalents, other investments and finished product inventory value. For the fourth quarter (harvest end), net debt includes total loans and financing less total cash and cash equivalents and other investments, and EBITDA accumulated in the last 12 months.

As actions towards achieving the goals and objectives of capital management are those of revision of dividend, investment and asset management policy of the Company admissible.

The index considered satisfactory by the Company shall be equal to or less than three, ie, the debt should be no more than three times EBITDA

The index calculated for the year ended March 31, 2014 was 3.45 (2.07 on March 31, 2013), being in accordance with the minimum rate established by the Company.

The Company's debt to adjusted capital ratio at the end of the quarter is presented as follows:

	<b>2014</b>	<b>2013</b>
Total loans and financing	1,365,437	930,009
Less: Cash and cash equivalents	(79,844)	(304,586)
Less: Other investments	(15,474)	(19,324)
Less: Finished product inventory	(21,679)	-
<b>Net debt</b>	<b>1,248,440</b>	<b>606,099</b>
Total shareholders' equity	253,340	302,539
<b>Net debt / shareholders' equity</b>	<b>4.93</b>	<b>2.00</b>

- (\*) Other investments exclude investment recognized at cost in Centro de Tecnologia Canavieira, Energisa Bioeletricidade Santa Cândida I S.A., Energisa Bioeletricidade Vista Alegre I S.A. and Auto Posto Santa Cândida.

### ***Accounting classifications and fair values***

Statement of financial instruments and their respective category classification:

	<b>2014</b>	<b>2013</b>
<b>Financial instruments recorded at fair value through profit or loss</b>		
Other investments	15,474	19,324
Derivative financial instruments assets	-	1,373
Derivative financial instruments liabilities	(2,115)	(4,628)
<b>Assets held at amortized cost</b>		
Cash and cash equivalents	79,844	304,586
<b>Loans and receivables</b>		
Accounts receivable from customers	7,549	1,466
Other receivables	465	1,653
<b>Liabilities held at amortized cost</b>		
Providers	(102,128)	(41,738)
Loans and financing	(1,365,437)	(930,009)
Other payables	(7,494)	(3,205)

During the year ended March 31, 2014, no reclassification of financial instruments between categories above was performed.

**Book value versus fair value**

The fair values of the financial assets and liabilities, together with the book values presented in the balance sheet, are as follows:

	<b>2014</b>		<b>2013</b>	
	<b>Book value</b>	<b>Fair value</b>	<b>Book value</b>	<b>Fair value</b>
<b>Assets</b>				
Cash and cash equivalents	79,844	79,844	304,586	304,586
Other investments	15,474	15,474	19,324	19,324
Derivative financial instruments	-	-	1,373	1,373
Trade accounts receivable	7,549	7,549	1,466	1,466
Other accounts receivable	465	465	1,653	1,653
<b>Liabilities</b>				
Suppliers	(102,128)	(102,128)	41,738	41,738
Derivative financial instruments	(2,115)	(2,115)	4,628	4,628
Loans and financing	(1,365,437)	(1,365,437)	930,009	930,009
Other accounts payable	(7,494)	(7,494)	3,205	3,205

**Fair value hierarchy**

The table below provides an analysis of financial instruments that are measured at fair value after first-time recognition, grouped in Levels 1-3 based on the observable level of fair value:

- **Level 1 measurements of fair value** - are obtained from (unadjusted) prices quoted in active markets for identical assets and liabilities;
- **Level 2 fair value measurements** - are obtained through other variables in addition to quoted prices included in Level 1, which are verifiable directly for the asset or liability (that is, as prices) or indirectly (that is, based on prices); and
- **Level 3 fair value measurements** - are obtained through evaluation techniques that include variables for the asset or liability, but that are not based on verifiable market data (non-verifiable data).

