April 30, 2019

035/2019-PRE

C I R C U L A R   L E T T E R

To: B3's Market Participants – BM&FBOVESPA Segment

Re: **Treatment of Securities Lending Positions Relating to Subscription for Shares in Terra Santa Agro S.A. with Allocation of Subscription Warrants.**

On April 9, 2019 Terra Santa Agro S.A. (Company) published a Notice of Material Event about a proposed capital increase through subscription for ordinary shares with allocation of subscription warrants. This capital increase proposal was submitted for the approval of the shareholders at the EGM of April 29, 2019.

The treatment of subscription for the Company's new shares to be applied to securities lending positions will comply with subitem 4 of item 6.8.3 of BM&FBOVESPA Clearinghouse's Operating Procedures Manual.

On the request date of the subscription receipt lending agreement, the participant responsible for the lender investor will communicate, via the RTC system, whether it wishes to take part in the allocation of subscription surpluses. On this same date, the participant must communicate the quantity of subscription surpluses via email at liquidacao.posicoes@b3.com.br.

The quantity of subscription surpluses will be limited according to the result calculated by multiplying the percentage of the subscription surplus allocation and the quantity requested in the receipt agreement.

The percentage of the surplus allocation is calculated by the ratio between the quantity of unsubscribed shares in the exercise of the preemptive right for the cash market asset and the quantity of subscribed shares in the exercise of the preemptive right for the cash market asset.

Securities lending positions involving the Company's shares, for which the lender opts for the creation of a subscription receipt lending agreement, will also be submitted for subscription warrant cash settlement after the capital increase is confirmed.

Cash settlement of the subscription warrants will take place upon expiration of the sub-agreements deriving from the subscription process, by crediting the lender and debiting the borrower to the amount that results from multiplication of the number of subscribed shares by the subscription warrant proportion factor stipulated by the Company (two subscription warrants to each subscribed new share) and finally by the closing price of the subscription warrant for the day before cash settlement. If there is no closing price, the price of the subscription warrant will be set as established in the Annex to this Circular Letter.

Further information can be obtained from Processes and Settlement Services Support by telephone on +55 11 2656-5013, option 3, or by email at liquidacao.posicoes@b3.com.br.

Gilson Finkelsztain   Cícero Augusto Vieira Neto
Chief Executive Officer   Chief Operating Officer

O teor deste documento confere com o original assinado, disponível na B3.

Praça Antonio Prado, 48 – 01010-901 – São Paulo, SP
Tel.: (11) 2565-4000 – Fax: (11) 2565-7737

2

Annex to Circular Letter 035/2019-PRE

Calculation of the reference price of the subscription right

The reference price of the subscription right will be calculated by the following equation:

$$W = \frac{1}{1+M} \text{Call}(S + M * W, K, T, r, \sigma) \qquad (1)$$

Where:

W = reference price of the subscription right;

M = warrant proportion;

S = share price;

K = exercise price of the subscription right;

T = time to exercise;

r = fixed interest rate regarding *T* time;

σ = volatility of the share regarding T time;

Call(...) = the Black & Scholes call option pricing formula.

The volatility used to price the subscription rights is the estimated long-term volatility in a GARCH (1,1) model with normal residuals. The following expression is assumed for returns:

$$r(t) = \sqrt{\hat{\sigma}^2(t)} z_t$$

Where variance $\hat{\sigma}^2(t)$ is defined as:

$$\hat{\sigma}^2(t) = \omega + \alpha r^2(t-1) + \beta \hat{\sigma}^2(t-1)$$

O teor deste documento confere
com o original assinado,
disponível na B3.

Praça Antonio Prado, 48 – 01010-901 – São Paulo, SP
Tel.: (11) 2565-4000 – Fax: (11) 2565-7737

1

Coefficients ω, α and β are estimated on the series of returns to the share using the maximum likelihood technique. Therefore, long-term variance of the returns V_L based on the estimated parameters of the model is given by:

$$V_L = \frac{\omega}{1 - \alpha - \beta}$$

This long-term variance is used to calculate the price of subscription rights. The square root of this variance is long-term volatility, therefore the time to exercise is adjusted.

$$V(T) = V_L + \frac{1 - \exp(-aT \cdot 252)}{aT \cdot 252}(\hat{\sigma}^2(t+1) - V_L)$$

com $a = \ln\frac{1}{\alpha+\beta}$. However, this is a daily measure and must be converted to an annual measure. Thus the final expression for long-term volatility is:

$$\sigma(T) = \sqrt{252\, V(T)}$$

O teor deste documento confere
com o original assinado,
disponível na B3.

Praça Antonio Prado, 48 – 01010-901 – São Paulo, SP
Tel.: (11) 2565-4000 – Fax: (11) 2565-7737

2