

11 March 2011

Adecoagro

Reuters: **AGRO.N** Bloomberg: **AGRO US** Exchange: **NYS** Ticker: **AGRO**

Cropping up; initiate at Buy

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Adecoagro is one of the largest agricultural companies in the region, operating in Argentina, Uruguay and Brazil. Increasing demand for food as world population grows, disposable income growth, and additional demand from biofuels within crop supply/demand should drive sustainable upward pressure on commodity prices. This should support earnings growth ahead. Moreover, limited access to land globally makes Adecoagro a unique play in the regional agribusiness space. Initiating with a Buy rating.

Diversified Farming/land, with Sugar and Ethanol upside

Our positive stance on Adecoagro is based on: (1) attractive geographic positioning, as it has favorable land assets and water access with the South American climate favorable for crop production and land development, (2) standardized and low-cost production model, with heavy technology utilization transferable/scaleable across farms, and (3) portfolio diversification across products, which lowers earnings volatility.

Sugar and Ethanol & Co-gen: Focus area, increasing presence in Brazil

Adecoagro operates two mills in Brazil with combined crush capacity of 5.2mn tons. The company is more than doubling operations in Brazil's Center West by adding 6.3mn tons and creating a state of the art cluster, once Ivinhema plant is built by 2017. Expansion in Brazil sugar, ethanol and co-generation is the LT growth driver.

Farming & Land transformation add value

AGRO has significant land holdings for producing crops (mainly soybeans, rice and corn), and fully-integrated storage/conditioning. Farming segment benefits from standardized and scaleable production, while company has established a track of purchasing underutilized land and redeveloping it for sale.

Valuation: \$15 target

\$15/share target is NAV based. We value farming/land separately from sugar/ethanol/co-generation. For land assets, we rely on estimated FMV of \$698m, adjusted for deferred taxes, and a 15% premium applied. Sugar/ethanol value uses a blend of four methodologies (DCF, EV/Ton, EV/EBITDA, and NAV).

Risks: Weather, commodities, regulation

Major risks include adverse weather, which could damage crop production, or decline in prices for key commodities (i.e. crops, sugar, ethanol). Earnings are also exposed to FX volatility for Argentina/Brazil vs. USD reporting currency. Regulation poses a risk if exports limits or taxes for commodities rise, new limitations on foreign land ownership, or delays on licenses for plant construction.

Forecasts and ratios

Year End Dec 31	2009A	2010E	2011E	2012E
EPS (USD)	-0.00	-0.43	0.49	0.50
P/E (x)	-	-	26.2	25.4

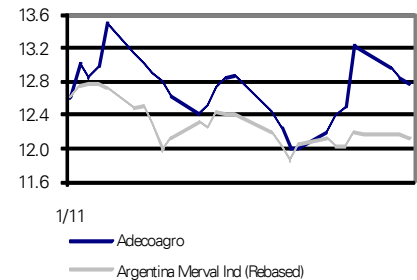
Source: Deutsche Bank estimates, company data

Deutsche Bank Securities Inc.

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Coverage Change**Buy**

Price at 9 Mar 2011 (USD)	12.76
Target price	15.00
52-week range	13.50 - 11.99

Price/price relative

Performance (%)	1m	3m	12m
Absolute	-1.1	-	-
Argentina Merval Index	-1.4	2.6	49.1

Stock data

Market cap (USDm)	1,532.1
Shares outstanding (m)	120.1
ADR ratio	0.0
Free float (%)	25
Volume (9 Mar 2011)	49,578
Argentina Merval Index	3,458
Exchange rate (USD/USD)	1.00

Key indicators (FY1)

ROE (%)	-7.0
ROA (%)	-4.1
Net debt/equity (%)	39.4
Book value/share (USD)	5.88
Price/book (x)	2.2
Net interest cover (x)	-
EBIT margin (%)	-13.7

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Investment thesis

Diversified farming/land play, with Ethanol upside

Our positive thesis is based on favorable asset positioning, a diversified portfolio, and advantaged production processes. Combined with upside to our NAV value of land and ethanol assets, it drives our positive recommendation. Key strategic positives:

- **Attractive geographic positioning.** AGRO has favorable land assets and water access, with South American climate very favorable for crop production and land development.
- **Standardized and low-cost production** model, with heavy technology utilization, transferable/scaleable across farms.
- **Portfolio diversification.** AGRO is diversified across geographies and products, a portfolio approach which lowers earnings volatility. Vertical integration in select products also reduces volatility.
- **Ethanol cluster** is positioned to exploit growth potential in that segment, and should drive higher efficiency vs. peers as it is developed.

Sound strategy for growing the three main business segments:

- **Farming – Organic Growth.** Segment primarily driven by sales of Soybeans, Rice, Corn, and AGRO owns integrated production facilities on 275k hectares. Business will expand through organic growth and strategic M&A, with efficiency increasing over time through technology investments and scale.
- **Sugar/Ethanol – Grow the Cluster.** Company envisions substantial ramping of its sugar, ethanol and cogeneration production over next five years. Production has been historically limited in scale but with strong margins. Expansion in Mato Grosso do Sul is now the LT growth driver, via development of a state of the art production cluster and construction of Ivinhema facility. Region has favorable production conditions, AGRO is building out transport facilities, and cluster will drive higher scale and cost efficiency.
- **Land Transformation – Strong track record.** Adecoagro has established a track record of purchasing underutilized land, redeveloping it for more profitable agriculture, then strategically selling. Since 2002, this has included 134k hectares with current portfolio of 288k. We believe AGRO has a proven competency finding and turning around undervalued assets, and advantaged development processes to create future value.

Valuation: \$15 target

Our target price of \$15 is based on an NAV framework, which values farming/land separately from sugar/ethanol/co-generation. For land assets, we rely on estimated FMV of \$698m, adjusted for deferred taxes, and a 15% premium applied. Sugar/ethanol value uses a blend of four methodologies (DCF, EV/Ton, EV/EBITDA, and NAV).

Risks: Weather, commodities, regulation

Major risks include adverse weather, which could damage crop production, or decline in prices for key commodities (i.e. crops, sugar, ethanol). Earnings are also exposed to FX volatility for Argentina/Brazil vs. USD reporting currency. Regulation poses a risk if export limits or taxes for commodities rise, new limitations on foreign land ownership, or delays on licenses for plant construction. Other key risks: IFRS accounting limits earnings visibility/comparability, and agro debt carries covenants which have been breached in past.

Valuation

Sum-of-the-parts nav base price target of \$15

We value adecoagro via nav calculation for the farming and the sugar, ethanol and co-generation separately.

Figure 1: nav valuation (\$)

	Farming	Ethanol
Shareholders equity	\$283,239	
Less: BV of land	287,328	
Add: FMV of land	698,105	
Adjustment for Deferred Tax Liab	79,910	
Total NAV	773,926	
Premium	15%	
Implied equity value	890,015	427,127
Combined equity value	1,317,142	
Offering proceeds	428,762	
Equity value	1,745,904	
Shares out	120,069	
Value/share	\$15.0	

source: deutsche bank estimates, company data

Farming

For the farming segment, we utilize net asset value. we take shareholders equity for argentina, uruguay and western bahia (in order to exclude the sugar/ethanol business), deduct the book value of land, and add the fair market value of land as set forth in the prospectus (cushman & wakefield valuation). after adjusting for deferred tax liabilities, we apply a 15% premium, owing to our view of future land values, outlined in the outlook section below. we also note that a recent sale of a farm in uruguay was done at 11% over the cushman valuation, likely at the low end of the portfolio.

Figure 2: Assessed market value of farmland (\$)

Farm	Location	Gross Size (hectares)	Book Value (thousand)	Cushman Valuation (thousand)	Current Use
El Meridiano	Buenos Aires, Argentina	6,302	\$15,837	\$40,729	Grains
La Alegría	Buenos Aires, Argentina	2,439	\$4,771	\$9,930	Grains
Las Horquetas	Buenos Aires, Argentina	2,089	\$2,232	\$8,761	Grains & Cattle
San Carlos	Buenos Aires, Argentina	4,239	\$4,000	\$26,701	Grains
Santa Regina	Buenos Aires, Argentina	3,618	\$3,725	\$19,761	Grains
El Orden	Santa Fe, Argentina	6,860	\$5,073	\$9,321	Grains & Cattle
La Carolina	Santa Fe, Argentina	8,297	\$6,135	\$12,185	Grains & Cattle
La Rosa	Santa Fe, Argentina	4,087	\$5,144	\$16,383	Grains & Cattle
San José	Santa Fe, Argentina	7,630	\$1,279	\$5,361	Grains
San Joaquín	Santa Fe, Argentina	37,082	\$11,115	\$38,235	Rice, Grains & Cattle
Carmen	Santa Fe, Argentina	10,020	\$19,708	\$85,382	Grains
Abolengo	Santa Fe, Argentina	7,476	\$19,135	\$86,041	Grains
La Guarida	Santiago de Estero, Argentina	15,451	\$11,400	\$20,326	Grains & Cattle
Santa Lucía	Santiago de Estero, Argentina	17,495	\$27,585	\$39,765	Grains & Cattle
Los Guayacanes	Salta, Argentina	7,241	\$17,759	\$31,548	Grains
La Garrucha	Salta, Argentina	3,607	\$8,846	\$15,510	Grains
Ombú	Formosa, Argentina	18,320	\$8,198	\$18,752	Grains & Cattle
Oscuro	Corrientes, Argentina	33,429	\$7,718	\$43,937	Rice, Grains & Cattle
Itá Caabó	Corrientes, Argentina	26,650	\$19,917	\$52,878	Rice, Grains & Cattle
San Agustín	Corrientes, Argentina	5,067	\$2,161	\$12,896	Rice, Grains & Cattle
Alto Alegre	Tocantins, Brazil	6,082	\$5,130	\$11,152	Grains & Cotton
Conquista	Tocantins, Brazil	4,325	\$5,130	\$10,165	Grains & Cotton
Lagoa de Oeste	Bahia, Brazil	1,132	\$2,274	\$4,249	Coffee
Palmeira	Bahia, Brazil	1,000	\$2,678	\$2,717	Coffee
Heloisa	Bahia, Brazil	800	\$2,128	\$2,702	Coffee
Mimoso	Bahia, Brazil	902	\$2,656	\$3,021	Coffee
Rio de Janeiro	Bahia, Brazil	10,012	\$20,484	\$32,438	Grains & Coffee
Bela Manhá	Mato Grosso do Sul, Brazil	381	\$1,459	\$1,750	Sugarcane
Ouro Verde	Mato Grosso do Sul, Brazil	683	\$2,367	\$2,912	Sugarcane
Don Fabrício	Mato Grosso do Sul, Brazil	3,304	\$11,552	\$14,248	Sugarcane
Takuaré	Mato Grosso do Sul, Brazil	490	\$2,074	\$2,015	Sugarcane
Água Branca	Mato Grosso do Sul, Brazil	1,614	\$6,429	\$6,371	Sugarcane
Nossa Senhora Aparecida	Mato Grosso do Sul, Brazil	540	\$1,926	\$1,807	Sugarcane
Sapálio	Mato Grosso do Sul, Brazil	6,062	\$22,626	\$25,085	Sugarcane
Carmen (Água Santa)	Mato Grosso do Sul, Brazil	146	\$819	\$739	Sugarcane
La Pecuaria	Durango, Uruguay	3,137	\$8,315	\$13,761	Grains
Dinaluca	Corrientes, Argentina	14,749	\$21,537	\$23,500	Rice
Total		282,758	\$321,322	\$753,034	

source: company data

Sugar, ethanol and co-generation: a blend of four valuation methodologies

Our four valuation methodologies are as follows:

- **Discounted cash flow model:** we believe this methodology best captures the value of this business and mitigates the commodity price volatility. the wacc used is 10.7%, assuming a cost of equity of 12.6% (beta of 1.25, risk free rate of 4%, equity risk premium of 5.3% and country and corporate governance premium (lack of track record as a publicly traded company) of 2%, and an after tax cost of debt of 7.9% (rate of 12% plus brazil's corporate tax rate of 34%).
- **\$ev/ton multiple:** using the adjusted enterprise value per ton of crushing capacity of a pure play sugar / ethanol producer and adjusting for the value of the land and the value of the generation capacity.
- **Nav** or replacement value for both uma and angelica. here we used a multiple of \$80/ton for uma's 1.2mn ton crushing capacity and a higher multiple for highly efficient angelica's 4mn tons of \$90/ton. adding the value of the land and sugar cane crop for angelica and the value of ethanol and sugar storage capacity and deducting net debt for both plants.
- **Multiple to normalized ebitda:** using a 5x multiple to normalized ebitda (i.e. plant at full capacity).

Figure 3: Adecoagro: valuation of sugar/ethanol & co-generation

us\$ mn	dcf	\$ / ton	nav	12' ebitda	average
enterprise value					
uma	199.5	144.8	118.6	116.4	
angelica	635.2	482.7	649.3	406.7	
total	834.7	627.5	767.9	523.1	688
equity value					
uma	170.4	115.7	89.5	87.3	
angelica	403.1	250.6	417.2	174.6	
total	573.6	366.3	506.8	261.9	427

source: deutsche bank. estimates

Investment risks

Weather, commodity prices and regulation

We see the following key risks to our positive view on AGRO.

- **Adverse weather**, including storms or infestations, could damage crop production. Various weather conditions, including drought, lack of sun, constant rain, etc. could affect yields and planting/harvesting ability.
- **Drop in commodity prices** could lower profitability, for products such as sugar, coffee, rice, grains, soybeans, ethanol. This could be driven by factors such as higher production response to high prices, higher demand elasticity, or sustained strengthening of the U.S. dollar. On the input cost side, the company could also be impacted by higher costs for fertilizer, pesticides, energy, seed, etc.
- **Regulation**. Export limitations on corn (or any of the company's other key commodities) would hurt profitability. Similarly, an increase in export taxes in Argentina could depress earnings, a lever the Argentine government might use to raise revenue. Any legislation in Brazil to further limit foreign land ownership could lower growth and land values. Finally, there could be delays vs. our expectation for environmental licenses for the Ivinhema project.
- **Accounting comparability and earnings volatility**. Use of IFRS accounting limits comparability with peers that use US or Brazilian GAAP, and could lower earnings visibility in the eyes of investors. As discussed, IFRS requires numerous estimates/projections based on information often not available to the market, and could also result in significant earnings volatility vs. our estimates.
- **Currency volatility**, as the company's functional currencies in South America are translated into USD for the financial accounts. Volatility of Argentine/Brazilian currencies vs. USD could drive significant differences from our estimates.
- **Debt covenants**. As discussed, AGRO's subsidiaries have breached debt covenants in the recent past. They have historically been able to renegotiate their covenants, but over the longer-term it could increase borrowing costs or make it difficult to obtain new credit.
- The company's ability to trade its electricity at expected prices could be limited by the fact that: (1) Little biomass energy has been sold in recent government auctions, and (2) Government has limited energy price increases at past auctions.

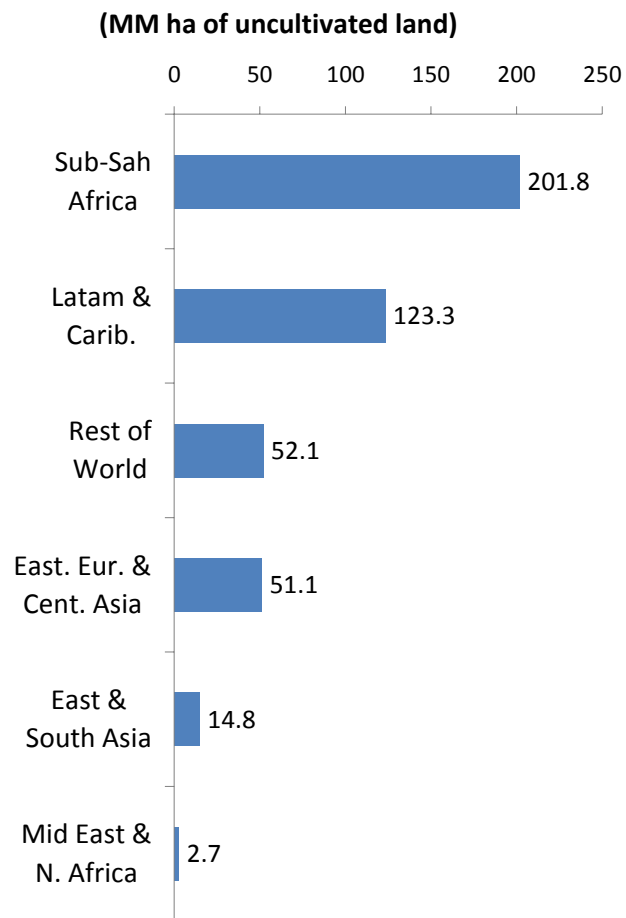
Outlook

Higher demand for food, lower availability of croppable land

With population growth and higher disposable income driving demand for protein and packaged foods, as well as the additional demand source stemming from biofuels, supply and demand balances in a broad variety of crops has tightened. The decline in the U.S. dollar also places upward pressure on commodity prices. **These dynamics combined with limited available resources around the globe should lead to higher agricultural land values, over time.**

As shown below, the bulk of the uncultivated land in the world is in Africa, where geopolitical risks are high and infrastructure is poor, and Latin America. Given the fact that these regions have marginal land that can be put into production, land values should continue to improve. Moreover, in an era where inflation concerns are high, ownership of real assets, such as land and commodities, becomes attractive. Global food inflation and availability is now a hot button political issue. Government actions, such as export bans, panic buying and price controls exacerbate supply/demand imbalances, leading to further upward pressure on commodity prices and, thus, land values.

Figure 4: Available land for expansion

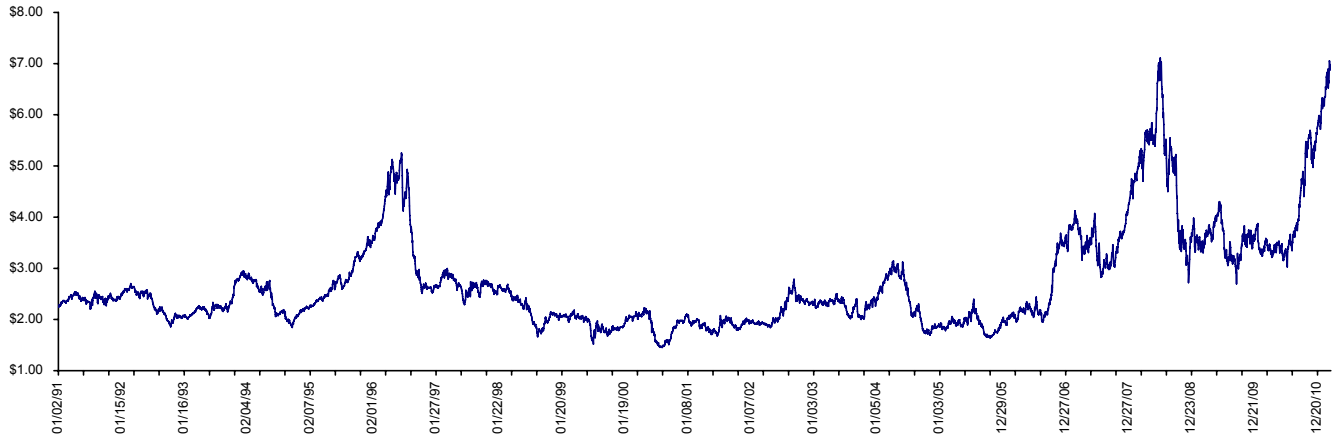


Source: Deutsche Bank, World Bank, Company reports

The fact that various commodity balance sheets have become tighter over the past decade has led and should lead to more frequent periods of price spikes. If we look at corn as an example, the figure below shows the historical price trend.