	<b>2014</b>			<b>2013</b>		
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Asset</b>						
Cash and cash equivalents	64,601	14,813	-	2,999	301,587	-
Other investments	15,474	-	-	19,324	-	-
Margin deposits	-	-	-	-	11,601	-
<b>Liabilities</b>						
Cash flow swap	-	27	-	-	4,628	-
Forward foreign currency contracts - NDF	-	2,088	-	-	-	-

***Derivative instruments***

On March 31, 2014, the balances of assets and liabilities related to transactions involving derivative financial instruments were as follows:

	<b>2014</b>	<b>2013</b>
<b>Derivatives (assets)</b>		
Margin deposits	-	4
Forward foreign currency contracts - NDF	-	1,369
	<hr/>	<hr/>
Total current assets	-	1,373
	<hr/>	<hr/>
<b>Derivatives (liabilities)</b>		
Sugar positions - MtM	-	-
Forward foreign currency contracts - NDF	2,088	-
Cash flow swap	27	4,628
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>2,115</b>	<b>4,628</b>
	<hr/>	<hr/>
Total current liabilities	2,115	1,749
Total non-current liabilities	-	2,879

The amounts of margin deposits refer to funds held in a current account with the broker INTL FCStone to cover initial margins and daily adjustments resulting from fluctuations in sugar prices, to ensure the outstanding operations that the Company has with the broker.

The balance of forward contracts, NDF, refers to the positive result of hedge transactions contracted in the form of NDF.

The balance of cash flow swaps refers to the negative result calculated for cash flow hedges for export pre-payments.

***Guarantee margins***

The Company held in March 2014 amounts deposited as margin collateral 31, as determined by the New York ICE Future U.S. stock exchange, as below:

<b>Broker INTL FCStone</b>	<b>2014</b>	<b>2013</b>
Futures account	-	-
OTC account	-	4
	<hr/>	<hr/>
	-	4
	<hr/>	<hr/>

**Forward contracts - NDF**

The counterparties to foreign currency forward contracts as of March 31, 2014 are first tier banks.

<b>2014</b>						
<b>Position</b>	<b>Maturity</b>	<b>US\$ thousand</b>	<b>Average fixed rate R\$/US\$</b>	<b>Reference value - R\$</b>	<b>Fair value - R\$</b>	<b>Effect payable - R\$</b>
Sold	May 2014	500	2.4280	1,214	62	62
Sold	July 2014	2,250	2.2851	5,141	(76)	(76)
Sold	July 2014	7,750	2.2660	17,561	(555)	(555)
Sold	August 2014	9,000	2.2895	20,605	(604)	(604)
Sold	September 2014	8,250	2.3132	19,084	(509)	(509)
Sold	October 2014	6,500	2.3325	15,161	(403)	(403)
Sold	November 2014	500	2.4100	1,205	(3)	(3)
		<b>34,750</b>				<b>(2,088)</b>

**Impact of derivative financial instruments in income (loss)**

<b>Income and expenses on derivatives by category</b>	<b>2014</b>	<b>2013</b>
Incomes		
Futures contracts - Sugar	215	9,500
Currency forward contracts - NDF	142	1,498
Cash flow swap	49	358
<b>Total revenues</b>	<b>406</b>	<b>11,356</b>
Expenses		
Futures contracts - Sugar	(5,012)	-
Currency forward contracts - NDF	(19,540)	(9,017)
Cash flow swap	(566)	(6,332)
<b>Total expenses</b>	<b>(25,118)</b>	<b>(15,349)</b>
<b>Net Income (loss)</b>	<b>24,712</b>	<b>(3,993)</b>

## 26 Related parties

**Remuneration of key management personnel**

	<b>2014</b>	<b>2013</b>
Salaries and wages	3,206	1,747
Fees and bonuses	-	88
Social security and social contributions	304	287
Profit sharing program	9	313
Others	100	127
	<b>3,619</b>	<b>2,562</b>

The remuneration paid to key management personnel, composed of officers and directors, as of March 31, 2014 was R\$ 3,619 (R\$ 2,562 at March 31, 2013) and includes short-term variable salaries and benefits. The Company does not grant benefits with long-term characteristics to the key management personnel.

