



2012  
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**Annual and Sustainability Report**





Annual and  
Sustainability Report

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# MESSAGE FROM THE CEO

## [GRI 1.1]

It is with great pride that I present this Annual and Sustainability Report, which is the São Martinho Group's second report prepared in accordance with the Global Reporting Initiative (GRI) methodology. The GRI, which is internationally recognized as a best practice, allows for the production of a solid account of how the Company conducts its business across three dimensions: economic, environmental and social. At the intersection of these dimensions is the formula for lasting development, be that of a company or a society. This is a constant concern for São Martinho, reflected in our values and the way in which we do business, always guided by ethics, respect, strength, by partnerships with a broad range of audiences, by our commitment to the environment, as well as other elements. Through the GRI, we are able to provide a comprehensive portrait of our activities during the 2012/2013 harvest and how they affected the environment, the surrounding communities and our other stakeholders.

In the economic field, the São Martinho Group continued to invest in its growth strategy during the 2012/2013 harvest. We acquired Biosev, the agricultural arm of Louis Dreyfus and the Biological Assets of the Usina São Carlos mill. In doing so, we added nearly 2 million tons of sugarcane to our capacity, to be processed by São Martinho mill, which is already the largest in the world in terms of milling. With relatively little investment, we will be able to increase the volume of sugarcane processed by this mill, improving the operating margin. The production at São Carlos will enhance the production of sugar and anhydrous ethanol and is expected to increase the Group's consolidated EBITDA margin.

We completed construction of the dedicated thermoelectric power plant at the São Martinho unit. We have already launched operations, with sales expected to begin during the next harvest. It is a project with major potential to generate revenue through the sale of surplus power, while also supplying power to São Martinho.

We also completed all of the investments into the expansion of Nova Fronteira, aimed at expanding the milling capacity at the Boa Vista mill, further improving our ethanol productivity. The Iracema mill, meanwhile, earned Bonsucro international certification, demonstrating that this unit adheres to the best practices in sustainability for the production of sugarcane derivatives. With this seal, we will be able to export to increasingly stringent markets, such as the European Union and Asia. This is crucial for the 2013/2014 harvest, during which it is predicted that Brazil will have to export ethanol in order to balance the country's inventories.

On the topic of inventories, the rail terminal that we maintain at the São Martinho mill, in partnership with Rumo Logística, allowed us to efficiently ship the entirety of the unit's sugar production, reaching a new record in rail shipment.



**AT THE INTERSECTION OF THE ECONOMIC, ENVIRONMENTAL AND SOCIAL DIMENSIONS IS THE FORMULA FOR LASTING DEVELOPMENT, BE THAT OF A COMPANY OR A SOCIETY. THIS IS A CONSTANT CONCERN FOR SÃO MARTINHO, REFLECTED IN OUR VALUES AND THE WAY IN WHICH WE DO BUSINESS, ALWAYS GUIDED BY ETHICS, RESPECT, STRENGTH, BY PARTNERSHIPS WITH A BROAD RANGE OF AUDIENCES, BY OUR COMMITMENT TO THE ENVIRONMENT, AS WELL AS OTHER ELEMENTS**



The big news at the Santa Cruz mill was the assumption, by the São Martinho Group, of 100% of the administrative management of the Santa Cruz mill through its Shared Services Center. In order to adequately support this new structure, we adopted a new organizational model that allowed us to lay the foundation necessary for continued growth.

From an operational perspective, the 2012/2013 harvest was rather challenging, perhaps the most challenging in our history. The start of the fiscal year was marked by low sugarcane production, but we were able to process the volume necessary to meet our commitments. It was a very rainy season and, therefore, we once again had to rely on the human differential to produce and process the expected volume. Our ability to competitively price our production was also an important factor. Despite the difficulties, we achieved our best operating result in recent years.

Since joining São Martinho, one of the things that has impressed me the most is the care and pride that employees have in the Company and their high level of motivation. Everyone is proud to be a part of this team. That's why I wasn't surprised that we were included in the *ExameVocê S.A. Guide - Best Companies to Work For*, as the only company from the sugarcane industry in 2012. The Guide not only provides recognition of our personnel management skills, but also allows us to identify opportunities for improvement. It also helps us bring in new talent.