Prices were relatively stable in the prior decade, with one spike in 1996. This was quickly rectified the next crop year as acreage in the U.S. went from 71.2 million in 1995/1996 (crop year starts in Sept) to 79.5 million in 1996/1997. Prices remained relatively benign from 1999-2006, with the exception of an uptick in 2004, owing to drought conditions. However, since 2006, prices have spiked twice, with the first spike interrupted by global recession.

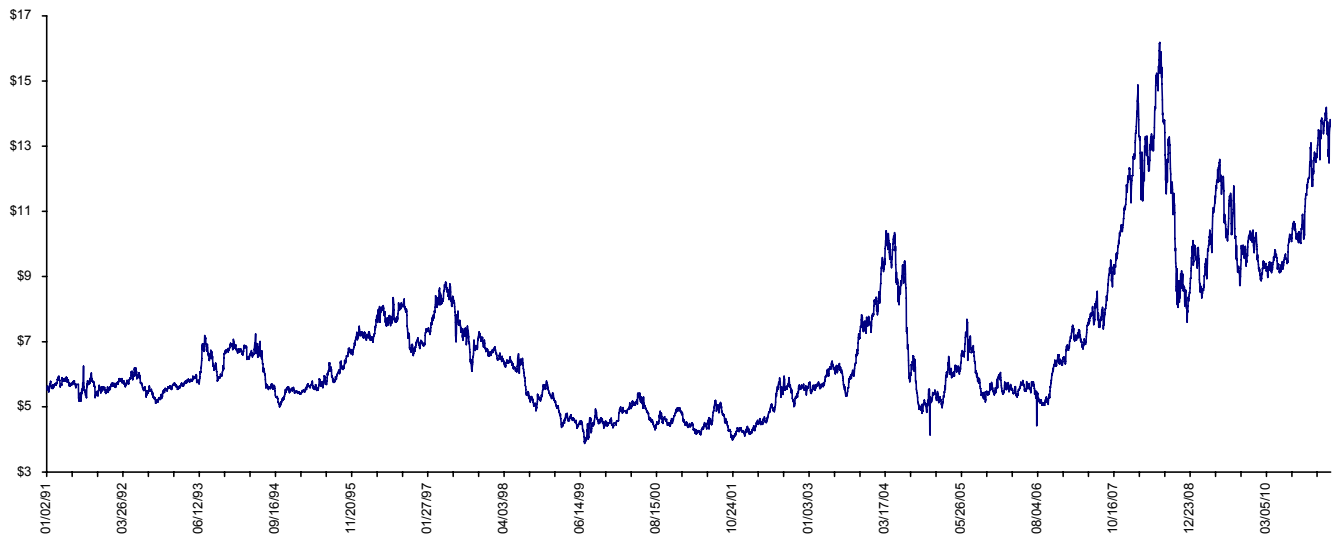
Figure 5: Corn cash price (\$/bu)



Source: Deutsche Bank, WSJ

The figure below for soybeans shows a similar trend with price spikes more frequent in recent years. Given heightened demand and limited land and water resources around the globe, we expect tension in the agribusiness chain to occur more frequently than in the past. This, in turn, should provide upward pressure on commodity prices, leading to a higher value of agricultural land.

Figure 6: Soybean cash price (\$/bu)



Source: Deutsche Bank, WSJ

A recent issue of The Economist notes that urbanization contributes to dietary changes. Specifically, city dwellers eat more food, especially processed food, than those living in rural areas. Additionally, with urbanization contributing to higher incomes, meat consumption is increasing. According to The Economist, in 2000, 56% of all calories consumed were provided by cereals and 20% by meat, dairy and vegetable oils. By 2050, the Food and Agricultural Organization of the UN estimates cereal consumption will drop to 46%, while meat, dairy and vegetable oil consumption will increase to 29%.

Figure 7: World per cap vegetable oil consumption (kg)

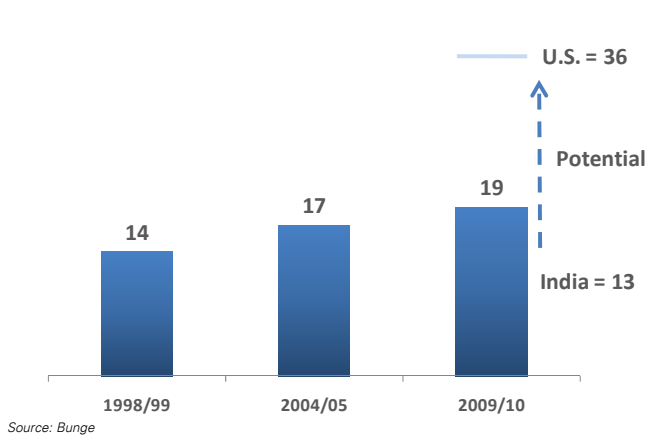
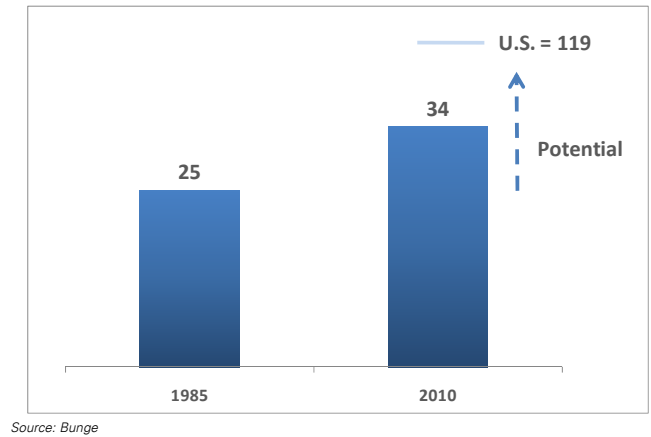


Figure 8: World per cap meat consumption (kg)



High meat consumption necessitates higher grain use, including soybean meal. Specifically, to produce one pound of chicken requires close to 2 lbs of feed; one pound of pork requires 3.5-4 lbs of feed; one pound of beef requires 7-8 lbs of feed (in the feedlot stage).

In addition to the shift in diets, an emphasis on industrialization in China, in order to improve efficiency, manage disease, and control inflation, is leading to higher consumption of grains. Specifically, about 40-50% of China's hog raising is done via backyard or specialized household operations. As these methods switch to commercial hog raising operations, thus utilizing industrial food rations, demand for corn and soybean meal increases, replacing fodder/table scraps, etc.

Figure 9: China Hog Rations of Structural Groups

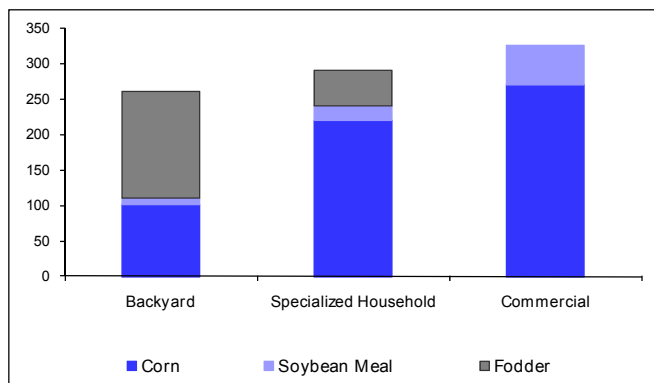
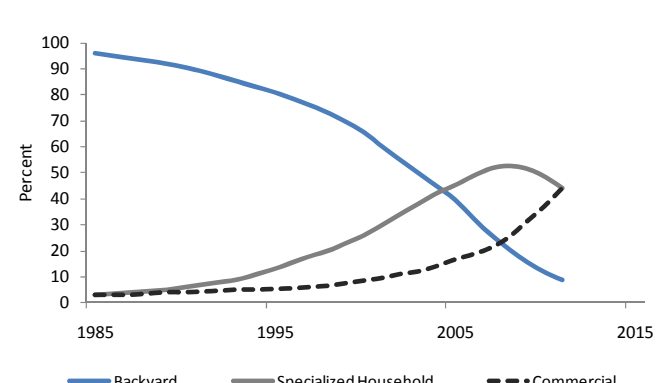


Figure 10: Share of China Pork Production from Groups



Where are we today? The Farming section below describes current stocks-to-use for a variety of crops. For perspective, the USDA recently released its preliminary new crop balance sheet for 2011/2012E at its Annual Agricultural Outlook Forum. USDA's statistical forecasting is predicting close to 10 million incremental acres expected to be dedicated to the eight major crops in the U.S.

A key takeaway is that even with higher acreage, there's little supply cushion for corn and soybeans. Industry participants pointed to multi-year tightness. With food inflation likely to continue to push headline inflation up in emerging economies (where over 50% of income is spent on food), governments will be diligent about securing reserves in order to stem unrest.

Company description

Adecoagro

Adecoagro S.A. is one of the largest agricultural companies in South America, operating in Argentina, Uruguay and Brazil. The company is involved in a vast range of farming activities, including crops of diversified products, cattle and dairy, land transformation and sugar, ethanol and co-generation.

Adecoagro owns a total of 283 thousand hectares, as shown in Figure 11. Argentina represents 84% of total owned hectares, followed by Brazil, with 13% and Uruguay with 3%.

Figure 11: Adecoagro land portfolio

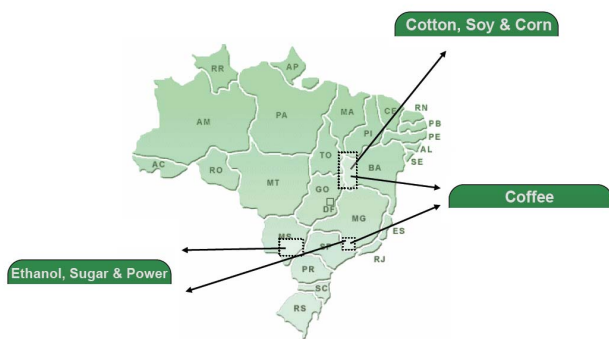
Owned land	# of farms	hectares	% of total hectares
Argentina	21	242,148	86%
Brazil	15	37,473	13%
Uruguay	1	3,177	1%
Total	37	282,798	100%

Source: Deutsche Bank and company reports

Figure 12 and Figure 13 show the location of the farming area in their respective countries; in summary the crop are divided as follows:

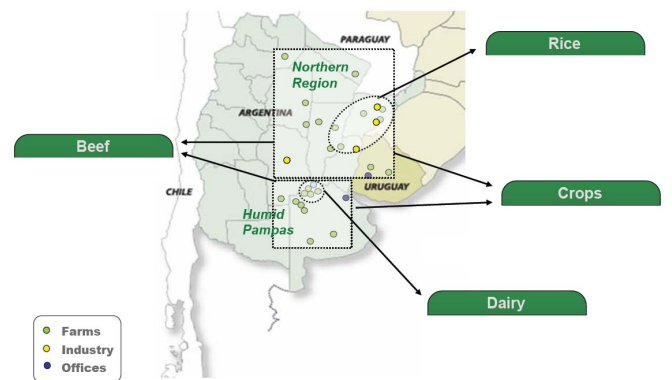
- **Argentina:** 21 farms, three rice processing plants, one dairy facility and seven grain and rice storage facilities
- **Brazil:** 15 farms, two coffee processing plants and two sugar and ethanol mills
- **Uruguay:** one grain and cattle farm

Figure 12: Adecoagro areas in Brazil



Source: Deutsche Bank and company reports

Figure 13: Adecoagro areas in Argentina and Uruguay



Source: Deutsche Bank and company reports

The company has a somewhat geographically diversified asset base, located in regions with favorable weather and agricultural conditions, which allows it to put in place a low cost production structure. Adecoagro has implemented a business model based on innovative agricultural techniques with a specialized working force. The company expects to benefit from the vertical integration from key agro-industrial segments, as well as land transformation, which will help to improve productivity and increase the areas' value.

Figure 14: Summary of Adecoagro land portfolio

T hectares	Farming	Sugar, Ethanol and Energy	Land transformation
Own land	269.5	13.2	na
Leased land	47.7	40.4	na
Total land	317.3	53.6	11.3

Source: Deutsche Bank and company reports

Adecoagro's main business lines

Farming: Adecoagro produces diversified agricultural commodities (soybeans, corn, wheat, sunflower, cotton, rice, and coffee), in addition to dairy and cattle. In this segment, the company owns over 254 thousand hectares. It has been seeking to enter into new agricultural partnerships to add new land to its portfolio.

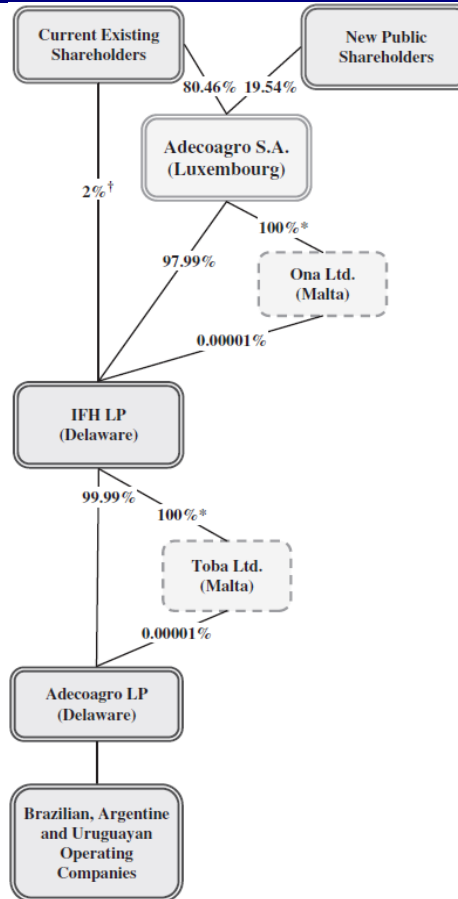
Sugar, ethanol and cogeneration: Adecoagro's sugarcane plantation consists currently of 54 thousand hectares (13 thousand of which are owned). The company operates two sugar and ethanol mills: Usina Monte Alegre (UMA) and Angelica, with a total crushing capacity of 5.2 million tons of sugarcane per year. Adecoagro plans to build a third mill, Ivinhema, in the state of Mato Grosso do Sul, Brazil, close to the Angelica plant, which will form a sugarcane cluster in the region

Land transformation: Adecoagro employs high technological and sustainable production techniques to acquire under-explored farmlands. This process enhances the lands' productivity, yields and therefore intrinsic value.

History & background

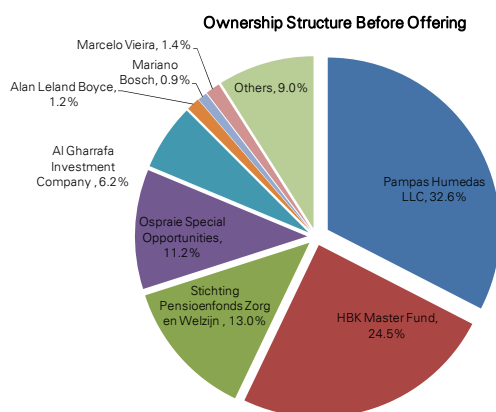
Ownership, management and corporate governance: Adecoagro was founded in 2002 and reorganized in the form of a *societe anonyme* under laws of Grand Duchy of Luxembourg in June 2010. As shown below, the company holds a roughly 98% interest in IFH LP, a Delaware limited partnership. In turn, IFH LP owns roughly 100% of Adecoagro LP, through which operating subsidiaries conduct agricultural activities in Argentina, Brazil and Uruguay.

Figure 15: Corporate structure

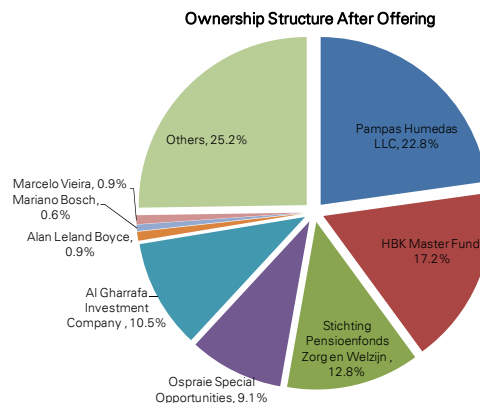


Source: Company reports

Prior to its IPO, Adecoagro had attracted a solid base of institutional ownership, including Pampas Humedas LLC, an affiliate of Soros Fund Management, LLC; HBK Master Fund LP, an affiliate of HBK Investments L.P.; Stichting Pensioenfonds Zorg en Welzijn; Ospraie Special Opportunities Master Holdings Ltd., an affiliate of Ospraie Management, LLC; and Al Gharrafa Investment Company, a wholly owned subsidiary of Qatar Holding LLC, among others. The figures below details ownership structure before and after its recent IPO.

Figure 16: Ownership before IPO

Source: Deutsche Bank, company reports

Figure 17: Ownership post IPO

Source: Deutsche Bank, company reports

It is important to note that none of the top five pre-IPO holders mentioned above sold stock in the offering, while several existing holders purchased additional shares, including Stichting Pensioenfonds Zorg en Welzijn, Ospraie and Al Gharrafa. As shown above, Al Gharrafa increased its stake materially. This was done through a separate transaction whereby it purchased 7,377,598 shares at a price of \$10.61, equal to the underwriters' discount.

Management and directors own a relatively small amount of the company, with CEO Mariano Bosch and Director of Sugar and Ethanol Operations Marcelo Vieira and Co-Founder and Director Alan Leland Boyce each owning slightly between 0.5% and 1% post offering. As a whole, following the offering, directors and executive officers own roughly 5.1 million shares or 4.3% of the shares outstanding.