## Other related party transactions

Breakdown of balances of assets	2014	2013
<b>Accounts receivable</b>		
Estrela Dalva Tecnologia em limpeza	45	-
Silvia de Barros Brisola	130	-
Flavio de Albuquerque Pinheiro	126	-
Wilson Helio de Albuquerque Pinheiro Junior	116	-
Renata de Albuquerque Pinheiro	118	-
Transbocainense Transportes Ltda.	-	1,466
<b>Total accounts receivable - related parties (note 9)</b>	<b>535</b>	<b>1,466</b>
<b>Advances to suppliers</b>		
Abelmir BortoloTonon	40	374
Alfredo Tonon e Outros	245	1,211
Antônio Tonon	-	237
Aparecida T. Tonon Ghiselli	47	357
Auto Posto Santa Cândida de Bocaina Ltda.	845	855
Celso Roberto Tonon	-	324
DioneteTonon	96	116
José Antônio Tonon	476	876
Mauro de Albuquerque Pinheiro	517	-
Renato José Tonon	316	689
Tereza de Francisco	39	-
Transbilin Transp. Ltda.	-	1,902
TononAgroimóveis Rurais Ltda.	-	1,490
Transbocainense Transportes Ltda.	-	1,041
Tonon Holding	500	-
Vera Tonon Durante	555	180
Wilson Jelio Albuquerque Pinheiro Junior	314	-
<b>Total advances to suppliers - Related parties (note 11)</b>	<b>3,990</b>	<b>9,652</b>
<b>Breakdown of balances of liabilities</b>	<b>2014</b>	<b>2013</b>
<b>Suppliers</b>		
ABT Participações Ltda.	12	8
Alfredo Tonon e Outros	9	-
Auto Posto Santa Candida de Bocaina Ltda.	-	10
ALT Participações Ltda.	12	8
ANT Participações Ltda.	12	8
CAJRT Participações Ltda.	12	8
Celso Roberto Tonon	26	15
JAT Participações Ltda.	12	8
J. Tonon Transp. Ltda.	31	28
RJT Participações Ltda.	12	6
TononAgroimóveis Rurais Ltda.	659	-
Pinhal Administração de bens próprios	21	-
Flavio de Albuquerque Pinheiro	65	-
<b>Total suppliers - related parties (note 19)</b>	<b>883</b>	<b>99</b>



**Tonon Bioenergia S.A.**  
Financial statements  
March 31, 2014 and 2013

	2014							
	Purchase of fuel	Purchase of sugarcane	Services received	Sureties taken	Retainer expenses	Purchases of property, plant and equipment	Acquisition of Paraiso	Total
AbelmirBortoloTonon	-	-	-	130	-	1.960	-	2,090
ABT Participações Ltda.	-	-	-	-	144	-	-	144
Alfredo Tonon	-	346	-	190	-	-	-	536
Alfredo Tonon e Outros	-	10	-	-	-	-	-	10
ALT Participações Ltda.	-	-	-	-	144	-	-	144
ANT Participações Ltda.	-	-	-	-	144	-	-	144
Antônio Tonon	-	-	-	81	-	-	-	81
Aparecida T. TononGhiselli	-	249	-	-	-	-	-	249
Auto Posto Santa Cândida de Bocaina Ltda.	28,674	-	-	-	-	-	-	28,674
CAJRTParticipações Ltda.	-	-	-	-	144	-	-	144
Carlos Eduardo B. Tonon	-	-	-	-	-	30	-	30
Celso Roberto Tonon	-	315	-	147	-	-	-	462
DioneteTonon	-	137	-	-	-	-	-	137
Flavio Albuquerque Pinheiro	-	61	-	121	-	-	14,276	14,468
J. Tonon Transportes Ltda.	-	-	497	-	-	-	-	497
JAT Participações Ltda.	-	-	-	-	144	-	-	144
José Antônio Tonon	-	187	-	156	-	-	-	343
Pinhal Administração de Bens	-	1,006	-	-	-	-	-	1,006
Renata de Albuquerque Pinheiro	-	61	-	121	-	-	14,276	14,468
Renato José Tonon	-	47	-	147	-	-	-	194
RJT Participações Ltda.	-	-	-	-	144	-	-	144
Silvia de Barros Brisola	-	30	-	61	-	-	7,142	7,233
Tonon Agro Imóveis Rurais Ltda.	-	10,375	-	-	-	-	-	10,375
Transbilin Transportes Ltda.	-	-	-	-	-	1,475	-	1,475
Transbocainense Transportes Ltda.	-	-	-	-	-	2,351	-	2,351
Wilson Helio A. Pinheiro Jr.	-	61	-	121	-	-	14,276	14,468
<b>Total</b>	<b>28,674</b>	<b>12,885</b>	<b>497</b>	<b>1,275</b>	<b>864</b>	<b>5,816</b>	<b>50,000</b>	<b>100,011</b>