The Group continued to carry out a series of social and environmental initiatives. Concern for the environment is intrinsic to our business, which depends on soil, water and other natural resources. Our practices seek to exceed that which is required by the market. On the social level, we understand that as a large company, we play a transformative role in the communities surrounding our operations, which is why we seek to offer benefits such as educational and athletic initiatives.

All of the achievements I have mentioned are described in greater detail throughout this document, our second Annual and Sustainability Report. I'm certain that during the 2012/2013 harvest we were able to further implement our strategies for expressive growth. And we expect the coming year to be even better.

Thank you to all of our stakeholders – including our employees, shareholders, surrounding communities, society, government – for joining and supporting us on this quest.

**Fábio Venturelli**  
CEO of the São Martinho Group

# ABOUT THIS REPORT

[GRI 3.1/ 3.5/ 3.6/ 3.7/ 3.8]

In its second Annual and Sustainability Report, the São Martinho Group has adopted Global Reporting Initiative (GRI) guidelines, an international standard that includes a set of indicators regarding economic, social and environmental practices, management and performance.

The adoption of these parameters permits comparability with other years and companies, as well as the monitoring of performance indicators. It also represents transparent relations with stakeholders, and encapsulates an approach to the market that respects global performance reporting standards and a commitment to sustainable development.

This document provides an overview of the São Martinho Group during the harvest year 2012/2013, which ran from April 1, 2012 to March 31, 2013. The information was collected through an internal process conducted by the Sustainability and Corporate Communications area, which involved representatives from various areas of the Company. The reporting of indicators includes the Iracema and São Martinho mills, which are controlled by the Group. It does not include the Boa Vista mill, which now belongs to Nova Fronteira Bionergia S.A., nor Santa Cruz, whose administrative management was only assumed in late 2012.

In 2011, the Company conducted an internal survey of the issues relevant to the Organization, which helped determine the issues and indicators to be addressed in the report. One of the criteria used to define these issues was their importance to the Company's stakeholders, including employees, shareholders, clients, partners, suppliers, and members of the surrounding community.

Given its scope, this publication falls into level C of the GRI framework, whose levels A, B and C refer to the number of indicators reported and other factors. Its level was determined by a third party, MZ Group. This annual report covers the 2012/2013 harvest year and is available at [www.saomartinho.com.br/ri](http://www.saomartinho.com.br/ri), in Portuguese and English.

## Report level

		C	C+	B	B+	A	A+
Standard Disclosures	<b>G3 Profile Disclosures</b> OUTPUT	Report on: 1.1; 2.1 to 2.10; 3.1 to 3.8; 3.10 to 3.12; 4.1 to 4.4; 4.14 to 4.15	Report Externally Assured	Report on all criteria required for level C plus: 1.2; 3.9, 3.13; 4.5 to 4.13; 4.16 to 4.17	Report Externally Assured	Same as requirement for level B	Report Externally Assured
	<b>G3 Management Approach Disclosures</b> OUTPUT	Not Required		Management Approach Disclosures for each indicator category		Management Approach Disclosures for each indicator category	
	<b>G3 Performance Indicators &amp; Sector Supplement Performance Indicators</b> OUTPUT	Report on a minimum of 10 Performance Indicators including at least one from each of Economic, Social and Environmental		Report on a minimum of 20 Performance Indicators including at least one from each of: Economic, Environmental, Human Rights, Labor, Society, Product Responsibility		Report on each G3 and Sector Supplement Indicator with due regard to the Materiality Principle by either a) reporting on the indicator or b) explaining the reason for its omission	

\* Sector Supplement in its final version

## 2012 Annual and Sustainability Report

### São Martinho Group

The MZ Group analyzed the application level of the Global Reporting Initiative's (GRI) G3 Guidelines for Sustainability Reports for this edition of the 2012 Annual and Sustainability Report of the São Martinho Group. In its report, the Organization declared compliance with application level C. Based on an analysis of the material provided, we can confirm that the GRI-G3 application level C was successfully achieved by the reporting organization. The MZ Group was not tasked with verifying the content and accuracy of the information and responses provided for the indicators contained in this report.