Adecoagro's Board is comprised of nine directors, of whom Mariano Bosch is the only Executive Officer. Directors are elected to three year terms on a staggered basis, with one third of directors elected each year and are eligible for re-election indefinitely. Directors may be removed with or without cause by a simple majority of votes cast at a general meeting of shareholders. Aggregate compensation earned by directors and executive officers during 2009 amounted to \$4.8 million. In addition, aggregate options to purchase 565,359 shares were granted to directors and executive officers in 2009 with an exercise price of \$13.40 per share.

Acquisition history

Adecoagro was created in 2002, when it first incorporated one of the largest agricultural companies in Argentina, Pecom Agropecuaria S.A. Since then, Adecoagro initiated its expansion plans, adding more land to its portfolio and diversifying its business activities. The company acquired several farmlands in Argentina, Brazil and Uruguay throughout the years. Adecoagro's sugar operations started in 2005, when the company acquired its first sugar and ethanol mill in Brazil, UMA. Finally, in 2007, Adecoagro started its dairy business, through the acquisition of an Argentine company, La Lacteo, which today holds a joint venture agreement with its Canadian peer, Agropur Cooperative.

Most recently, in August 2010, Adecoagro acquired the full control of Dinaluca S.A., which owns a farm with 14 thousand hectares in Argentina, while in December 2010, the company sold the 5 thousand hectare La Macarena farm in Uruguay for US\$34mn.

Farming segment

AGRO has significant land holdings for producing crops (biggest are soybeans, rice and corn), and fully-integrated storage/condition facilities. The farming segment benefits from standardized and scaleable production methods, and uses zero tillage sowing and crop rotation with double cropping. We also believe this business is well-positioned long-term by increasing demand and tightening stocks-to-use for the commodities.

Improving the values of owned land

As of September 30, 2010, Adecoagro had the following farmland (excluding sugarcane) in Argentina, Brazil and Uruguay:

- Owned hectares of 274,663 (comprised of 220,277 productive hectares and 54,387 hectares of legal land reserves). Productive hectares are broken down as follows:
 - 121,723 are croppable
 - 18,909 are being evaluated for transformation
 - 79,645 are suitable for raising beef cattle and are leased to a third party beef processor
- Leased hectares of 37,687

As of December 31, 2009, total planted hectares were 188,015, including the second harvest. The company can store and condition 100% of its crop and rice production. The company employs production techniques to increase efficiency and yields. These techniques form the basis of a model that is standardized for each crop, scalable and transferable across regions.

No-till, or zero tillage/direct sowing, technology is key to improving the value and productivity of the company's land. In no-till farming, crop plant residues are left on the surface of the soil after the crop is harvested. The residues form a cover to protect the soil from erosion. The cover also helps water penetrate the soil and decreases water loss from evaporation. With improved sub-soil moisture levels, roots can grow deeper. No-till also reduces weeds as residue blocks non-planted soil from the sun. The absorption of the organic matter from the residues, combined with double cropping, improves soils properties and fertility

The company also practices crop rotation. In Argentina, the three-year crop rotation cycle involves (1) the planting of a wheat crop followed by double-crop soybeans, (2) a corn crop, and (3) a soybean crop. In Brazil, the company's four-year crop rotation cycle involves (1) the planting of soybeans, (2) a corn crop, and (3) cotton crops during the third and fourth years. Owing to the long growing seasons in South America, Adecoagro is able to double crop, or have second harvests. Double cropping provides diversification, as well as dilution of fixed costs. Frequent double cropping patterns the company employs in Argentina and Uruguay are: wheat/soybean, wheat/corn, sunflower/soybean, corn/soybean, and sunflower/corn.

Figure 18: Adecoagro planted acres

	Harvest Year		
	2007/2008	2008/2009	2009/2010
Crops	107,027	139,518	168,241
Rice	14,820	17,258	18,142
Coffee	1,632	1,632	1,632
Total Planted Area	123,479	158,408	188,015
Cattle	124,635	106,375	87,392

Source: Deutsche Bank, Company reports

Crops includes second harvest; Coffee includes the size of plantations, planted every 18-20 years; Cattle is land mostly leased to a third party

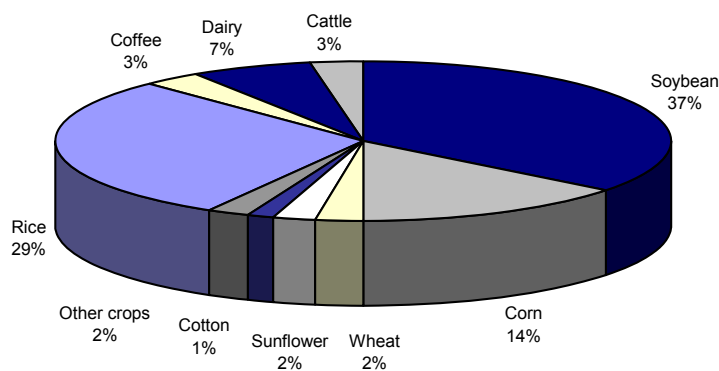
Figure 19: Adecoagro production (tons)

	Harvest Years							
	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010
Crops	73,242	102,253	171,242	205,645	343,799	351,787	317,582	524,890
Rice	19,446	37,236	43,190	51,726	98,980	98,577	94,968	91,723
Coffee	--	--	--	533	1,236	3,028	2,412	2,110
Total	92,688	139,489	214,432	257,904	444,015	453,392	414,962	618,723

Source: Deutsche Bank, Company reports

Five farming operating segments

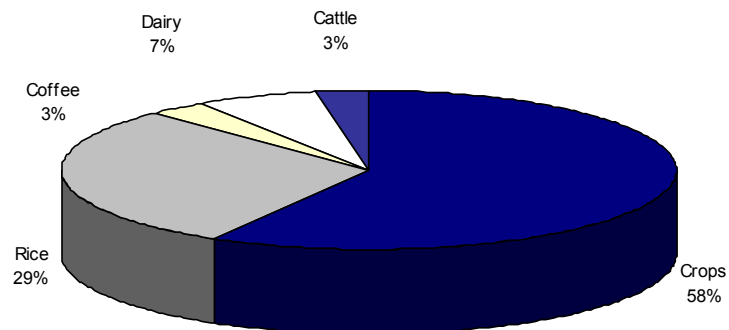
- Crops:** includes the planting, harvesting and sale to grain traders of grains, oilseeds and fibers, including wheat, corn, soybeans, cotton and sunflowers, among others. It also includes, to a lesser extent, the provision of grain warehousing and conditioning and handling and drying services to third parties. The company will plant crops each based on economics and crop rotation. As a result, mix of underlying crops will vary by year. The chart below depicts the sales breakdown by crop for the 9 months ended Sept 30, 2010.

Figure 20: Crops segment breakdown by sales, 9 mos end Sept 30, 2010

Source: Deutsche Bank, Company reports

- **Rice:** includes planting, harvesting, processing and marketing of rice.
- **Dairy** includes production and sale of raw milk, which is processed into manufactured products and marketed through Adecoagro's joint venture with Grupo La Lacteo.
- **Coffee** includes cultivating coffee and marketing the company's own and third party coffee production.
- **Cattle** includes the purchasing and feeding of beef cattle for sale to meat processors and in livestock auction markets and leasing land. We note, since December 2009, this segment is comprised of land leased to a third party.

Figure 21: Farming segment breakdown by sales, 9 mos end Sept 30, 2010

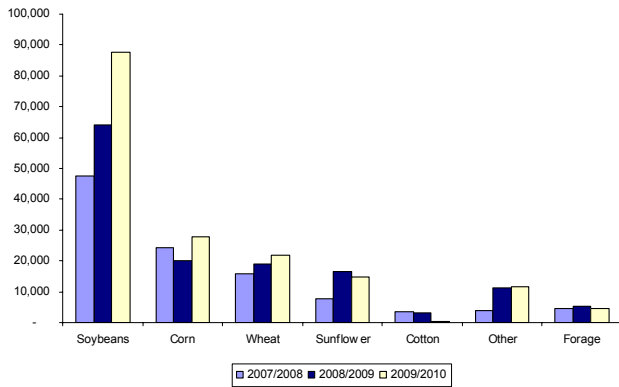


Source: Deutsche Bank, Company information

Diverse crop production

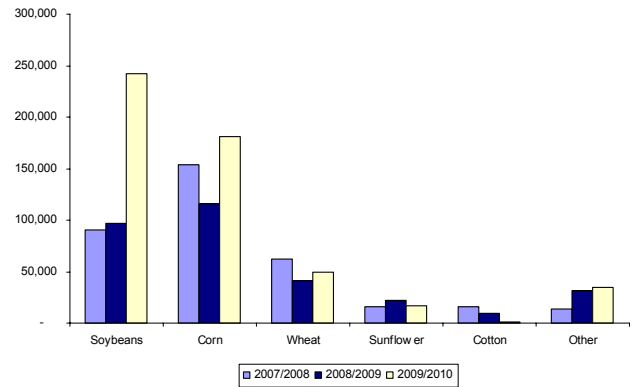
Adecoagro grows crops on a total area of about 168,016 hectares, which includes leased land, as well as hectares planted in second harvest. The company produces a variety of crops, including soybeans, corn, wheat, sunflower and cotton. Other products include rapeseed, sorghum and barley, among others, but are sown occasionally and represent a small portion of lands planted.

Figure 22: Planted acreage by crop (hectares)



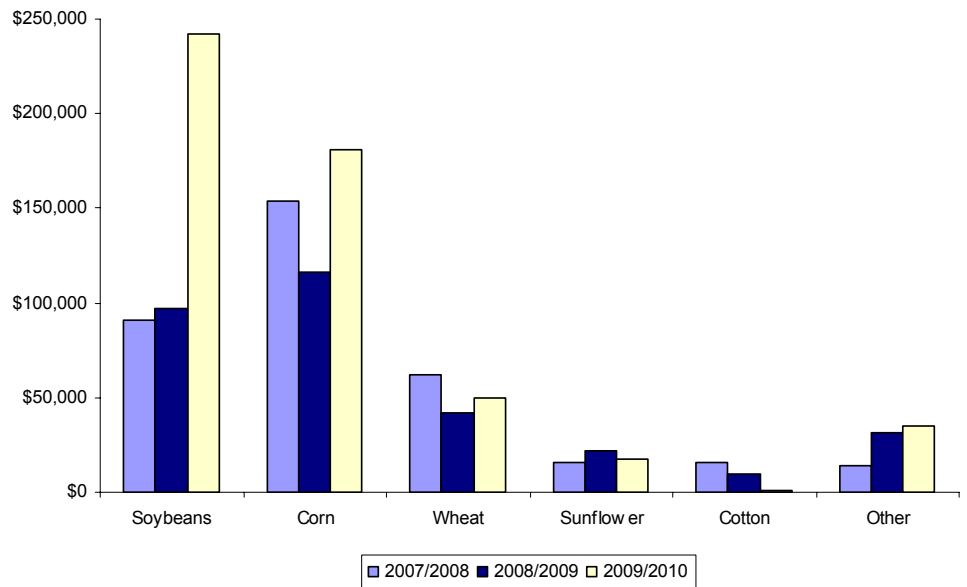
Source: Deutsche Bank, Company reports

Figure 23: Production by crop (tons)



Source: Deutsche Bank, company reports

Figure 24: Sales by crop (thousands)



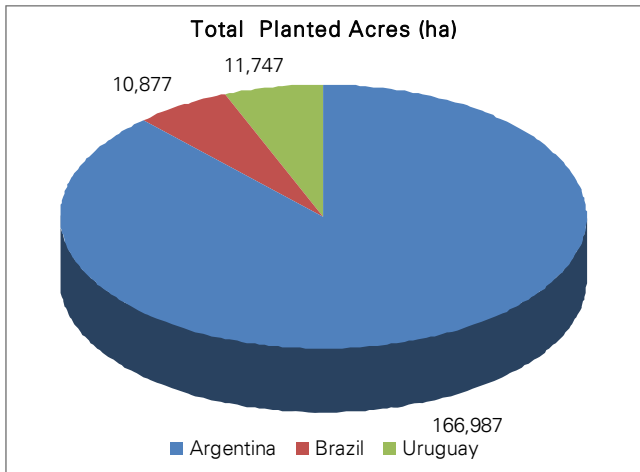
Source: Deutsche Bank, Company reports

In Argentina, the company has expanded production from the humid pampas region (a high quality region for crop production) into northern Argentina. This expansion is important as it provides diversification relative to weather risk (as we are seeing this growing season). Additionally, it enables the company to use the same third party contractors for planting and harvesting, which start North and works their way South. As a result, Adecoagro can offer these contractors better equipment utilization rates and, in turn, receive a lower fee.

Since 2004, the company has expanded throughout the center-west region of Uruguay into the state of Bahia in Brazil. Crops in Argentina are primarily comprised of soybean, corn, wheat and sunflower. Uruguay crops are concentrated in soybeans, corn, wheat and, to a lesser extent, sunflower. Brazilian crops primarily include soybeans, corn, cotton and coffee.

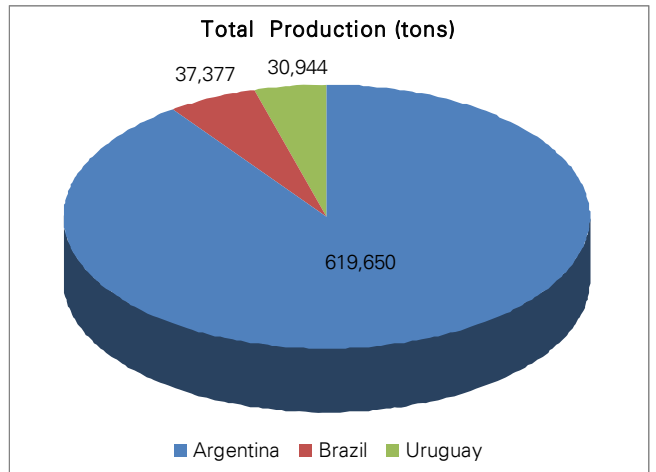
Based on our projections for 2011E, the charts below break out planted acreage and production by country.