**2013**

	<b>Purchase of fuel</b>	<b>Purchase of sugarcane</b>	<b>Services received</b>	<b>Sureties taken</b>	<b>Retainer expenses</b>	<b>Purchases of property, plant and equipment</b>	<b>Total</b>
AbelmirBortoloTonon	-	-	-	152	-	510	662
ABT Participações Ltda.	-	-	-	-	94	-	94
Alfredo Tonon	-	403	-	224	-	-	627
ALT Participações Ltda.	-	-	-	-	94	-	94
ANT Participações Ltda.	-	-	-	-	94	-	94
Antônio Tonon	-	-	-	95	-	-	95
Aparecida T. TononGhiselli	-	324	-	-	-	-	324
Auto Posto Santa Cândida de Bocaina Ltda.	24,979	-	-	-	-	-	24,979
CAJRTParticipações Ltda.	-	-	-	-	94	-	94
Carlos Eduardo B. Tonon	-	22	-	-	-	518	540
Celso Roberto Tonon	-	407	-	173	-	-	580
DioneteTonon	-	26	-	-	-	-	26
Fernando José B. Tonon	-	-	-	-	-	128	128
J. Tonon Transportes Ltda.	-	-	482	-	-	-	482
JAT Participações Ltda.	-	-	-	-	94	-	94
José Antônio Tonon	-	313	-	183	-	-	496
Renato José Tonon	-	762	-	173	-	-	935
RJT Participações Ltda.	-	-	-	-	94	-	94
Tonon Agro Imóveis Rurais Ltda.	-	9,832	-	-	-	-	9,832
Transbilin Transportes Ltda.	-	-	46	-	-	-	46
Transbocainense Transportes Ltda.	-	-	135	-	-	-	135
<b>Total</b>	<b>24,979</b>	<b>12,089</b>	<b>663</b>	<b>1,000</b>	<b>564</b>	<b>1,156</b>	<b>40,451</b>

## 27 Shareholders' equity

### Capital

On May 3, 2013 there was a capital increase by FIP Terra Viva through the capitalization of credits arising from the sale of its shares issued by Paraíso Bioenergia S.A. to the Company, in the amount of R\$ 70 million. This increase is divided into R\$ 8,954 in capital and R\$ 61,046 in the capital reserve represented by the excess amount of the issue price from subscribing to shares.

At December 31, 2013, capital is R\$ 88,265 divided into 55,200,009 registered common shares with no par value and 33,064,744 registered preferred shares, with no par value. The capital is comprised by the following shareholders:

	2014		2013	
	Shares (thousand)	R\$	Shares (thousand)	R\$
Tonon Holding S.A. (i)	55,200	55,200	55,200	55,200
FIP - Terra Viva (ii)	33,065	33,065	24,110	24,110
		<u>88,265</u>		<u>79,310</u>

- (i) Nominative common shares with no par value. Preferred shares assures voting rights in General Meeting;
- (ii) Nominative preferred shares with no par value. Preferred shares, according to Tonon's By-Law, has voting rights in General Meeting, being assured a priority in the capital reimbursement.

All capital is fully subscribed and paid in.

### Capital reserve

Represented by the excess amount of the issue price of the subscription of shares by the fund FIP Terra Viva.

### Special premium reserve

Represented by the tax benefit generated by the goodwill through corporate mergers made by the Company.

The Company, for corporate purposes, wrote off this goodwill since for accounting practices adopted in Brazil this goodwill does not meet the requirements of accounting recognition, however, the portion of the tax benefit to which the Company is entitled was maintained in accordance with the legal opinion of its legal counsel.

### Legal reserve

The legal reserve is set up at the rate of 5% of the net income determined in each financial year, pursuant to article 193 of Law 6404/76 up to the limit of 20% of the share capital.

### Dividends

If there is a profit in the year, the Company's prevailing bylaws require that the Annual General Meeting decides on the distribution of dividends, which is at least 30% of the net income for the year, adjusted in accordance with article 202 of Law 6404/76.

### **Equity evaluation adjustment**

Refers to the adoption of the deemed cost for property, plant and equipment on the transition date, less the respective deferred income tax and social contribution and it is being realized through depreciation, disposal or write off of the assets which it originated from.

### **Advances for future capital increase**

Refers to the allocation of the purchase price of the acquisition of the subsidiary Paraíso Bioenergia S.A. in the amount of R\$ 50 million. This amount must be subscribed to the capital of Bioenergia S.A. through common shares by the seller or paid in local currency until the month of May 2015, in accordance with the option of Tonon Bioenergia S.A, determined in the share purchase agreement.