São Paulo, December 1<sup>st</sup>, 2013

MZ Group

Verifier and Manager: Olívia Andreolli and Maria Augusta Pires

## HIGHLIGHTS FROM THE 2012/2013 HARVEST

\*2012/2013 Harvest: from April 1, 2012 to March 31, 2013 (12 months)

### [GRI 2.8]

**Completion** of work on the Cogeneration Unit, located at the São Martinho mill, with an initial capacity to generate a 244,000 MWh surplus to be sold, which is enough to transform the Company into a major independent producer of electricity.

**Acquisition** of the agricultural assets of the São Carlos mill, which will add approximately 1.85 million tons of sugarcane to the Group's production. This volume will be processed by the São Martinho mill, which is located an average of 30 kilometers from these sugarcane plantations.

**Achievement** of Bonsucro certification for the Iracema mill, an international seal that recognizes that all of the unit's productive processes, from sugarcane cultivation to the manufacture of sugarcane derivatives, adhere to global standards of sustainability.

**Inclusion**, for the first time, in the *Exame/Você S.A. Guide – Best Companies to Work For*. São Martinho was the only company from the sugarcane industry to be included in the ranking.

FINANCIAL AND OPERATING HIGHLIGHTS	2011/2012 HARVEST	2012/2013 HARVEST	CHANGE 11/12 – 12/13
Processed sugarcane ('000 metric tons)	10,590	12,915	21.9%
Sugar production ('000 metric tons)	774	970	25.3%
Anhydrous ethanol production ('000 cubic meters)	191	275	43.9%
Hydrated ethanol production ('000 cubic meters)	188	177	-5.8%
Gross revenue ('000 Brazilian reais)	1,447,266	1,708,566	18.1%
Net revenue ('000 Brazilian reais)	1,366,990	1,635,955	19.7%
Cost of goods sold (COGS)	(990,438)	(1,233,695)	24.6%
Gross income	376,552	402,260	6.8%
Adjusted EBITDA ('000 Brazilian reais)	537,114	651,915	21.4%
EBITDA margin	39.3%	39.8%	0.6 p.p
Equity ('000 Brazilian reais)	2,024,678	2,100,617	3.8%
Net debt ('000 Brazilian reais)	935,819	1,429,293	52.7%

# 1 ORGANIZATIONAL PROFILE





# THE SÃO MARTINHO GROUP

[GRI 2.1/ 2.6/ 2.7/ 2.9]

The São Martinho Group is among the top producers of sugarcane and ethanol in Brazil, according to a survey carried out by the Brazilian Sugarcane Industry Association (UNICA), and is considered a global leader in the biofuels industry. Currently, the Group has three mills in operation: São Martinho, located in Pradópolis, in the Ribeirão Preto region of São Paulo state; Iracema, located in Iracemápolis, in the Limeira region of São Paulo state; and 51% of the Boa Vista mill, located in Quirinópolis, 300 km from Goiânia, in Goiás state, in partnership with Petrobras Biocombustível. The Group also has a unit for the production of ribonucleic acid, Omtek, which is also located in Iracemápolis, and a 32.18% stake in the Santa Cruz mill, located approximately 45 kilometers from the São Martinho mill.

The Group's average harvest mechanization ratio is 87.3%, an industry benchmark, and the Boa Vista mill's ratio is 100%. The São Martinho, Santa Cruz and Iracema mills produce sugar and ethanol, while the Boa Vista mill is dedicated exclusively to the production of ethanol. The first two mills also generate electricity by burning sugarcane bagasse, ensuring self-sufficiency and selling the surplus. Meanwhile, Omtek produces yeast byproducts using advanced biotechnological processes, mostly for the foodstuff and animal feed markets.

Hydrous ethanol (used in the tanks of cars that run on ethanol) and anhydrous ethanol (mixed into gasoline as an additive to fuel vehicles that run on gasoline) are primarily routed to the domestic market to meet demand from major fuel distributors. In the sugar market, a majority of the production is very very high polarization (VVHP) sugar, which is exported, primarily to Europe and the Middle East.