Figure 25: Total planted acres by country



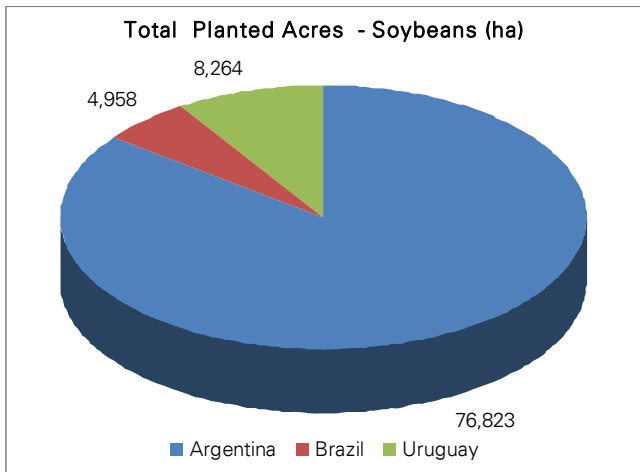
Source: Deutsche Bank, Company reports

Figure 26: Total production by country



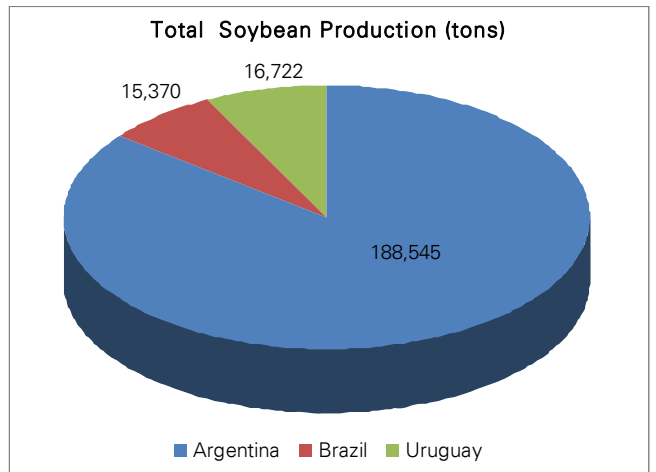
Source: Deutsche Bank, Company reports

Figure 27: Total soybean acres by country



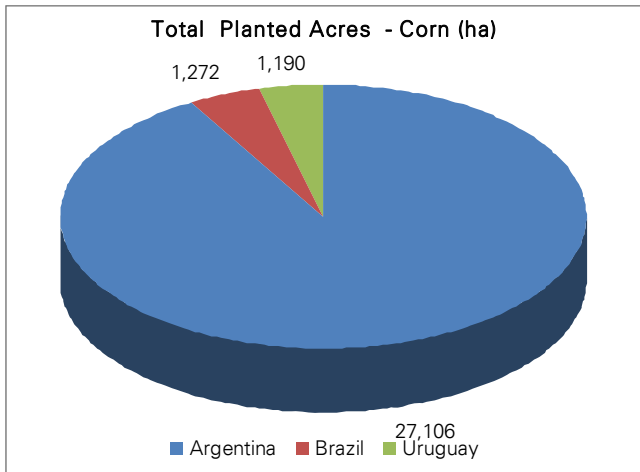
Source: Deutsche Bank, Company reports

Figure 28: Total soybean production by country



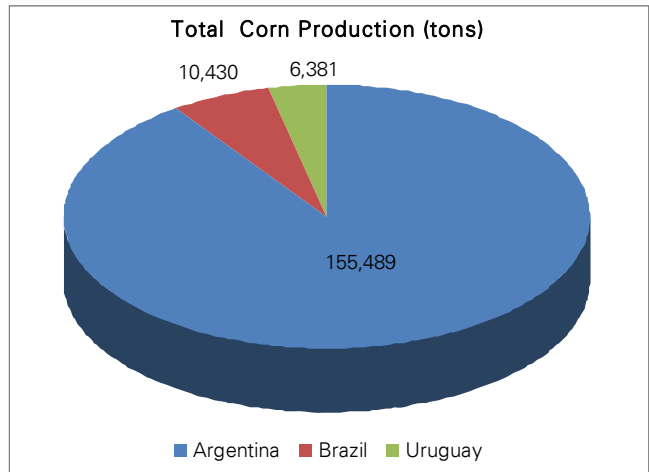
Source: Deutsche Bank, Company reports

Figure 29: Total corn planted acreage by country



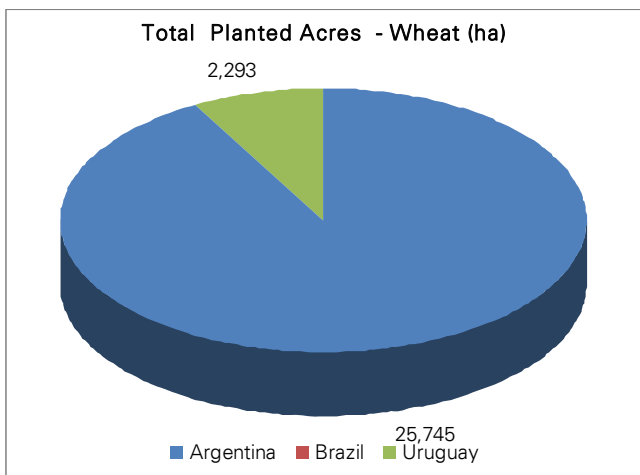
Source: Deutsche Bank, Company reports

Figure 30: Total corn production by country



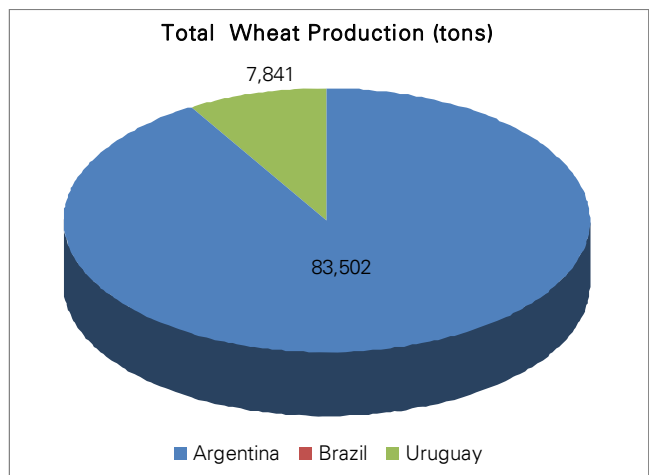
Source: Deutsche Bank, Company reports

Figure 31: Total wheat planted acreage by country



Source: Deutsche Bank, Company reports

Figure 32: Total wheat production by country

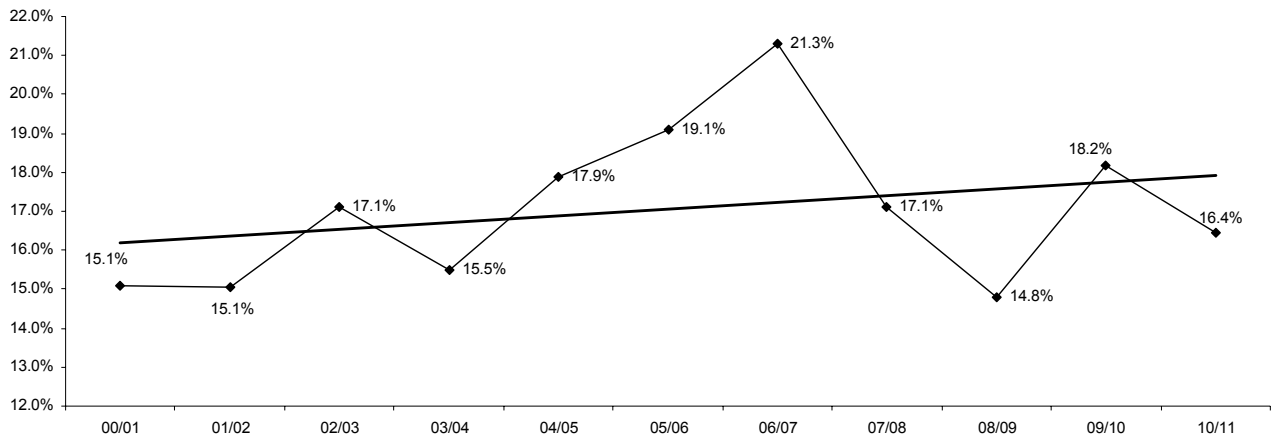


Source: Deutsche Bank, Company reports

Soybeans

As shown above, the company’s total soybean production represented 54% of planted area and 46% of total crop production in 2009/2010. The figure below depicts the global stocks-to-use ratio for soybeans for this decade. The projected stocks-to-use for 2010/2011 is 16.4%, slightly below the average of 17.1%. **While soybean stocks are not as tight relative to use as corn, we note that prices have to remain firm relative to corn in order to retain/attract acreage in the future.**

Figure 33: Global stocks-to-use for soybeans



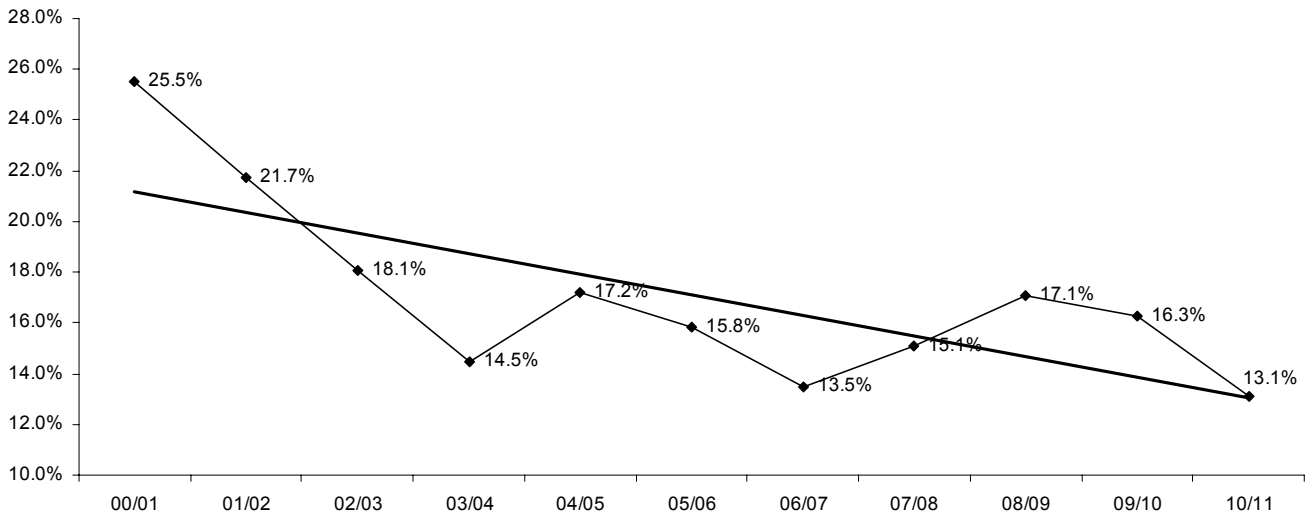
Source: Deutsche Bank, USDA

Approximately 74% of the company’s soybean crop is hedged pre-harvest by (1) forward sales, (2) sales in the futures markets, and (3) production agreements. Post harvest sales are a function of the export market vs. local premiums paid by soybean processors. In Argentina, the soybean export tax is 35%.

Corn

In 2009/2010, corn represented 17% of total planted area and 34% of total crop production for Adecoagro. The tightness of global corn stocks relative to use is shown in the figure below. **The projected stocks-to-use ratio of 13.1% for 2010/2011 is well below the historical average of 16.8%.**

Figure 34: Global stocks-to-use for corn



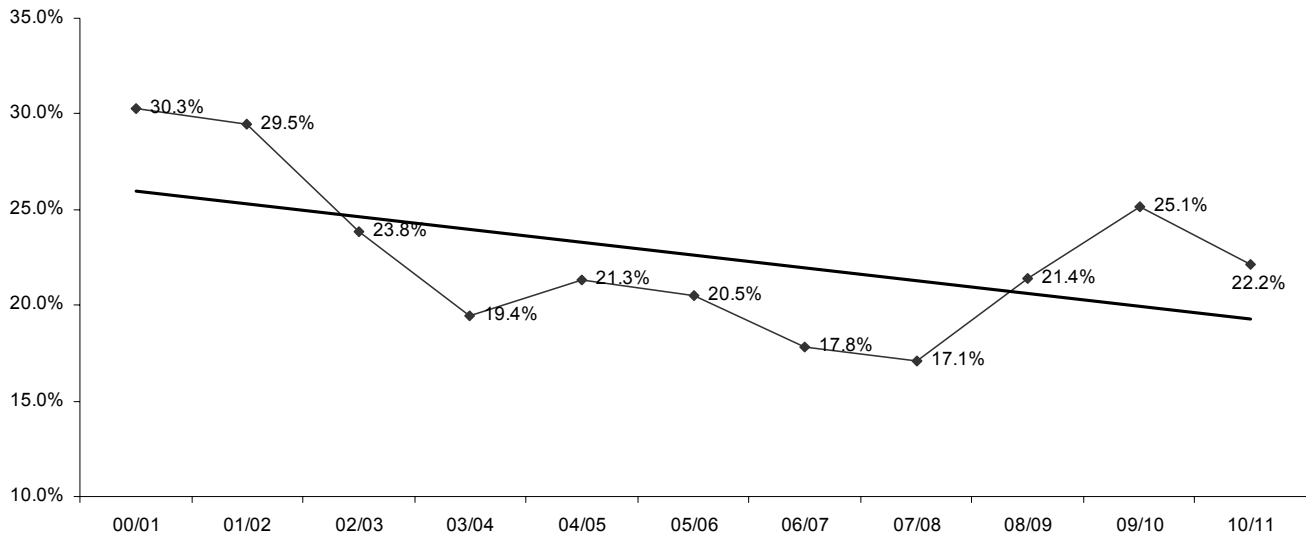
Source: Deutsche Bank, SUDA

About 60-70% of the company’s Argentine and Uruguayan corn production, respectively, is exported. The remainder is sold for domestic use in feedlots, the poultry industry and in Adecoagro’s dairy operations. All of the company’s Brazilian production is sold domestically for regional consumption. The company typically sells about 50% of its corn pre-harvest, due to logistical issues. About 10% of production is sold for special products, such as popcorn and corn seed. The corn export tax in Argentina is 20%.

Wheat

The company grows wheat in Argentina and Uruguay. In 2009/2010, it represented 13% of the company's total planted area and 10% of total crop production. While the projected global wheat stocks-to-use ratio of 22.2% for 2010/2011E is only 40 bps. below the historical average, **we note that there is a low amount of milling quality wheat vs. feed quality wheat in the world. At the same time, demand for milling quality wheat has been strong** as countries stockpile the foodstuff in order to quell unrest, partly due to food riots.

Figure 35: Global stocks-to-use for wheat



Source: Deutsche Bank, USDA

Adecoagro sells 63% of its Argentine wheat production and 47% of its Uruguayan wheat production into the export market. About 29% of its Argentina production and 43% of Uruguayan production is sold to local mills. The remainder is sold to feed wheat buyers. Brazil is the main importer of the company's wheat. The company typically sells half its wheat pre-harvest. Owing to logistics, it sells to the export market during harvest and stores higher quality wheat to sell later in the year to local millers. Wheat export tax in Argentina is 23%.

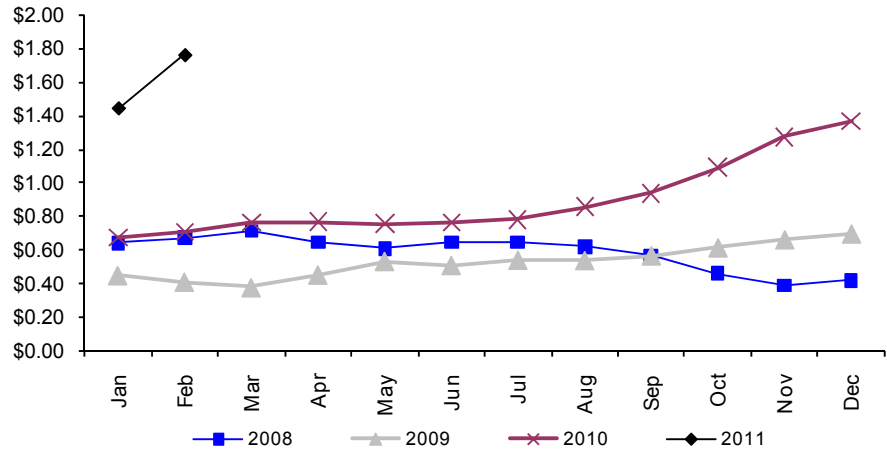
Sunflower

Adecoagro grows sunflower in Argentina and Uruguay. In the 2009/2010 harvest year, the crop represented 9% of total planted area that year, 3% to total crop production and 2% of sales in 2009. Sunflower production in Argentina and Uruguay is sold to local crushing companies. Sales are made by (1) forward sales, (2) spot sales, and (3) production agreements (as sunflower from confectionary and seed). The Argentina export tax on sunflowers is 32%.

Cotton

Adecoagro grows cotton in western Bahia. Cotton fiber is made into yarns and threads for use in textile and apparel. Clothing accounts for about 60% of cotton consumption. Cottonseed is used in animal feed or crushed to obtain oil, meal and hulls. In 2009/2010, cotton (including second harvest) represented 1% of the company's planted area and crop production. It made up 4% of sales in 2009 and 0.1% of sales in the nine months ended Sept. 30, 2010.

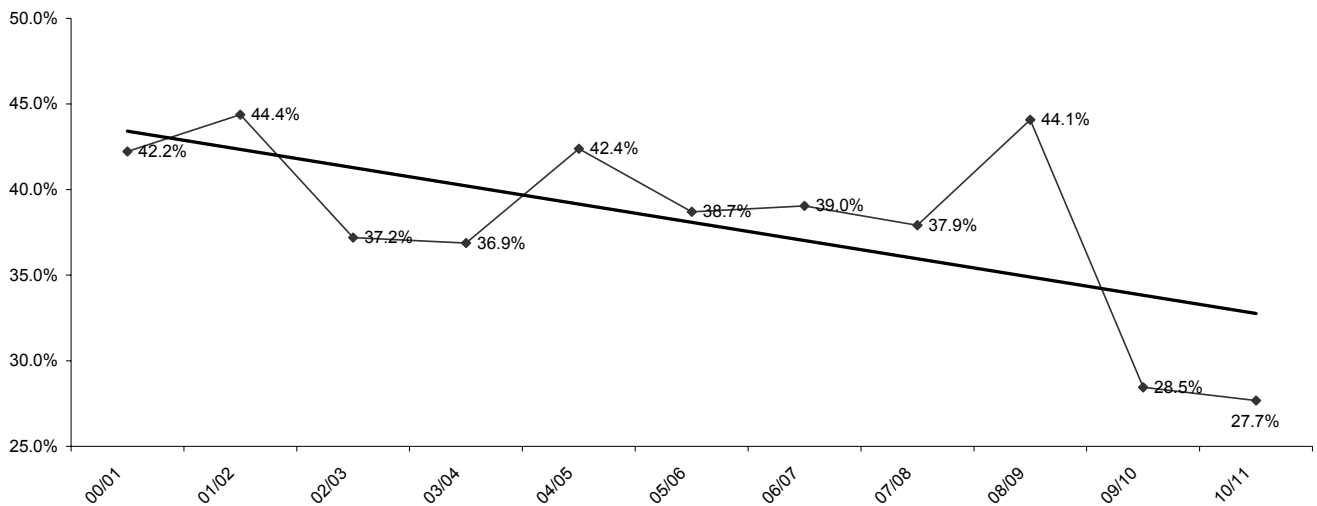
Figure 36: Cotton price per pound



Source: WSJ

The figure below shows how tight the global cotton market has become. As a result, prices have surged to record highs, in order to draw more acreage into the crop.

Figure 37: Global stocks-to-use for cotton



Source: Deutsche Bank, USDA

Adecoagro usually makes pre-harvest sales of cotton fiber produced in Brazil into the export market. Sales for the textile industry are based on domestic demand and premiums. Cottonseed is sold into the domestic market for feed and to processors.

Other

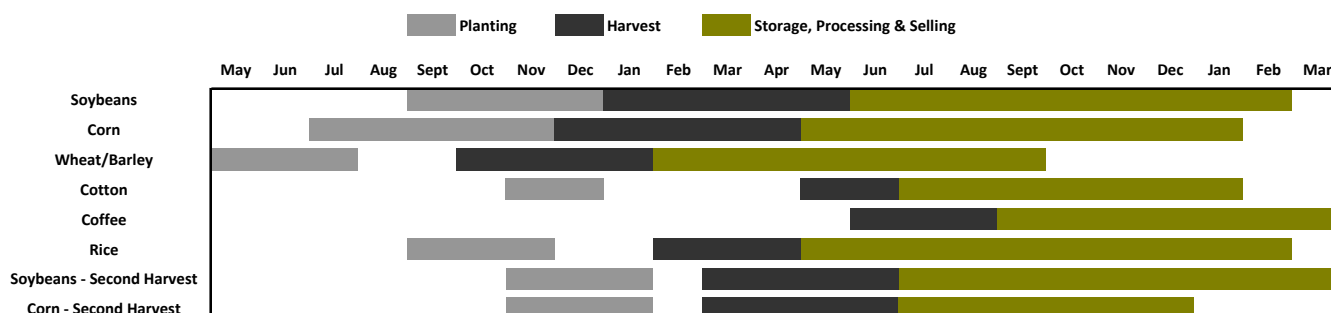
Adecoagro also produces barley, sorghum and rapeseed on about 11,501 hectares on farms located in Argentina and Uruguay. The company also provides farming services. In the 2009/2010 harvest year, other crops represented 7% of the company’s total planted area and crop production. These crops contributed 2% to sales in 2009 and 1% in the nine months ended Sept. 30, 2010.

Forages

The company also produces forage in Argentina, including corn, wheat, soybean and alfalfa silage. Forage is used as cow feed in the dairy operation.

The following schedule gives timing for planting and harvesting for Adecoagro's various crops in Argentina, Brazil and Uruguay.

Figure 38: Crop schedule



Source: Deutsche Bank, Company reports

Rice: Tightening?

Adecoagro has a fully integrated rice operation in Argentina. Through proprietary techniques, it has been successful in transforming land for rice production. Rice is produced in the northeast provinces of Argentina with irrigation. In 2009/2010, Adecoagro accounted for 8% of total Argentine rice production.

As the crop grown is rough rice, the company integrated forward into the milling operation and produces white and brown rice sold domestically (30%) and for export (70%). Adecoagro owns three rice mills that processes the entire production, as well as that purchased from third parties. Brazil is the largest importer of the company's rice with 39% of exported volume, followed by Iraq with 25% and the rest sold to Europe, South America and West Africa. The Argentine export tax on rough rice is 10% and on white rice is 5%.

Figure 39: Rice product area and production

	2007/2008	2008/2009	2009/2010
Owned planted area (hectares)	11,981	13,417	10,831
Leased planted area (hectares)	2,839	3,840	7,311
Total rice planted (hectares)	14,820	17,258	18,142
Rough rice production (tons)	98,577	94,968	91,723

Source: Deutsche Bank, Company reports

The company grows rice on four owned farms and six leased farms. In the 2009/2010 harvest year, rice represented 10% of the company's planted area and 15% of its farming production. In terms of production process, rice is planted from September-November and harvested from February-April. Rice then moves to the mills for processing. Average processing rough rice results in 58% white rice, 11% broken rice and 31% rice husk and bran, which is sold as cattle feed or bedding for poultry.