## **28 Revenue**

The Company's operating income consist of the sale of sugar, ethanol and electric power for domestic and foreign markets.

The reconciliation between the gross and net income is as follows.

	<b>Consolidated IFRS/CPC</b>	<b>Parent - CPC</b>	
	<b>2014</b>	<b>2014</b>	<b>2013</b>
Gross revenue from domestic sales	343,035	242,398	217,317
Gross revenue from foreign sales	502,188	426,942	410,161
Gross revenue from sales and services	6,014	5,551	2,554
	<b>851,237</b>	<b>674,891</b>	<b>630,042</b>
Less:			
Deductions and rebates	(14,904)	(14,767)	(15,762)
Sales tax	(31,782)	(15,164)	(20,177)
	<b>(46,686)</b>	<b>(29,931)</b>	<b>(35,939)</b>
<b>Net revenue</b>	<b>804,551</b>	<b>644,960</b>	<b>594,103</b>

## 29 Expenses and other operating income

	<b>Consolidated IFRS/CPC</b>	<b>Parent - CPC</b>	
	<b>2014</b>	<b>2014</b>	<b>2013</b>
<b>Operating expenses by type</b>			
Personnel Expenses	(20,937)	(18,176)	(12,405)
Third parts services	(7,367)	(6,030)	(4,806)
Selling expenses and freight shipments	(52,179)	(47,132)	(40,284)
Expenses with taxes fees and contributions	(2,675)	(2,625)	(422)
Other expenses	(5,638)	(5,007)	(1,345)
Depreciation and amortization	(2,318)	(2,050)	(1,146)
Gain in the sale of investments	(802)	(802)	(2,747)
Adjustment in fair value of investments	-	-	1,752
Other net operating income	13,215	9,088	108
Provision for doubtful accounts	-	-	5,478
	<b>(78,702)</b>	<b>(72,735)</b>	<b>(55,817)</b>
<b>Operating expenses by function</b>			
Administrative expenses	(17,151)	(11,169)	(5,220)
Selling expenses	(53,724)	(48,677)	(36,030)
General expenses	(17,979)	(18,578)	(14,023)
Other net operating income	10,152	5,689	(544)
	<b>(78,702)</b>	<b>(72,735)</b>	<b>(55,817)</b>

## 30 Net financial income (loss)

	<b>Consolidated IFRS/CPC</b>	<b>Parent - CPC</b>	
	<b>2014</b>	<b>2014</b>	<b>2013</b>
<b>Financial income</b>			
Gains on derivative financial instruments	7,666	4,802	1,339
contractual penalties	-	-	13,421
Income from financial investments	7,696	7,488	7,536
discounts obtained	715	704	356
interest income	4,217	1,316	4,726
Foreign exchange gains	269,025	250,362	51,770
	<b>289,319</b>	<b>264,672</b>	<b>79,148</b>
<b>Financial expenses</b>			
Losses with derivative financial instruments	(33,361)	(25,248)	(15,349)
Interest expense and bank charges	(112,014)	(94,678)	(94,798)
Foreign exchange losses	(452,206)	(401,711)	(102,743)
	<b>(597,581)</b>	<b>(521,637)</b>	<b>(212,890)</b>
<b>Net financial income (loss)</b>	<b>(308,262)</b>	<b>(256,965)</b>	<b>(133,742)</b>

## 31 Governmental grant

The Company has a state tax incentive program with the State of Mato Grosso do Sul in the form of deferral of payment of Value Added Tax on Sales and Services (ICMS). The

Company's use of the tax incentive is contingent on fulfillment of all the obligations set forth in the agreement, whose conditions refer to factors under the Company's control.

The benefit related to the reduction in the payment of this tax is calculated on the outstanding balance calculated in each calculation period by applying the percentage of the discount given by the tax incentive.

The amount of the subsidy calculated during the period was recorded in the income statement as a deduction under sales taxes.

For the periods ended March 31, 2013 and 2014, the amount of the incentive which impacted the results were R\$ 4,245 and R\$ 4,553, respectively

## 32 Firm commitments

Expected production for 2014/2015 harvest, with respective obligation volumes with clients, obligations referring to contracts already executed with clients and suppliers for the coming harvests, partners and sugarcane leases are as follows.