A total of 12.9 million tons of sugarcane were processed during the 2012/2013 harvest, including the partial consolidation of the Boa Vista mill (50.95%) and the Santa Cruz mill (32.18%). This amount was 21.9% greater than the 2011/2012 harvest. The production of sugar and anhydrous ethanol was prioritized, since they offer the highest profit margins, with production increases of 25.3% and 43.9%, respectively. The Group continued with its investment plan, with spending allocated to expanding its mills and sugarcane plantations, as well as the completion of the cogeneration project at the São Martinho mill. These investments totaled approximately R\$400 million, of which R\$198.5 million were spent to purchase the sugarcane plantations of the São Carlos mill, R\$120 million to increase milling and R\$70 million on completion of the cogeneration project.



A TOTAL OF 12.9 MILLION TONS OF SUGARCANE WERE PROCESSED DURING THE 2012/2013 HARVEST, INCLUDING THE PARTIAL CONSOLIDATION OF THE BOA VISTA MILL (50.95%) AND THE SANTA CRUZ MILL (32.18%). THIS AMOUNT WAS 21.9% GREATER THAN THE 2011/2012 HARVEST. THE PRODUCTION OF SUGAR AND ANHYDROUS ETHANOL WAS PRIORITIZED, SINCE THEY OFFER THE HIGHEST PROFIT MARGINS, WITH PRODUCTION INCREASES OF 25.3% AND 43.9%, RESPECTIVELY



## MISSION, VISION AND VALUES

[GRI 4.8]

### Mission

To offer food, energy and other sugarcane products that generate value for humanity in an innovative and sustainable manner.

### Vision

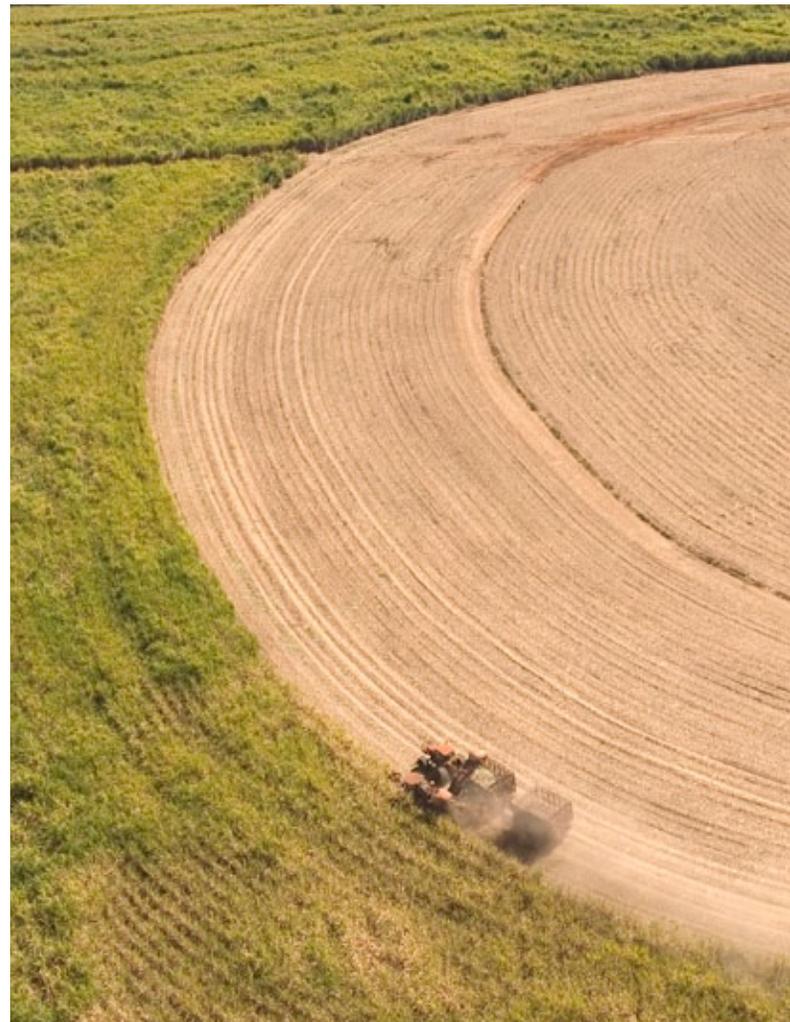
To process 30 million tons of sugarcane per year by 2020 and become the leader in value generation by producing and selling sustainable products, as well as acquiring new markets.