Figure 40: Processed rice production (tons)

	2007	2008	2009	9 month, end Sept 30,2010
Rough rice processed - own	98,980	98,577	94,968	42,382
Rough rice processed - third party	27,732	20,587	62,083	52,951
Total rough rice processed	126,712	119,164	157,051	95,333
White rice	70,300	66,841	77,440	49,610
Brown rice	4,940	2,557	11,559	4,191
Broken rice	11,739	12,407	19,859	11,008
Total processed rice	86,980	81,804	108,858	64,809

Source: Deutsche Bank, Company reports

Rice made up 22% of total sales in 2009 and 16% of sales for the nine months ended Sept 30, 2010.

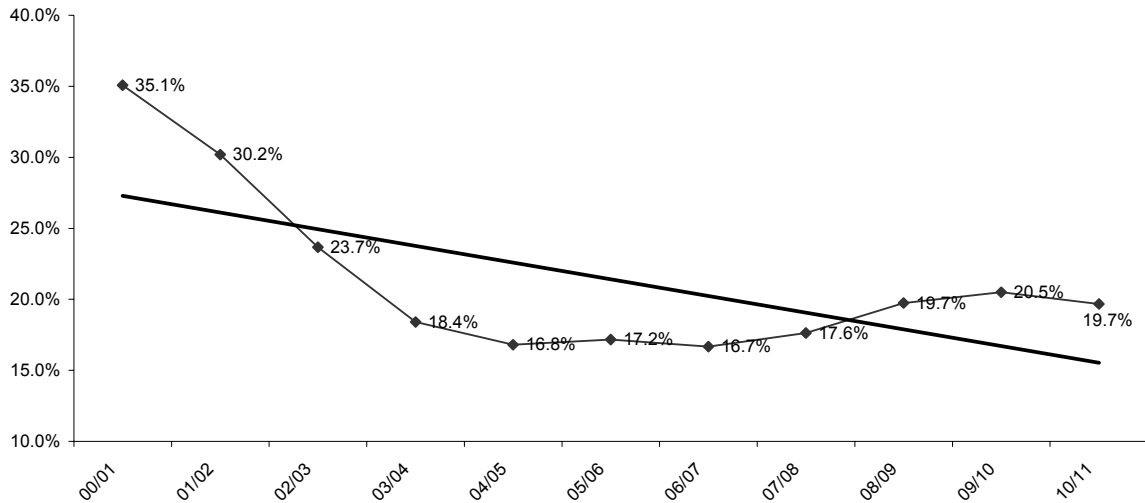
Figure 41: Processed rice sales (thous \$)

2007	2008	2009	9 month, end Sept 30,2010
26,422	56,925	69,350	45,436

Source: Deutsche Bank, Company reports

Adecoagro is also involved in the development of new rice varieties through agreements with different entities. The intent was to customize a rice seed variety adapted to local conditions. The company's first seed variety was released in 2008 and Adecoagro is in the final stages of releasing three new varieties. The seeds are used by the company and sold to rice farmers in Argentina, Brazil, Uruguay and Paraguay.

The figure below shows the global stocks-to-use ratio over time for rice. Inventories relative to demand are not as tight for rice as for other commodities discussed. Hence, the global price has not been as firm. Rice in Argentina is driven by supply and demand trends within Argentina and Brazil, with some influence from the global market. As a result, the local rice price is different for the international market price. **Going forward, the balance sheet for rice globally may tighten as acreage is shifted to other crops offering better economics.**

Figure 42: Global stocks-to-use for rice

Source: Deutsche Bank, USDA

Coffee – Rising prices

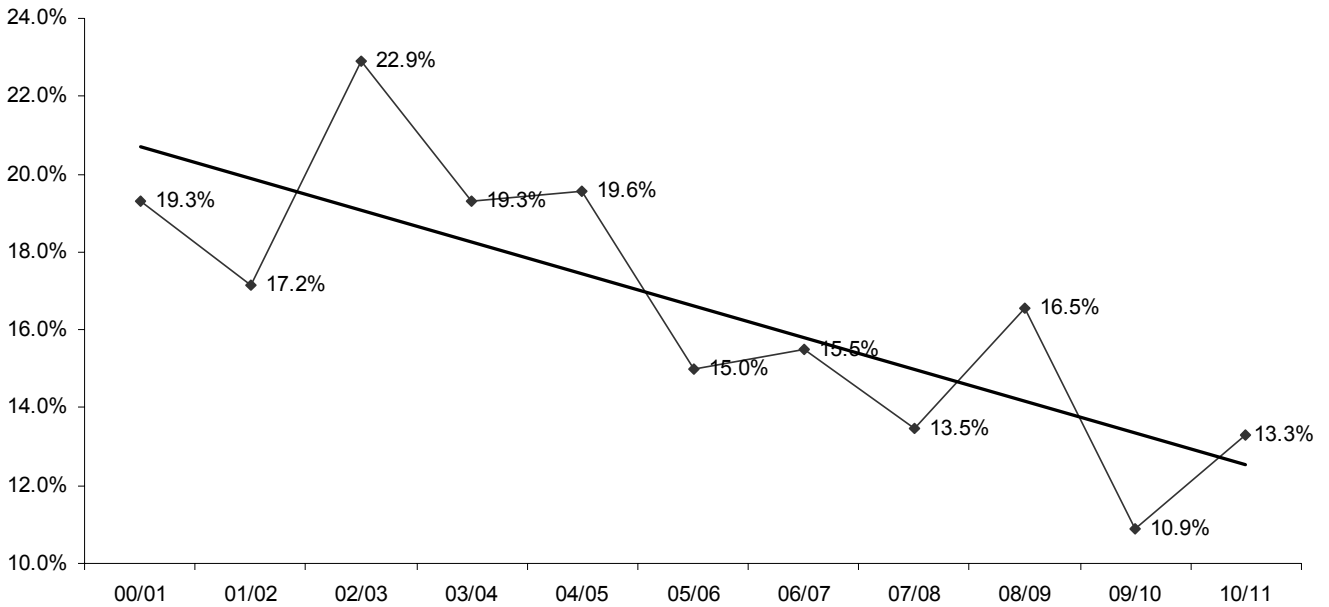
Adecoagro is also vertically integrated in coffee. This operation is located in western Bahia, Brazil. The process is irrigated with harvest fully mechanized. Currently, the company grows coffee on 1,632 owned hectares and has the available land and water to expand to 2,700 hectares. Adecoagro exports its coffee to Europe, U.S. and Japan, where its “specialty coffee” grade is considered in the gourmet segment. Europe contributes 41% of the company’s sales, followed by the U.S.. 25% of Adecoagro’s coffee production is sold in the domestic Brazilian market.

For background, coffee has a biannual production cycle with production differing from one year to the subsequent year. After a good harvest, coffee trees need to replenish and are often damaged from harvest, resulting in a negative impact the next harvest. We note this difference is larger in Minas Gerais, the largest coffee producing state in Brazil, but more narrow in Bahia, an emerging area for cotton production. This production cycle is significant as it limits the short-term ability to increase production. Additionally, it makes production estimates difficult.

Coffee trees remain productive until the tree reaches 15-20 years of age. At this point, the tree must be replaced. After two years of age, the coffee tree can be harvested for the first and reaches productive maturity during the fifth year. Pruning must occur every 4-5 years to maintain the shape of the tree, necessary for mechanized harvesting, a practice more common in Bahia. The coffee harvest begins in late May/early June and lasts until mid-August. After harvesting, the company begins the processing process, which lasts until the end of October.

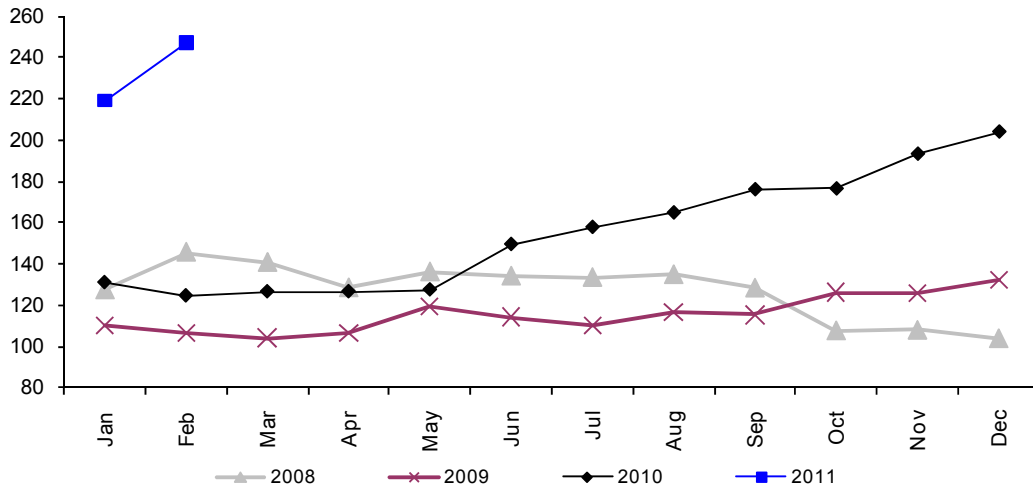
The figure below shows the global stocks-to-use ratio for coffee. The declining trend is evident, leading to strong prices as shown in Figure 44.

Figure 43: Global stocks-to-use for coffee



Source: Deutsche Bank, USDA

Figure 44: Coffee prices, Brazilian world market, spot



Source: Deutsche Bank, WSJ

In 2009, coffee represented 5% of total sales. The business represented 2% of sales for the nine months ended Sept 30, 2010.

Figure 45: Coffee production

	2007/2008	2008/2009	2009/2010
Coffee plantation (ha)	1,632	1,632	1,632
Coffee pruning area (ha)	--	241	406
Coffee production (tons)	3,028	2,412	2,407

Source: Deutsche Bank, Company reports

Figure 46: Coffee sales (thous \$)

2007	2008	2009	9 month, end Sept 30,2010
7,267	15,948	14,265	4,668

Source: Deutsche Bank, Company reports

Dairy: Forward integration

The company is a leader in industrializing dairy farming in Argentina, in order to reap efficiencies and have a scalable model for further expansion. Adecoagro currently uses both free-stall and traditional techniques. The company believes its free-stall technology is the first such technology in South America. In 2009, Adecoagro produced 47.5 million liters of raw milk with an average of 4,594 milking cows with an average of 28.3 liters per cow per day.

In essence, this is also a forward integration strategy, whereby the company can transform forage and grains into value-added raw milk.

The dairy operation is conducted on two of the company's farms in the Argentine humid pampas region, where grains, forage and grass are readily available and the climate is favorable. Adecoagro has three dairy facilities, including two traditional grazing dairies and one "free stall" dairy. The dairy segment represented 4% of sales in 2009, as well as for the nine months ended Sept 30, 2010.

Figure 47: Dairy herd, production and sales

	2007	2008	2009	9 month, end Sept 30,2010
Total dairy herd (head)	8,838	9,587	9,743	9,669
Average milking cows	3,837	4,377	4,594	4,246
Avg daily production (liters/cow)	24.7	26.9	28.3	25.3
Total production (thous liters)	34,592	43,110	47,479	29,299
Sales (thous \$)	17,841	14,821	11,894	10,043
(\$/liter)	\$0.52	\$0.34	\$0.25	\$0.34

Source: Deutsche Bank, Company reports

In 2007, the company began construction of an advanced "free stall" dairy in Argentina, which started operating in 2008. The technology is more efficient and requires less land. Importantly, it is a technique where processes can be standardized and transferred to other operations, thus enabling expansion in the dairy segment. Adecoagro indicates that cow productivity (liters of milk produced per day) in the free stall system increases by up to 40% compared to traditional grazing. This is due to the fact that the conversion ratio improves under the free stall method with the production of 1.4 liters of milk for each 1 kg of animal feed vs. 1 liter of milk for each 1 kg of feed associated with the grazing model.

Adecoagro industrializes all of its production for the domestic market to Grupo La Lacteo, a 50/50 JV between the company and Agropur Cooperative, a Canadian-based dairy cooperative. La Lacteo, formed in 2007, processes 250,000 liters of milk per day into fluid milk, yogurt, butter, cheese and other dairy products. Adecoagro's export volumes of powdered milk are industrialized in plants operated by third parties.

Cattle

Until December 2009, the company fattened 58,348 head of cattle for sale to beef processors and in Argentina's livestock auction markets. Adecoagro subsequently sold 55,543 head (not including cattle used in the dairy business) to a meat processor, a subsidiary of Marfrig, for \$14.2 million. In addition, the company entered into a long-term lease agreement where the beef processor leases about 74,056 hectares of grazing land from Adecoagro to raise and fatten the purchased cattle. The lease agreement is tied to the price of beef at the end of each quarter. Specifically, the annual price is equal to the equivalent in Argentine pesos of 30 kg of meat per hectare, for a period of 10 years, renewable by the parties. The company also leases 2 feedlots for an annual price of \$25,000 each. Finally, Adecoagro owns approximately 1,625 head of cattle and two cattle feedlots with capacity to hold 6500 head.

Figure 48: Cattle breakdown

	2007	2008	2009
Breeding	91,263	79,784	–
Fattening	13,278	15,881	2,804
Total	104,541	95,665	2,804

Source: Deutsche Bank, Company reports

Integrated Storage/Conditioning capabilities

The company has storage and conditioning facilities that allow it to store, condition and deliver products with no third-party involvement. All crop storage is located close to the farms, providing logistics flexibility in terms of determination of final destination. Adecoagro owns 5 conditioning and storage facilities for grains and oilseeds with a total capacity of 28,800 tons. The largest facility with 18,700 tons of capacity is located in Santa Fe and has a railway loading terminal. The company also owns 3 rice mills, which accounts for 190,000 tons of storage capacity and 2 additional storage and conditioning facilities for rice handling with storage capacity of 5,700 tons.

Adecoagro also utilizes silo bags to increase storage capacity. These bags can be left in fields for about 12 months without damage to the grain. Each silo bag can hold up to 180-200 tons of product, depending on the type of grain. **Silo bags offer flexibility and shift some pricing power from the buyers to the farmers. Specifically, owing to on-farm storage provided by silo bags, farmers can sell their crop opportunistically during the year when prices are attractive rather than during harvest, when prices are typically at their weakest. Additionally, logistics costs are most expensive during harvest. With sales made periodically through the year, farmers can minimize transportation costs.**

Grain conditioning facilities dry, clean, mix and separate different qualities of grain to achieve commercial standards. This enables Adecoagro to avoid discounts owing to lower quality grain.

Sugar, ethanol & co-gen

Sweet energy source for the present

Sugarcane is the main raw material used in the production of sugar and ethanol. It is a tropical plant that suits well to warm and humid weather conditions. Sugar can also be derived from sugar beet, while ethanol is commonly produced from corn in the US, but both in a much less efficient way. Ethanol from sugarcane is environmentally friendly with specific characteristics: (1) renewable source of energy, (2) sustainable, (3) energy efficient, (4) low CO2 emissions and (5) synergies from sugarcane bagasse.

Differently from coal or oil, sugarcane is a renewable source of energy which is harvested every year. To become a sustainable source, it needs to be replanted every five-seven years. Moreover, cultivation has very low soil impact and when mechanized both harvesting and planting process become more efficient from an agricultural and economical point of view.

Sugarcane ethanol produces seven times more energy than corn ethanol. Additionally, sugarcane works as energy storage with energy output nine times higher than the inputs used in its production process, while corn energy's output is of only two times on average. As such, sugarcane bagasse (sugarcane by-product) is widely used in cogeneration plants to generate electricity.

Recently the EPA (US Environmental Protection Agency) recognized sugarcane ethanol as one of the only advanced biofuel capable of reducing CO2 emissions by over 60% versus gasoline. While this is very positive for the sector, it also puts sugarcane producers in a privileged position to penetrate the US market as corn has not received the same classification.

Sugarcane in Brazil

The center-south of the country is the most favorable region (climate and topography) in Brazil to grow sugarcane. Such conditions enable sugarcane to accumulate higher concentrations of sucrose, a very common measure of productivity.

Adecoagro operates over 54 thousand hectares of land in the center-south of Brazil. The company's own land dedicated to sugarcane is still small (~16%) if compared with leased land. Land is usually leased for 6 years, under partnership agreements, in exchange for an amount based on sugarcane prices, which are set by the Consecana (Brazil's sugarcane industry association). AGRO also purchases it from third parties. Payment for purchased raw material is indexed to sugar and ethanol prices and sucrose content, also in accordance with Consecana.

Sugarcane's crop period in Brazil starts in April and ends in December. Different kinds of sugarcane can be planted according to the climate and soil's characteristics. Harvesting happens once a year, during 6-8 years, repeatedly. Sugarcane yields tend to decrease after this period. Therefore land owners have to carefully treat the land, and in most cases apply crop rotations to attain better sugar yields.

The cane is only harvested when it reaches the highest levels of sucrose content. Sugarcane yield and sucrose content are the main productivity measures expressed in tons of cane per hectare. Nonetheless, a number of factors can directly affect productivity, such as soil

quality, climate changes and topography, among others. Commonly, many sugar mills have the flexibility to choose their sugar and ethanol mixes.

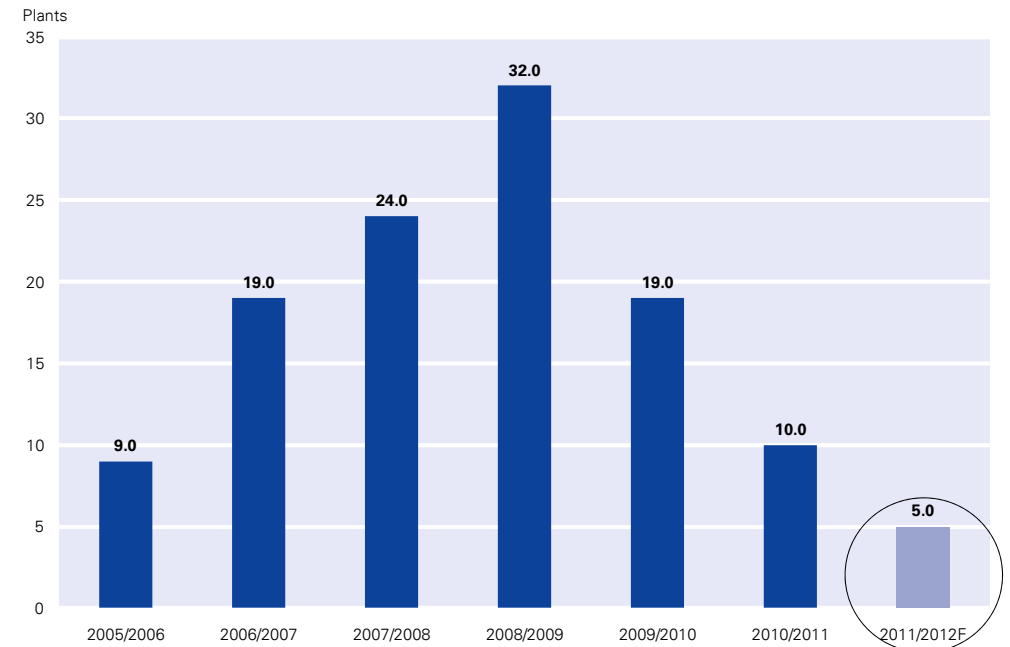
The industry is applying efforts to increase harvest mechanization. One of the benefits of mechanization, besides operational efficiency, is the reduction of environmental impact. In this case, is possible to avoid the burning of the cane. Moreover, when the harvest is mechanized, the cane’s leaves are left lying on the floor. Those will act as natural protection, lessening soil erosion and increasing soil fertility over time. Adecoagro has one fully mechanized plant, Angelica, while UMA still depends on many harvesting.