### 2014/2015 Harvest - Forecast production versus commitments with clients

Valores de açúcar (em toneladas)			
	Forecast production + Inventory	Commitments With clients	Volume Committed (%)
03/31/2014	549,667	499,700	90.91%

### Commitments with clients for the next harvest for sale of sugar

Year / Harvest	Tons of sugar
2015/2016	478,500
2016/2017	278,500
2017/2018	135,000
2018/2019	81,000
	<b>973,000</b>

### 2014/2015 Harvest - Executed contract with suppliers, partners and leases for 2014 and following years

Future harvests	Obligations with suppliers in thousands of Brazilian reais
Harvest 2014/2015	161,238
Harvest 2015/2016	134,811
Harvest 2016/2017	114,002
Harvest 2017/2018	84,937
Harvest 2018/2019	42,703
Harvest 2019/2020	28,075
Harvest from 2020/2021 to 2029/2030	144,020
	<b>709,786</b>

For purposes of valuation of the commitments for payment to suppliers, partners and leases, used the value of the TRS effect in March 31, 2014 of R\$ 0.4938 kg / TRS in 2014 and in other harvests for the closed commitments.

### **33 Profit sharing**

In accordance with the Collective labor agreement, signed with its employees, the Company implemented the program for employee profit sharing based on agreements and operating and financial targets previously established, based on the budgetary plan.

The operating and financial indicators agreed between the Company and the employees, through the unions that represent them, are related to the following aspects: (i) agribusiness operating indexes; (ii) budgetary index; (iii) safety, health and environmental statistical indexes; (iv) economic gains with changes in processes and the related quality; (v) economic and financial performance.

The amount of profit sharing, which was recorded as operating expenses, is as follows:

	<b>2014</b>	<b>2013</b>
Profit sharing results	9,438	7,670

### **34 Subsequent events**

On May 14, 2014, the Tonon Bioenergy SA completed the issuance of US\$ 230 million outside of notes (bonds) and principal maturing in 5 years and pays interest semi-annually (May and November) and a coupon of 10.5% pa . Fitch and S & P assigned risk rating on a global scale (rating) B. The transaction was led by Morgan Stanley and HSBC.

The proceeds of this issue are intended for early settlement of various operations, as presented in Note 35 – Additional Information.

## 35 Additional information

As mentioned in Note 34 - Subsequent Events, the value of \$ 230 million related to the capture of bonds was for the early settlement of various operations. As shown in the table below are presented the changes occurred with the capture and present scenario after the inflow and liquidations occurred.

	03/31/2014	Reclassification (Not comply covenants)	03/31/2014	Funding / Amortization	03/31/2014 (After Subsequent events)	Waiver	03/31/2014 (After Waiver)
<b>Current liabilities</b>							
Working capital	72,891	47,918	120,809	-	120,809	(47,918))	72,891
Bonds	2,856	-	2,856	-	2,856	-	2,856
Advances on exchange contracts (ACC)	18,782	-	18,782	-	18,782	-	18,782
Prepayment Export (PPE)	97,491	120,081	217,572	(217,752)	-	-	-
FINAME	6,702	-	6,702	(6,702)	-	-	-
Facility	53,368	146,116	199,484	(199,484)	-	-	-
Agricultural Costs (Pesa)	662	-	662	-	662	-	662
Overdraft	1,994	-	1,994	-	1,994	-	1,994
	<b>254,746</b>	<b>314,115</b>	<b>568,861</b>	<b>(423,758)</b>	<b>145,103</b>	<b>(47,918)</b>	<b>97,185</b>
<b>Non-current liabilities</b>							
Working capital	58,178	(47,918)	10,260	-	10,260	47,918	58,178
Bonds	656,260	-	656,260	518,506	1,174,766	-	1,174,766
Advances on exchange contracts (ACC)	236,686	(120,081)	116,605	(43,149)	73,456	-	73,456
FINAME	10,833	-	10,833	(10,833)	-	-	-
Facility	146,116	(146,116)	-	-	-	-	-
Agricultural Costs (Pesa)	2,618	-	2,618	-	2,618	-	2,618
	<b>1,110,691</b>	<b>(314,115)</b>	<b>796,576</b>	<b>464,424</b>	<b>1,261,100</b>	<b>47,918</b>	<b>1,309,018</b>
	<b>1,365,437</b>	<b>-</b>	<b>1,365,437</b>	<b>40,766</b>	<b>1,406,203</b>	<b>-</b>	<b>1,406,203</b>



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