### Values

- ▬ Integrity and ethical standards
- ▬ Respect for people and the environment

### São Martinho's Pillars

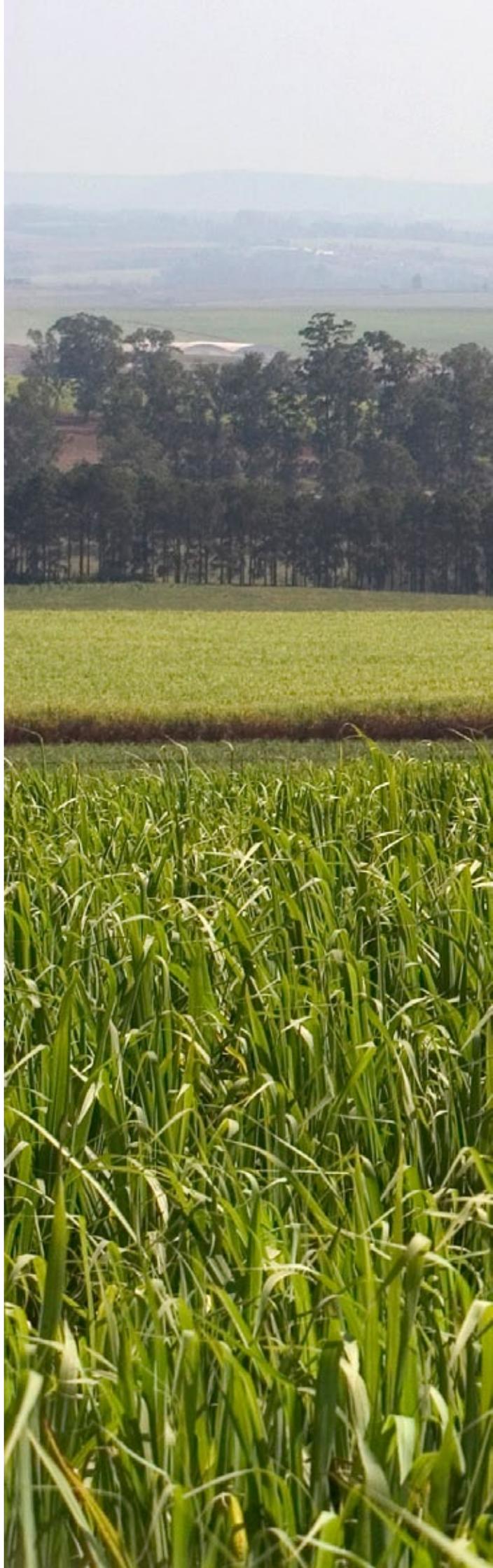
- ▬ Technology
- ▬ Partners and suppliers
- ▬ Shareholders
- ▬ Employees
- ▬ Clients
- ▬ Community
- ▬ Responsible land use
- ▬ Secure growth



# HISTORY

[GRI 2.5]

- The history of São Martinho dates back to the end of the 19<sup>th</sup> century, when members of the Ometto family emigrated from Italy to Brazil in search of better living and working conditions, with dreams of a new life.
- In 1914, they built their first sugarcane mill at the Olaria farm, located in the Limeira region of São Paulo state. In 1932, the family produced sugar for the first time at the Boa Vista farm in the same region.
- In 1937, they acquired the Iracema mill, in Iracemápolis (SP), 160 kilometers from the state capital, and converted it into an ethanol distillery, adding a sugar mill in 1946.
- Three years later, in 1949, the Omettos acquired the São Martinho mill, located in Pradópolis, 330 km from São Paulo city, which has gone on to become one of the world's largest sugarcane crushing mills.
- Over the decades, the two mills grew and became increasingly up-to-date. In 2000, a unified structure was created to ensure more professional management and enable new investment opportunities. Today the São Martinho Group is one of Brazil's leading sugar and ethanol companies and a global benchmark for sugar and ethanol production.
- The Group currently has four mills – São Martinho, located in Pradópolis (SP), Iracema, located in Iracemápolis (SP), Santa Cruz in Américo Brasiliense (SP) and the Boa Vista mill, located in Quirinópolis, 300 km from Goiânia (GO), in which it holds a 51% stake, in partnership with Petrobras Biocombustível – as well as a biotechnology unit, Omtek. This business concept was consolidated and helped strengthen the Group's performance and increase its competitiveness, especially following the IPO in 2007.
- São Martinho also maintains an office in São Paulo city, where its investor relations, financial management and economic planning departments are located. And, since 2000, it has also maintained a Shared Service Center in Pradópolis, which is home to its administrative, financial, legal, human resources, procurement, IT and controllership departments.