Trends in Brazil: New investments and M&A continue in 2011

The investment cycle in the sugar and ethanol sector which started a few years ago was only concluded in 2010. Many projects were delayed or cancelled during the 2008’s economic slowdown. Over the past two years, M&A activity involved assets with a combined capacity of 120mn tons.

M&A is set to continue, but the sector remains highly fragmented. Even though a new investment cycle is expected to start in 2011, only five greenfield projects are under construction, a modest increase of 12mn tons of crushing capacity. The limited number of new projects represents a 50% drop versus last year’s levels, when 10 plants started operations (Figure 49). Therefore, the upcoming harvest period (which starts in April) should see flat volumes versus 2010 levels.

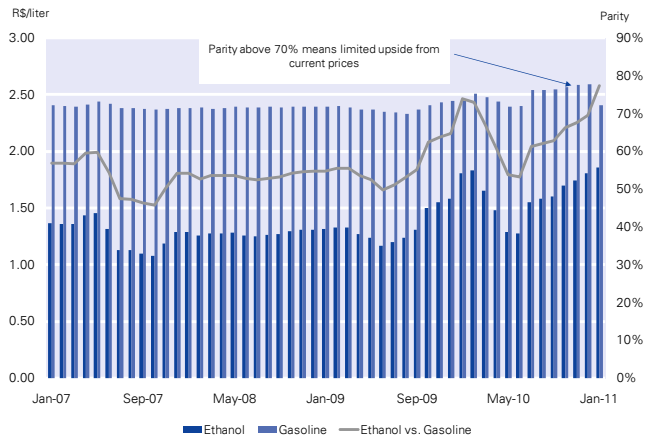
Figure 49: New capacity addition expected for 11/12F



Brazil’s ethanol: Opportunities and challenges

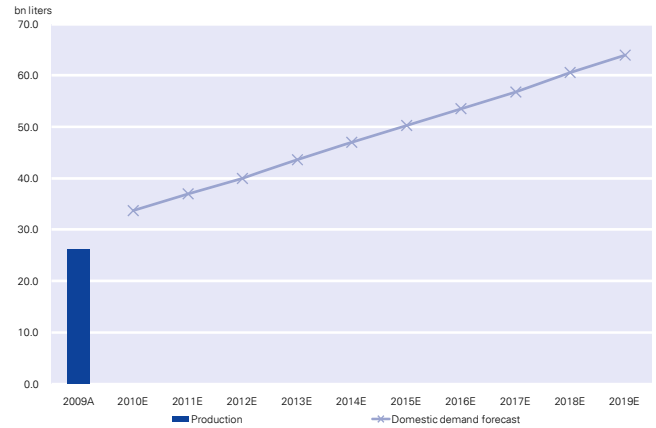
Demand for ethanol in Brazil remains strong due to: (1) increasing flex fuel fleet, (2) new uses and products (petchem), (3) co-generation activity, (4) increased worldwide demand, and (5) higher sugar exports. However, the sector faces many challenges: (1) Lack of transparency in the pricing of gasoline, (2) lack of a clear government strategy for the sector, especially for biomass co-generation, (3) inadequate logistics, (4) burdensome tax structure, and (5) trade barriers.

Figure 50: Ethanol versus gasoline



Source: Deutsche Bank and ANP

Figure 51: Ethanol demand forecasts

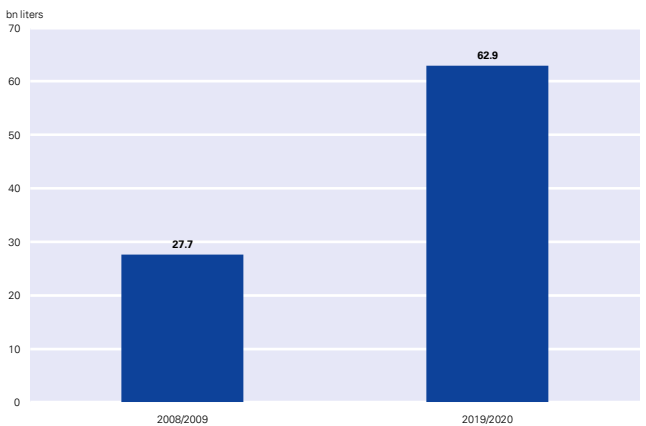


Source: Deutsche Bank and EPE

Export market: will it materialize?

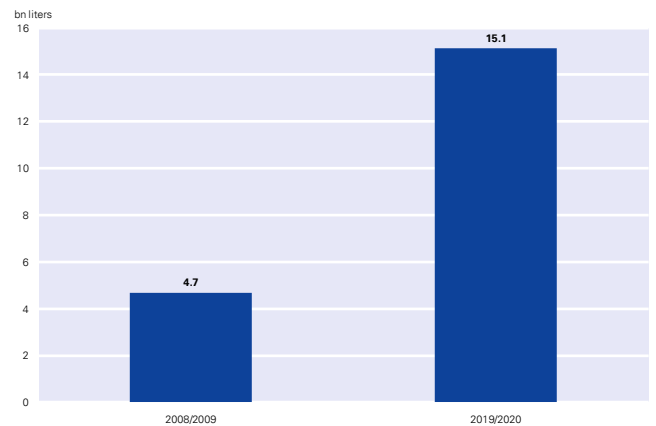
The expectation that the export market would open up for Brazilian exports drove the boom in investments in the ethanol sector in Brazil before the 2008 crisis. Although not yet materialized, the strength in local market demand and global sugar prices helped profitability. The hope for an open export market returned when other countries started their biofuel programs. Another big issue is among the import duties in the US and Europe, but those are expected to disappear in the future. Meanwhile demand and exports forecasts for ethanol remain positive.

Figure 52: Ethanol production forecasts



Source: Deutsche Bank

Figure 53: Ethanol export forecasts



Source: Deutsche Bank

Brazil's producing costs are rising

Sugar cane production costs have risen over the last five years by almost 40%, reflecting land leasing costs (+57%), labor (+47%) and mechanization (+28%). The costs of a greenfield project are high, at \$120/ton, making acquisition and revamping of existing assets more economically attractive. Producers need prices above \$20¢/lbs on a sustainable basis before committing to a new investment.

Sugar price outlook is positive

Recap of past harvest indicates flat volumes for 2011/12 crop

In the past harvest, sugar supply in Brazil increased by 3.5% YoY in 10/11 harvest, reflecting increased planted land, the ramp up of new mills and favorable weather conditions. However productivity fell 5% compared with last year's due to a severe drought that impacted the production in the center-south. The outlook for the upcoming harvest is positive for prices due the legacy from a difficult end of the past season and the fact that there is not carry over cane and the plantation is ageing. To that we add flat crushing capacity in the state of Sao Paulo and limited growth in the center west region. As such, the market expects, in the best case scenario 1mn ton increase in sugar production, while ethanol output should be flat due to allocation of TRS for sugar.

Figure 54: Brazil – Past sugar cane crops

	%/bps Change				
	2008/09	2009/10	2010/11	2009/10	2010/11
Sugarcane (mn tons)	505.0	541.9	556.2	7%	3%
Sugar (mn tons)	26.8	28.6	33.5	7%	17%
Ethanol (bn liters)	25.1	23.7	25.3	-6%	7%
TRS (kg TRS/t sugar cane)	140.9	130.3	141.2	-8%	8%
MIX (% sugar)	39%	43%	45%	400	200
MIX (% ethanol)	61%	57%	55%	(400)	(200)

Source: Deutsche Bank and company reports.

Worldwide sugar demand should remain tight

Worldwide sugar inventories should remain under pressure in the upcoming harvesting period (11/12F), while production is expected to be stable, following a slight increase in India, China and Brazil's outputs. According to agricultural consultants, worldwide demand forecasts point to a 2% YoY increase.

Figure 55: Worldwide sugar balance

mn tons	06/07	07/08	08/09	09/10	10/11	11/12F	
						Min	Max
Worldwide balance							
Inventories at beginning of period	30.8	42.4	53.3	43.5	42.1	45.1	45.1
Worldwide production	164.2	163.1	143.9	153.5	161.9	161.2	164.0
Brazil	29.9	31.0	31.0	32.9	38.1	35.7	38.6
China	12.9	15.9	13.3	11.5	12.7	13.0	13.0
EU-27	17.8	15.6	14.0	16.8	14.8	14.6	14.6
India	30.8	28.6	16.0	20.5	24.5	25.0	25.0
United States	7.7	7.4	6.8	7.2	7.6	7.6	7.6
Others	65.3	64.5	62.8	64.5	64.2	65.3	65.3
Worldwide demand	152.5	152.2	153.7	154.9	158.9	161.9	161.9
YoY% change		-0.2%	1.0%	0.7%	2.6%	1.9%	1.9%
Inventories at end of period	42.4	53.3	43.5	42.1	45.1	44.3	47.2

Source: Deutsche Bank and MB Agro

India: Pointing to a downward trend in supply

Meanwhile, production in India continues to be the major question mark. However, the largest producing state in India should reach its peak production still during this season. Nonetheless, Indian producers have little incentive to expand crop areas due to low returns with sugar and most importantly, due to the rise in the price of cotton and soybeans, which will likely prevent the switching of crop area.

Figure 56: India: sugar balance

	2007/08	2008/09	2009/10	2010/11F	2011/12F
Supply	28.8	14.7	18.8	25.5	27.0
Demand	23.2	23.5	23.0	23.5	24.5
Demand / supply	81%	160%	122%	92%	91%

Source: Deutsche Bank and company reports.

Sugar and ethanol prices positive

Outlook for sugar prices remain positive. Nonetheless, producers still need prices above \$20¢/lbs on a sustainable basis before committing to a new investment.

Figure 57: International sugar prices

Source: Deutsche Bank

Producing costs in Brazil continues to rise

Production costs have risen over the last five years by almost 40%, reflecting land leasing costs (+57%), labor (+47%) and mechanization (+28%). The costs of new projects remain high, at \$120/ton, favoring acquisition and revamping of existing assets.

Increasing presence in Brazil is a focus

Sugar: Adecoagro's full production capacity is 455t tons/year. It recently inaugurated Angelica with sugar production capacity of 1.8t tons/day. Additionally, UMA's capacity was also increased to 600 tons/day when the cogeneration unit was installed.

Today, Adecoagro produces two different types of sugar: (1) very high polarization (VHP) standard draw sugar and (2) white crystal sugar. The VHP sugar holds a higher sucrose content and therefore is sold at a premium in the market. However, it is quite similar to the standard NY11 contract, which is commonly traded in most commodities exchanges. Crystal sugar on the other hand, is a non-refined white sugar.

Adecoagro sells sugar in the domestic and international markets. Domestic prices are indexed to ESALQ (Brazil's benchmark for agricultural prices). Moreover, Adecoagro's sugar production sells at a premium in the domestic market, especially in the state of Minas Gerais, where the company has its own brand (Monte Alegre). Meanwhile, export prices for raw sugar follow the NY11 futures contracts. Among the main customers are EDF Man, Bunge, Noble Americas, and Copersucar trading, which account for approximately 80% of the company's sales.

Ethanol: The Company's ethanol production capacity is 263t cubic meters (1.4t m³/d). Adecoagro produces and sells hydrated and anhydrous ethanol. Hydrated ethanol is derived from the first distillation step in the production process, as fermentation of sugarcane juice concludes and it is distilled. After that, the hydrous ethanol is basically dehydrated, which will result in anhydrous ethanol. Hydrated ethanol is most commonly used in Brazil, especially in flexible fuel cars, while anhydrous ethanol is mainly used to as a blend for gasoline (currently at 25%). Finally, the vinasse, resulted from the last step of the process is transformed into an organic fertilizer, which will be used in the company's own sugarcane plantations.

Adecoagro sell almost all of its ethanol production to the domestic market through ethanol brokers or directly to fuel distribution companies. Ethanol prices are indexed to ESALQ and BM&FBovespa futures contracts. Adecoagro's largest customers are BR Distribuidora, Cosan and Shell (now Raizen), which together have approximately 40% of market share and represent nearly 70% of the company's total sales.

Cogeneration: Adecoagro generates electricity in its two mills from sugarcane bagasse (sugarcane fiber after separated from sugarcane juice). Total installed capacity is approximately 112MW. Adecoagro uses nearly 33% of this energy for own consumption, while the remainder is available for sale either to the free market or through bilateral contracts. In 2017 Ivinhema mill will be fully operational and generating approximately 185MW, out of which over 70% should be available for sale to third parties.

Adecoagro sells its electricity to local distribution companies through bilateral contracts or via energy auctions. Recently the Brazilian energy regulator the ANEEL carried out bid rounds for alternative energy, in which Adecoagro sold part of its cogeneration production via long term contracts, while the remainder could be sold in the free market. Adecoagro's main customers are Cemig, CCEE and Nova Energia, which account for nearly 90% of total energy sales.

Mills: growing efficiently

Even though Adecoagro seems to be actively looking into different opportunities in the sugar and ethanol sector, we do not expect to see an aggressive acquisition plan in the short/mid terms. Meanwhile, management looks comfortable with its current plan to expand in the state of Mato Grosso do Sul, where it already operates one of its mills: Angelica. The main goal is to build a cluster in the region.

UMA: established position in Minas Gerais

Usina Monte Alegre is based in the state of Minas Gerais. It currently has 1.2mn tons of crushing capacity. Recent upgrades also incorporated full cogeneration capacity, while it was connected to the national power grid. Before acquired by Adecoagro, UMA used to be owned by a very traditional family in the region, the Vieira family, which has been ahead of the mill for the past 75 years. Throughout this time UMA captivated a selective client base and cultivated a solid sugar brand (Açúcar Monte Alegre). Today part of the family holds a minority share in UMA, while only one of its members remained in the company as the Sugar and Ethanol manager.

Angelica/Ivinhema cluster: efficiency reference

Angelica mill is a state of the art facility, with 4mn tones of crushing capacity and 96MW of energy generation capacity. Adecoagro's investments in this plant concluded in 2010 and increased the mill's sugar and ethanol production flexibility (60%/40% for sugar and ethanol, either way). Sugarcane supply is guaranteed by approximately 90% of the company's harvest, which is processed at Angelica. Nonetheless, Angelica will only operate at full capacity in 2012.

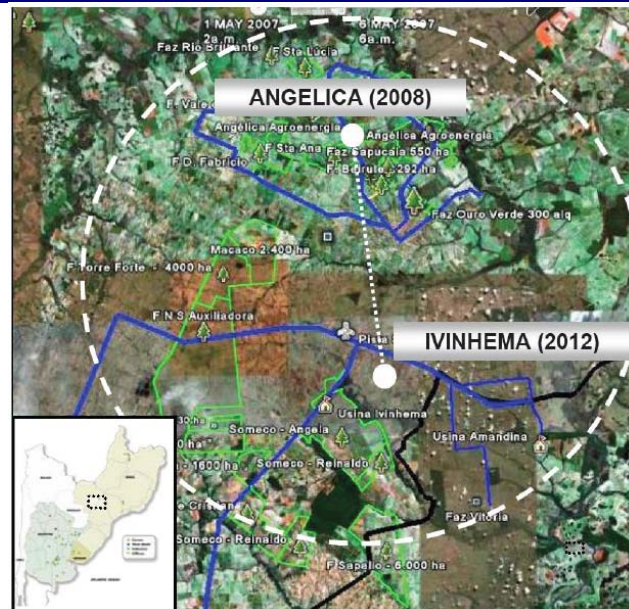
The expansion of operations in the region will be through the construction of a third mill: Ivinhema, which will form the cluster with the Angelica mill. Ivinhema's construction is expected to start as soon as all the environmental licenses are issued, while its conclusion is expected for 2017. Being the whole structure set, the cluster should start benefiting from gains of scale through non-stop harvesting periods, which should result in better efficiency for both plants. Nonetheless, the project will also focus on new logistics infrastructure, full crop mechanization and co-generation.

Ivinhema mill will also be a very modern facility. Its operations are expected to start up in 2013, initially with 2mn tons of crushing capacity and adding another 2mn tons per every year, reaching full capacity in 2017, when it is expected to have its crushing capacity increased to 6.3mn tons. Planted land (both owned and leased) is expected to reach 110 thousand hectares. Ivinhema is being built only 45km away from Angelica. Adecoagro should benefit from operational synergies and lower sugarcane transportation costs (expected to be 42% lower).

Adecoagro total investments in Angelica mill amounted R\$900mn (US\$121/ton of crushing capacity), when construction began in 2008. Such investments included: (1) R\$520mn for industrial equipment, (2) R\$131mn for agricultural equipment and (3) R\$250mn for planted sugarcane. During the 3Q10, the company spent approximately US\$8.2mn in the construction of Ivinhema. Adecoagro still expects to invest US\$690mn to conclude the project. Meanwhile, Adecoagro also acquired three additional farms (8 thousand hectares) in the region for US\$30mn and leased over 14 thousand hectares, where it has already planted new sugarcane.

Ivinhema's construction should be funded in part by the proceeds from the US\$230mn IPO, future cash generation from Angelica (expected to be positive in 2011), and a mix of project finance structure (syndicated loans) and the BNDES (Brazilian development bank).

Figure 58: The cluster



Source: Deutsche Bank and company reports

The cluster: Logistics is a competitive disadvantage

Although the region where the cluster will be located presents considerable upside for growth, given favorable agricultural conditions, centralized management etc, its distance from the main consumption centers adds to transportation costs.

Today, Adecoagro’s production is transported through Parana River directly to the Paranagua port in the state of Parana, where it is exported. The ethanol, which is currently being 100% supplied to the domestic market, is transported via trucks to the closest consumption centers in the state of Sao Paulo.

Nonetheless, Petrobras and other partners (Copersucar, Cosan, Odebrecht, Camargo Correa and Uniduto Logistica) recently announced the creation of a new infrastructure company called Logum Logistica. Logum will be responsible for the construction of a multimodal complex to link all the existing ethanol transportation systems.

Logum’s investments are expected to reach R\$6bn until 2020 and used in the building of new ethanol pipelines and barges transportation with a total delivery capacity of 21bn liters. Moreover the new logistics system will connect to Petrobras’ refineries, where a large infrastructure is already placed in. According to Logum, transportation costs should decrease on average by 20% when the project is concluded. Adecoagro intends to take advantage of such infrastructure to deliver its production to the domestic and export markets in the future.

Figure 59: Petrobras infrastructure project

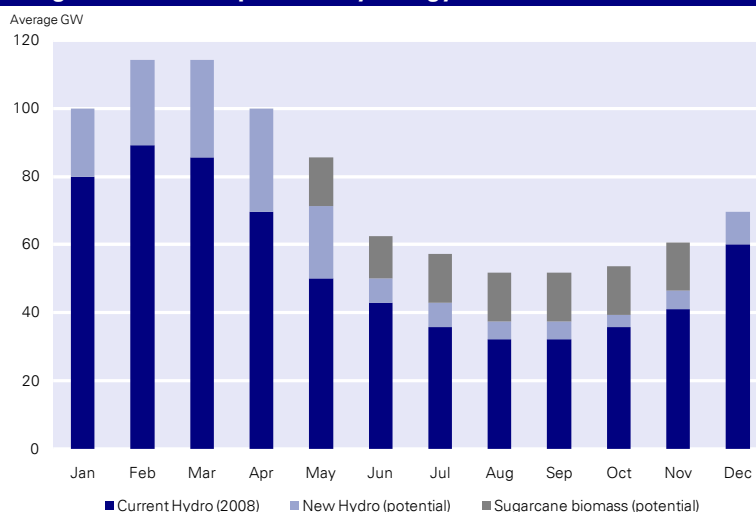


Source: Deutsche Bank and Petrobras Distribuidora

Biomass electricity generation: Still untapped resource in a hydro country

Brazil is essentially supplied (90%) by low-cost hydro electricity and therefore other energy sources have not been competitive in the past. However, due to growing environmental concerns, the construction of large reservoir hydro plants became extremely difficult. The country started to diversify its energy matrix following the 2001 power rationing, which increase the country’s thermal (natural gas) generation capacity. More recently, the country has invested in alternative energy sources such as sugar cane bagasse and wind.

Moreover, the demand for electricity in Brazil has been growing strongly (8% in 2010 and 6.5% in January 2011, as the country’s economy remains strong). That confirms the need for alternative sources of energy to complement Brazil’s power needs. If compared with thermal generation from natural gas, electricity from sugarcane bagasse becomes more competitive since natural gas prices have significantly increased over the past years. More importantly, sugar cane and hydro electricity are complementary in Brazil as the harvesting period happens exactly during the dry season, (Figure 8).

Figure 60: Cogeneration: complementary energy source

Source: Deutsche Bank and company reports

Opportunity limited by regulated market

So far, very low cogeneration capacity has been available for sale in the market. That is a reflection of lower than expected investments made in the sector, especially during 2008 and 2009, when the economic slowdown hit the industry's break and major cogeneration projects were postponed, or even cancelled. However, we can note from the table below that new capacity became available in 2010, exactly when the investment cycle in sector concluded. In 2011 we should not expect any significant projects to start up.

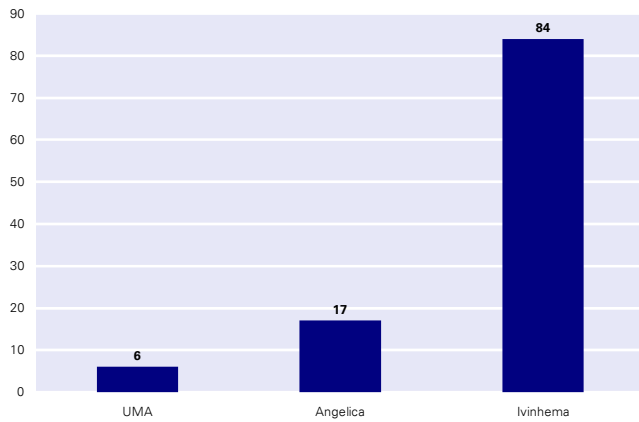
Figure 61: Latest biomass energy auctions in Brazil

Auction	Product	Date	Fuel	Installed Capacity (MW)	Energy sold (MW)	Average realization price (R\$/MWh)	Winner
7th - new energy	2013 - 15 Yrs	Sep-08	sugarcane	na	35	145.80	Cosan Centroeste
8th - new energy	2012 - 15 Yrs	Aug-09	sugarcane	na	10	146.63	UTE Cordoba
1st - reserve	2009 - 15 Yrs	Aug-08	sugarcane	na	35	157.35	Clealco/Cocal/Ferrari
1st - reserve	2010 - 15 Yrs	Aug-08	sugarcane	na	513	155.53	Several winners
3rd - reserve	2011 - 15 Yrs	Aug-10	sugarcane	286.9	74.8	154.18	Several winners
3rd - reserve	2012 - 15 Yrs	Aug-10	sugarcane	118	31.4	145.37	Several winners
3rd - reserve	2013 - 15 Yrs	Aug-10	sugarcane	243	62.1	134.47	Several winners
1st - alternative	2010 - 15 Yrs	Jun-07	sugarcane	na	140	138.85	Several winners
2nd - alternative	2013 - 20 Yrs	Aug-10	sugarcane	na	22.3	137.92	MANDU
Total				647.9	923.6	146.23	

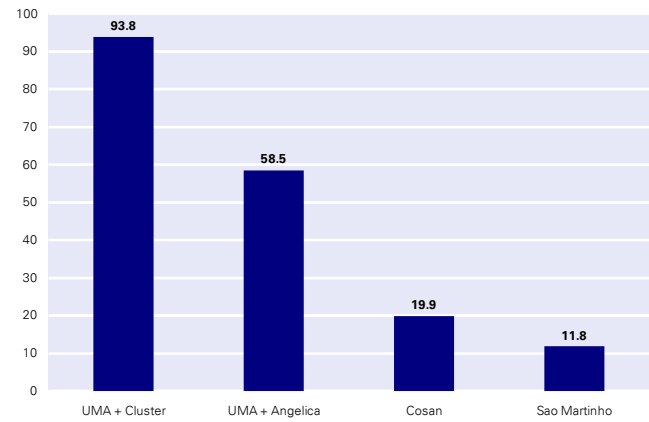
Source: Deutsche Bank and CCEE

Cogeneration = Stable cash and high returns

Adecoagro's current cogeneration capacity is 112MW, with export capacity of 75MW. In 2017, with the conclusion of Ivinhema, cogeneration capacity should reach 296MW (206MW export capacity). This reflects the state of the art facilities built in Angelica and expected to be replicated in Ivinhema. In Angelica, two high pressure boilers with 68BAR each have the capacity to generate 96MW, while in Ivinhema boilers with over 100Bar are expected to be installed. For those who are new to the sector, the higher the pressure (BAR), higher heat and therefore steam is produced, which results in higher electricity output.

Figure 62: Energy exports capacity (MW)

Source: Deutsche Bank and company reports

Figure 63: Cogeneration exports/tons (MW/MMT)

Source: Deutsche Bank and company reports

Adecoagro, through its UMA mill, signed a 10yr contract with Cemig in 2009 to supply 9MW (57.7GWh) at R\$173.88/MWh. Meanwhile, Angelica sold 87.6GWh via energy auction for 15 years at R\$169.52/MWh and in 2010 it entered into a new 15 year agreement to sell 131.4GWh at R\$154.25/MWh, starting in 2011. Prices will be adjusted annually, indexed to the inflation (IPCA).

Adecoagro expects to increase its cogeneration returns by 80%, by investing US\$7.2mn in a new sugarcane recycling system at the Angelica mill, which should increase the company's energy supply by 50% in the future. In addition, the company plans to start using the straw from the sugarcane left in the field for electricity generation. Currently, Angelica does not use the sugarcane straw to produce electricity, since it is left in the field to preserve soil conditions. Angelica is expected to use at least 50% of all the sugarcane straw produced, which could further increase the company's cogeneration capacity in the future.

The next round of biomass energy sale (A-3) should be held in the 2H11, according to the EPE. While UMA's energy is fully contracted for the next 10yrs and Angelica sold approximately 90% of its energy for the next 10-15yrs, we should not see Adecoagro participating in any upcoming energy auctions now.

Additionally, the fact that only a few rounds took place in the last 3-4 years, energy prices for biomass sources should continue to be pressured, especially from older mills, which have been consistently pitching with the government in order to keep energy prices high so they can reach a fair return to increase investments. Remember that such mills have really old or any cogeneration capacity. Therefore, we should see prices reaching the R\$180-190/MWh in the next two years, according to Adecoagro's management.

Land transformation

Strong positioning in this segment

Adecoagro is one of the leading companies in South America involved in acquisition and transformation of land. Land Transformation segment includes two types of activities: (1) acquisition of land or businesses with underdeveloped or underutilized land and (2) the realization of value through strategic disposition of land that has been improved to full development potential.

Since inception in 2002, the company has put into use 134,080 hectares of previously undeveloped or poorly managed land. As shown in the figure below, **since the beginning of 2006, it has generated roughly \$75 million in capital gains from the sale of 22,083 hectares of developed land.**

Figure 64: Land Transformation segment

Hectares	FY06	FY07	FY08	FY09	9 months 2010
Undeveloped/Undermanaged land put into production	13,051	17,591	33,387	11,255	—
Ongoing transformation of croppable land		66,562	80,720	110,751	122,006
Number of farms sold		2	3	1	—
Hectares sold	3,507	8,714	4,857	5,005	—
Gain from the sale of farmland businesses	\$7.6	\$4.1	\$14.0	\$18.8	—
Excess of fair value of net assets acquired over cost	\$0.0	\$29.0	\$1.2	\$0.0	—
Total capital gain (million)	\$7.6	\$33.1	\$15.2	\$18.8	—

Source: Company data

When Adecoagro acquires farmland business for a price below its estimated fair value, it recognizes an immediate gain ("purchase bargain gain"). The acquired land is then recorded at its fair value and carried at cost. At the time of the sale, the company records any excess sale price above the carrying value of the land as a gain on disposition. Both of these activities are recorded separately in the Land Transformation segment. Other land transformation activities are not reflected in this segment; rather, they are reflected in agricultural activities in other segments.

Given the inherent lumpiness and uncertainty around Land Transformation earnings, we have not included any gains from the bargain purchase or sale of land in our model, and see this as potential upside to estimates.

Earnings outlook

IFRS accounting for agriculture

The use of IFRS accounting creates significant differences vs. US GAAP. It hinders comparisons to other companies, and makes markets more dependent on company assumptions.

Before delving into the numbers, we find it important to review accounting rules for the agribusiness sector under IFRS. Under these rules, our ability to accurately predict earnings is hindered by the adjustment to fair value of the assets that are done by the company. Most importantly, as the calculations are complex and depend on subjective inputs by the company; the market will have to rely on these estimates.

IFRS accounting under IAS 41 for agricultural companies (which AGRO adopted in 2006) requires making asset and P&L assumptions for living "biological assets" based on future estimated crop yields, pricing and costs. This aims to smooth out the gains/losses on such assets over the entire production/selling cycle, rather than just upon sale. Assets are measured at each reporting period based on fair value (which is driven both by asset growth and change in unit prices), less the estimated direct costs to sell.

For AGRO, this accounting treatment primarily impacts sugarcane/coffee/cattle. Calculations of asset fair value are driven by market values where available (i.e. cattle), or by DCF projections, where the accounting does not fully square with US GAAP. This also means asset values and operating profits are subject to changes in market prices each period for the commodities. In the Income statement, these price changes are reflected in the line items for (1) "Initial recognition and changes in fair value of biological assets", and (2) "Changes in net realizable value of agricultural product after harvest" once the product has actually been sold. AGRO also capitalizes all the direct selling costs of the biological assets (i.e. labor, planting, fertilizers, harvesting).

AGRO provides Adjusted EBITDA and EBIT metrics, which give a more traditional measure of GAAP profitability, and are significantly different from the IFRS values. The key adjustments are to exclude the non-cash impact of IAS 41 accounting of unrealized changes in fair values of the assets.

Figure 65: ADECOAGRO S.A. - EARNINGS MODEL (\$US THOUSAND - FYE DECEMBER)

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
MANUFACTURING REVENUE	\$ 69,807	\$ 117,173	\$ 183,386	\$ 257,721	\$ 370,837	\$ 431,463	\$ 553,620	\$ 571,814	\$ 701,820
COST OF PRODUCTS/SERVICES	(63,519)	(105,583)	(180,083)	(175,654)	(243,206)	(280,949)	(387,016)	(378,470)	(514,024)
GROSS PROFIT FROM MANUFACTURING	6,288	11,590	3,303	82,067	127,631	150,515	166,604	193,345	187,796
AGRICULTURAL REVENUE	72,696	127,036	130,217	148,914	186,789	232,134	245,670	270,199	304,036
COST OF AGRICULTURAL REVENUE	(72,696)	(127,036)	(130,217)	(148,914)	(186,789)	(232,134)	(245,670)	(270,199)	(304,036)
CHANGE IN FV BEFORE HARVEST	26,935	61,000	71,668	(62,573)	84,208	85,677	98,607	113,552	125,820
CHANGE IN NRV AFTER HARVEST	12,746	1,261	12,787	2,128	1,607	1,607	1,607	1,607	1,607
GROSS PROFIT FROM AGRICULTURAL	39,681	62,261	84,455	(60,445)	85,815	87,284	100,214	115,159	127,427
CONSOLIDATED GROSS PROFIT	45,969	73,851	87,758	21,623	213,446	237,798	266,819	308,503	315,223
GENERAL AND ADMININSTRATIVE EXPENSES	(33,765)	(45,633)	(52,393)	(36,597)	(49,071)	(57,069)	(67,140)	(69,045)	(80,469)
SELLING EXPENSES	(14,762)	(24,496)	(31,169)	(32,531)	(52,974)	(66,360)	(87,922)	(96,832)	(115,673)
OTHER OPERATING INCOME (EXPENSE)	2,238	17,323	13,071	-	-	-	-	-	-
OPERATING PROFIT	(320)	21,045	17,267	(47,505)	111,400	114,369	111,756	142,626	119,081
EXCESS OF FV OF NET ASSETS ACQUIRED	28,979	1,227	-	-	-	-	-	-	-
JOINT VENTURES	(553)	(838)	(294)	(294)	(294)	(294)	(294)	(294)	(294)
INTEREST EXPENSE, NET	467	(48,308)	(22,663)	(31,227)	(21,227)	(21,227)	(21,227)	(21,227)	(21,227)
PRETAX INCOME	28,573	(26,874)	(5,690)	(79,027)	89,879	92,848	90,235	121,105	97,559
INCOME TAX	59	10,449	5,415	27,659	(31,458)	(32,497)	(31,582)	(42,387)	(34,146)
MINORITY INTEREST	538	(2,909)	-	-	-	-	-	-	-
NET INCOME	29,170	(19,334)	(275)	(51,367)	58,421	60,351	58,653	78,718	63,414
DILUTED EPS	\$0.24	(\$0.16)	(\$0.00)	(\$0.43)	\$0.49	\$0.50	\$0.49	\$0.66	\$0.53
SHARES OUTSTANDING	120,069	120,069	120,069	120,069	120,069	120,069	120,069	120,069	120,069
ADJUSTED EBITDA	37,186	28,538	2,497	77,073	132,556	158,480	175,929	222,828	192,084
MARGIN & RATIO ANALYSIS									
MANUFACTURING GROSS MARGIN	9.0%	9.9%	1.8%	31.8%	34.4%	34.9%	30.1%	33.8%	26.8%
AGRICULTURAL GROSS MARGIN	54.6%	49.0%	64.9%	-40.6%	45.9%	37.6%	40.8%	42.6%	41.9%
G&A % OF SALES	23.7%	18.7%	16.7%	9.0%	8.8%	8.6%	8.4%	8.2%	8.0%
SELLING % OF SALES	10.4%	10.0%	9.9%	8.0%	9.5%	10.0%	11.0%	11.5%	11.5%
TAX RATE	-0.2%	38.9%	95.2%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
% GROWTH									
MANUFACTURING REVENUE	--	67.9%	56.5%	40.5%	43.9%	16.3%	28.3%	3.3%	22.7%
GROSS PROFIT FROM MANUFACTURING	--	84.3%	-71.5%	2384.6%	55.5%	17.9%	10.7%	16.1%	-2.9%
AGRICULTURAL REVENUE	--	74.7%	2.5%	14.4%	25.4%	24.3%	5.8%	10.0%	12.5%
GROSS PROFIT FROM AGRICULTURAL	--	56.9%	35.6%	-171.6%	-242.0%	1.7%	14.8%	14.9%	10.7%
GENERAL AND ADMININSTRATIVE EXPENSES	--	35.1%	14.8%	-30.1%	34.1%	16.3%	17.6%	2.8%	16.5%
SELLING EXPENSES	--	65.9%	27.2%	4.4%	62.8%	25.3%	32.5%	10.1%	19.5%
OPERATING PROFIT	--	-6676.6%	-18.0%	-375.1%	-334.5%	2.7%	-2.3%	27.6%	-16.5%
PRETAX INCOME	--	-194.1%	-78.8%	1288.9%	-213.7%	3.3%	-2.8%	34.2%	-19.4%
NET INCOME	--	-166.3%	-98.6%	18579.0%	-213.7%	3.3%	-2.8%	34.2%	-19.4%
DILUTED EPS	--	-166.3%	-98.6%	18579.0%	-213.7%	3.3%	-2.8%	34.2%	-19.4%
SHARES OUTSTANDING	--	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Deutsche Bank estimates

Figure 66: ADECOAGRO S.A. – SEGMENT ANALYSIS (\$US THOUSAND - FYE DECEMBER)

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
MANUFACTURING REVENUE									
CROPS	2,236	3,134	9,667	5,194	6,215	7,115	6,272	6,918	7,488
RICE	24,875	53,280	67,317	58,098	83,639	107,589	134,076	137,867	141,693
COFFEE	5,035	8,544	7,984	-	-	-	-	-	-
DAIRY	13,183	2,171	752	-	-	-	-	-	-
CATTLE	56	164	172	3,430	3,166	2,787	2,843	2,900	2,958
SUGAR & ETHANOL	24,422	49,880	97,554	190,998	277,817	313,971	410,429	424,130	549,682
TOTAL	69,807	117,173	183,446	257,721	370,837	431,463	553,620	571,814	701,820
GROSS PROFIT FROM MANUFACTURING									
CROPS	684	327	4,220	1,892	2,289	2,620	2,309	2,550	2,765
RICE	5,811	13,418	10,741	12,593	28,571	36,880	44,890	45,027	45,094
COFFEE	496	1,566	864	-	-	-	-	-	-
DAIRY	3,359	322	139	-	-	-	-	-	-
CATTLE	56	164	172	3,430	3,166	2,787	2,843	2,900	2,958
SUGAR & ETHANOL	(4,118)	(4,207)	(12,773)	64,153	93,605	108,227	116,562	142,867	136,980
TOTAL	6,288	11,590	3,363	82,067	127,631	150,515	166,604	193,345	187,796
AGRICULTURAL REVENUE									
CROPS	57,057	92,853	82,362	104,159	127,780	160,732	156,770	172,366	191,539
RICE	1,547	3,645	2,033	23,042	34,673	45,977	61,222	63,696	66,269
COFFEE	2,232	7,404	6,281	7,459	8,600	9,134	10,727	11,952	16,338
DAIRY	4,658	12,650	11,142	14,254	15,735	16,292	16,950	22,185	29,890
CATTLE	7,202	9,193	28,306	-	-	-	-	-	-
SUGAR & ETHANOL	-	1,291	93	-	-	-	-	-	-
TOTAL	72,696	127,036	130,217	148,914	186,789	232,134	245,670	270,199	304,036
CHANGE IN FV BEFORE HARVEST									
CROPS	20,054	28,005	6,563	32,346	45,356	50,677	49,037	52,895	56,633
RICE	1,974	7,854	12,170	2,228	8,800	13,662	15,065	15,688	16,336
COFFEE	5,848	4,485	(16,207)	(1,854)	3,716	(2,320)	1,160	3,930	12,298
DAIRY	2,944	2,633	3,374	2,072	1,999	2,012	1,874	2,464	3,569
CATTLE	5,165	3,788	4,704	-	-	-	-	-	-
SUGAR & ETHANOL	9,050	14,235	61,064	(97,365)	24,337	21,645	31,472	38,574	36,985
TOTAL	45,035	61,000	71,668	(62,573)	84,208	85,677	98,607	113,552	125,820
CHANGE IN NRV AFTER HARVEST									
CROPS	12,746	2,211	11,362	2,128	1,607	1,607	1,607	1,607	1,607
RICE	-	-	191	-	-	-	-	-	-
COFFEE	-	(950)	1,234	-	-	-	-	-	-
DAIRY	-	-	-	-	-	-	-	-	-
CATTLE	-	-	-	-	-	-	-	-	-
SUGAR & ETHANOL	-	-	-	-	-	-	-	-	-
TOTAL	12,746	1,261	12,787	2,128	1,607	1,607	1,607	1,607	1,607
ADJUSTED EBITDA									
CROPS	27,216	34,040	21,120	29,616	42,203	47,769	45,730	49,741	53,603
RICE	2,014	13,966	13,244	2,296	20,397	29,938	35,174	35,611	36,015
COFFEE	(3,440)	(1,693)	(3,550)	(984)	(1,262)	(2,943)	(313)	(205)	2,862
DAIRY	1,051	(2,159)	484	1,572	1,491	1,497	1,351	1,933	3,030
CATTLE	(1,188)	(761)	1,525	3,430	3,166	2,787	2,843	2,900	2,958
SUGAR & ETHANOL	(10,146)	(6,979)	(26,903)	49,271	90,179	103,758	116,199	158,655	120,198
LAND TRANSFORMATION	33,114	15,201	18,839	14,802	-	-	-	-	-
CORPORATE	(11,435)	(23,077)	(22,262)	(22,930)	(23,618)	(24,326)	(25,056)	(25,808)	(26,582)
TOTAL	37,186	28,538	2,497	77,073	132,556	158,480	175,929	222,828	192,084

Source: Deutsche Bank

Balance sheet

Debt structure

AGRO's \$403m of debt is held by the subsidiaries in Argentina and Brazil (with nothing at the Uruguay level). It is largely collateralized (\$359.5m of the total) by assets of these subsidiaries. With IPO proceeds mostly going towards expansion, we expect debt levels to remain unchanged for the next several years.

In terms of net leverage, we expect this to come down significantly after 2010, as a result of the equity raising this year, and our projections for more consistent positive OCF growth going forward. Hence we project net debt/Adjusted EBITDA coming down from 3.6x at YE10, to -0.2x at YE11, and staying in a 0.4-0.6x range longer-term.

Figure 67: Debt Structure

Debt	FY06 31-Dec-06	FY07 31-Dec-07	FY08 31-Dec-08	FY09 31-Dec-09	3Q10 30-Sep-10
Bank overdrafts	\$13.7	\$22.9	\$19.8	\$0.0	\$1.5
Syndicated loan, due in 2013	-	-	-	\$32.3	\$32.5
BNDES loan, due in 2018	-	-	-	\$88.7	\$83.7
IDB facility, due in 2010-15	-	-	-	\$80.9	\$71.4
Brazil Loan, due between 2012-20	-	-	-	-	\$34.7
Deutsche Bank loan, due in 2013	-	-	-	-	\$50.4
Other bank borrowings	-	-	-	\$103.9	\$128.6
	\$21.4	\$134.5	\$207.7	\$305.9	\$401.2
Obligations under finance leases	\$2.7	\$2.5	\$0.9	\$0.9	\$0.6
Total debt	\$37.9	\$159.9	\$228.3	\$306.8	\$403.2

Source: Deutsche Bank, Company reports

Currency exposure: Debt is denominated in currencies across the subsidiaries, with 56% in USD, 43% in Brazilian Reais, 1% in Argentine Peso.

Rate exposure: AGRO is exposed to some interest rate volatility, as 69% of debt is variable-rate (with a minor portion covered by fixed-rate swaps). Average rates/spreads are fairly high (although as leverage declines and 90% of debt is due over the next three years, there could be an opportunity to improve). Brazil-based loans have fixed rates ranging from 4% to 16.6%, and variable rates of LIBOR plus spreads of 2.7% to 8.5%. Argentina based loans have fixed rates of 7.5% to 9.5%, and variable rates LIBOR plus spreads of up to 5.0%

Covenants: AGRO's loans have fairly standard clauses for defaults accelerating amounts due, and a number of required coverage ratios. The company breached several of these during 2008-10 (partially due to the volatile EBITDA), but the positive side is its lenders have been willing to modify covenants when this occurred.

Swap coverage: A small portion of the floating rate debt is covered by floating-to-fixed swaps. \$48.2m of the IDB loan was swapped in Jan 2009 (through Nov 2013), with rate (180-day LIBOR plus 4.75%) fully hedged on this portion. The Brazil subsidiaries have an additional \$13m hedged as well, lasting through August 2012.

Debt tranches

Apart from 32% of debt in "Other borrowings" in bank loans and lines of credit, the majority of AGRO's debt falls into five buckets:

- \$32.5m Syndicated Loan due 2013, under the Brazil subsidiaries.
- BNDES Loan Facility: R\$141.8m loan due 2018, under the Brazil subsidiaries. Secured by Angelica farms/equipment.

Covenants on these loans were missed in 2008, but AGRO obtained a waiver from the lenders. It modified the covenant ratios in Dec. 2009 and Dec. 2010, and has been in compliance since Dec. 2009. Ratios for these loans require: 1.0x debt service coverage, 1.0x Liquidity Ratio, 2.0x Interest Coverage, 3.0x Net Bank Debt/EBITDA.
- IDB Facility: \$71.4m loan facility with the IDB bank, due 2010-2015, under the Argentine subsidiaries. AGRO missed covenants on this loan during 2009, but again was granted waivers by IDB. It modified the covenants in May 2010, and has been in compliance since. New covenants (p. 129) limit aggregate debt by the Argentina subs (<\$120m), and requirements include debt/EBITDA 4.75x, interest coverage 2.1x, debt/equity 1.2x.
- BDB Facility: A R\$70.0m facility, with R\$51.1m taken out as of Sept, and held under the Brazil subsidiaries. The facility has a fixed rate of 10%, and is repayable monthly from 2012-2020. The company modified the ratios in Dec. 2010, but has never violated the covenants.
- DB Facility: \$50m loan, repayable from July 2011-July 2013. Rate is LIBOR plus 8.5%, held under the Brazil subsidiaries. Company has never violated the covenants here.

Cash flow projections

We forecast an improvement in AGRO's FCF losses in 2011 and beyond, as Adjusted EBITDA and income generation increase. Nonetheless, we expect annual FCF to remain negative through 2011-2015, with OCF more than offset by capex and WC. We expect capex/sales to remain elevated over next 2-3 years (~33%), primarily for the cluster project, before declining towards 20%. We do see some potential FCF upside on our EBITDA estimate however, particularly in Sugar/Ethanol. Another possible source of upside is that our CF estimates after 2010 do not build in EBITDA from Land Transformation, which could drive higher cash generation.

Figure 68: ADECOAGRO S.A. – BALANCE SHEET ANALYSIS (\$US THOUSAND - FYE DECEMBER)

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
ASSETS									
CASH & EQUIVALENTS	\$ 70,686	\$ 93,360	\$ 74,806	\$ 28,490	\$ 338,891	\$ 244,804	\$ 216,966	\$ 210,556	\$ 190,366
RECEIVABLES	83,176	84,540	128,277	108,115	148,260	176,436	212,513	223,873	267,435
INVENTORIES	58,036	61,221	57,902	39,904	44,561	49,260	50,559	52,519	55,259
BIOLOGICAL ASSETS	102,562	125,948	230,454	225,204	238,225	234,392	238,975	242,835	252,291
OTHER ASSETS	92,570	91,746	94,857	95,806	96,764	97,731	98,709	99,696	100,693
PP&E, NET	538,017	571,419	682,878	723,948	837,104	980,499	1,051,138	1,122,182	1,187,196
TOTAL ASSETS	945,047	1,028,234	1,269,174	1,221,467	1,703,805	1,783,122	1,868,861	1,951,661	2,053,240
LIABILITIES									
ACCOUNTS PAYABLE	40,192	52,761	68,920	72,089	95,505	113,960	140,524	144,074	181,697
SHORT TERM DEBT	97,835	224,214	103,647	103,647	103,647	103,647	103,647	103,647	103,647
OTHER CURRENT LIAB.	14,509	12,495	24,560	25,051	25,552	26,063	26,585	27,116	27,659
LONG TERM DEBT	62,090	4,099	203,134	203,134	203,134	203,134	203,134	203,134	203,134
DEFERRED TAXES	109,713	94,627	107,045	107,045	107,045	107,045	107,045	107,045	107,045
OTHER LIABILITIES	3,843	1,611	4,712	4,712	4,712	4,712	4,712	4,712	4,712
MIN INTEREST IN SUBS.	49,191	45,409	80	80	80	80	80	80	80
TOTAL LIABILITIES	377,373	435,216	512,098	515,758	539,676	558,641	585,727	589,809	627,974
EQUITY									
RETAINED EARN.+STOCK	540,786	673,515	742,351	690,984	1,149,405	1,209,756	1,268,409	1,347,127	1,410,541
TREASURY STOCK	-	-	-	-	-	-	-	-	-
OTHER	26,888	(80,496)	14,725	14,725	14,725	14,725	14,725	14,725	14,725
TOTAL EQUITY	567,674	593,019	757,076	705,709	1,164,130	1,224,481	1,283,134	1,361,852	1,425,266
TOTAL LIABILITIES & EQUITY	945,047	1,028,235	1,269,174	1,221,467	1,703,805	1,783,122	1,868,861	1,951,661	2,053,240
SELECTED RATIOS									
DAYS RECEIVABLES	210	125	147	96	96	96	96	96	96
DAYS INVENTORIES	153	95	67	44	37	35	29	29	24
TOTAL DEBT/CAPITAL	22.0%	27.8%	28.8%	30.3%	20.9%	20.0%	19.3%	18.4%	17.7%
EBITDA INT. COVERAGE	26.6	(0.5)	(1.3)	1.5	(5.3)	(5.5)	(5.3)	(6.8)	(5.7)
RETURN ON EQUITY	5.0%	-2.8%	0.0%	-7.3%	5.0%	4.9%	4.6%	5.8%	4.4%
RETURN ON CAPITAL	3.9%	-2.0%	0.0%	-5.1%	4.0%	3.9%	3.7%	4.7%	3.7%
RETURN ON ASSETS	3.0%	-1.6%	0.0%	-4.2%	3.4%	3.4%	3.1%	4.0%	3.1%
DEBT/EBITDA	17.70	4.63	6.44	14.32	1.67	1.60	1.50	1.22	1.26

Source: Deutsche Bank estimates

Figure 69: ADECOAGRO S.A. – CASH FLOW ANALYSIS (\$US THOUSAND - FYE DECEMBER)

	2007	2008	2009	2010E	2011E	2012E	2013E	2014E	2015E
SOURCES									
NET INCOME	28,632	(16,425)	(275)	(51,367)	58,421	60,351	58,653	78,718	63,414
DEPRECIATION & AMORT.	9,357	28,314	30,356	68,930	71,844	77,605	92,361	107,957	123,985
UNREALIZED CHANGES PRE-HARVEST	(8,989)	(26,322)	(55,841)	5,250	(13,021)	3,833	(4,583)	(3,860)	(9,456)
UNREALIZED CHANGES POST-HARVEST	(2,393)	99	(127)	-	-	-	-	-	-
OTHER	(41,427)	1,062	(32,190)	-	-	-	-	-	-
FINANCING	292,353	213,200	156,047	-	400,000	-	-	-	-
TOTAL SOURCES	277,533	199,928	97,970	22,812	517,244	141,789	146,431	182,815	177,943
USES									
CAPITAL EXPENDITURES	130,171	186,296	97,817	110,000	185,000	221,000	163,000	179,000	189,000
INVESTMENTS/DISPOSITIONS	116,734	(28,807)	(23,923)	-	-	-	-	-	-
DIVIDENDS	-	-	-	-	-	-	-	-	-
SHARE REPURCHASES	-	-	-	-	-	-	-	-	-
EXCHANGE RATE IMPACT	12,911	(19,416)	14,408	-	-	-	-	-	-
CHANGE IN RECEIVABLES	18,351	28,383	30,388	(20,162)	40,145	28,175	36,078	11,359	43,562
CHANGE IN INVENTORIES	23,158	3,289	(3,442)	(17,998)	4,657	4,699	1,300	1,960	2,740
CHANGE IN OTH. ASSETS/LIABS	1,129	(6,265)	(7,319)	457	457	457	456	455	455
CHANGE IN PAYABLES	327	(13,039)	(11,508)	(3,169)	(23,416)	(18,454)	(26,565)	(3,550)	(37,623)
TOTAL USES	302,781	150,441	96,421	69,129	206,842	235,877	174,268	189,225	198,133
NET CASH CHANGE	(25,248)	49,487	1,549	(46,316)	310,402	(94,088)	(27,838)	(6,410)	(20,191)
PER SHARE CALCULATIONS									
NET INCOME	\$0.24	(\$0.16)	(\$0.00)	(\$0.43)	\$0.49	\$0.50	\$0.49	\$0.66	\$0.53
EBIT	(\$0.00)	\$0.18	\$0.14	(\$0.40)	\$0.93	\$0.95	\$0.93	\$1.19	\$0.99
EBITDA	\$0.08	\$0.41	\$0.40	\$0.18	\$1.53	\$1.60	\$1.70	\$2.09	\$2.02

Source: Deutsche Bank estimates

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Adecoagro	AGRO.N	12.76 (USD) 9 Mar 11	6,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See "Important Disclosures Required by Non-US Regulators" and Explanatory Notes.

6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.
8. Deutsche Bank and/or its affiliate(s) expects to receive, or intends to seek, compensation for investment banking services from this company in the next three months.

Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the "Important Disclosures Required by US Regulators" and the Explanatory Notes.

6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.

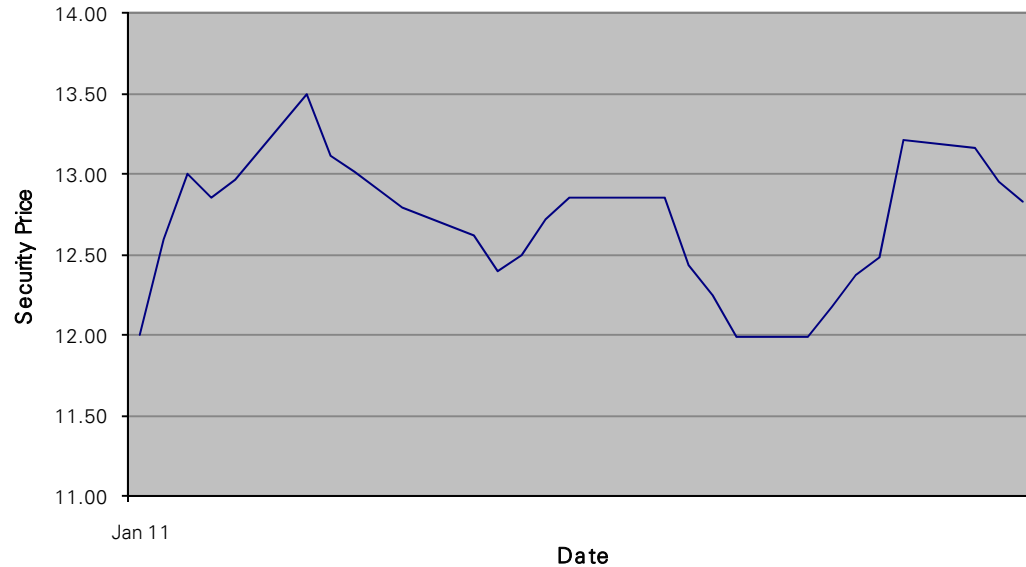
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Historical recommendations and target price: Adecoagro (AGRO.N)

(as of 3/9/2011)



Previous Recommendations

- Strong Buy
- Buy
- Market Perform
- Underperform
- Not Rated
- Suspended Rating

Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

*New Recommendation Structure as of September 9, 2002

Equity rating key **Equity rating dispersion and banking relationships**

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock

Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.

Notes:

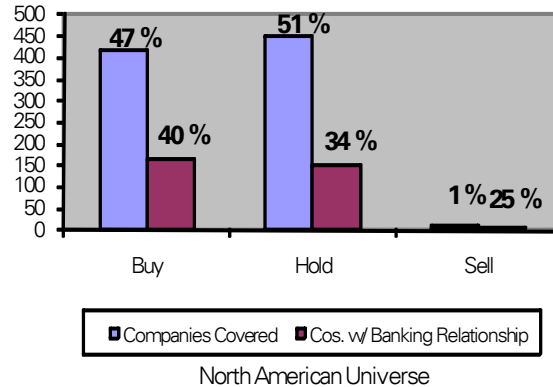
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Buy: Expected total return (including dividends) of 10% or more over a 12-month period

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