An aerial photograph of a red tractor pulling a harrow through a field, creating distinct rows of tilled soil. A large, stylized blue number '2' is overlaid on the left side of the image. The text 'OUR BUSINESS' is centered over the tractor and harrow.

# 2 OUR BUSINESS



# PRODUCTS

[GRI 2.2]

The São Martinho Group's main products are sugar, ethanol, and energy.



## Sugar

The Group's mills produce several types of raw sugar. In recent years, the main product has been VWP, a standard sugar category traded on the international market.



## Ethanol

The São Martinho Group produces hydrous ethanol, used in the tanks of ethanol-driven vehicles; anhydrous ethanol, which is added to the gasoline used by gasoline-driven vehicles; and industrial ethanol, which is mainly used in the production of paint, cosmetics and alcoholic beverages.



## Electricity

Sugarcane bagasse, a byproduct from the sugar and ethanol production process, is fully reused. The electricity produced from burning the bagasse powers the mills and any surplus is sold on the market – a clean process that avoids the use of fossil fuels.



### RNA

Another product manufactured by the São Martinho Group, through its subsidiary Omtek, located in Itacemápolis, is ribonucleic acid (RNA) sodium salt, which is used in the pharmaceutical and food industries as a raw material and flavor enhancer.



### Byproducts

As byproducts of the sugar and ethanol production processes, the São Martinho Group manufactures and markets yeast, which is used in animal feed; fusel oil, which is used as a solvent and in the manufacture of explosives; and pure amyl alcohol.

# UNITS AND INFRASTRUCTURE

[GRI 2.3/ 2.5]



## Iracema Mill

Located in Iracemápolis, in the Limeira region of São Paulo state, one of the first centers of sugar industry development in the region in the last century, the Iracema mill has been producing sugar and ethanol for more than 70 years. In addition, its greater proximity to the port of Santos in relation to other plants gives it a distinct advantage in terms of export logistics.

In recent years, the Group has invested in upgrading the facility's industrial plant and modernizing management of the agricultural area through the installation of new factory and field equipment. At the same time, it has implemented an intense professionalization and training program for its more than 2,000 employees, ensuring that the mill is fully equipped to overcome the sugar and ethanol industry's current productivity challenges.

The unit processes approximately 3 million metric tons of sugarcane per harvest and its mechanization ratio has been increasing. Sugarcane is cultivated on approximately 30,000 hectares of owned, leased and third-party land. The mill also has flexible ethanol and sugar production, allowing it to vary its mix, in line with market trends.

In October 2012, the Iracema mill achieved Bonsucro certification, an international seal that recognizes that all of the unit's productive processes, from sugarcane cultivation to the manufacture of sugarcane derivatives, adhere to global standards of sustainability. Bonsucro requires that companies adopt five essential pillars in their operations: Legal Compliance;

Biodiversity and Impacts on Ecosystems; Human Rights; Production and Processing; and Ongoing Improvements. Each pillar includes specific indicators, which were verified and approved during the certification process. There are social and environmental initiatives being carried out mainly in Iracemápolis and Limeira, as well as an ongoing environmental management program, involving the preservation and restoration of riparian vegetation, and the recycling of production process waste.

The Bonsucro seal is exclusively focused on the sugar and ethanol industry and it allows the Iracema mill to export to increasingly demanding markets, such as the European Union and Asia. A select group of Brazilian mills have earned the certificate. The certificate will also generate opportunities and benefits for the unit, such as an increase in the efficiency of productive processes, a decrease in the impacts to the environment and the surrounding communities, improvements in the quality of the product and, consequently, a more profitable business.

**LOCATED IN IRACEMÁPOLIS, IN THE LIMEIRA REGION OF SÃO PAULO STATE, ONE OF THE FIRST CENTERS OF SUGAR INDUSTRY DEVELOPMENT IN THE REGION IN THE LAST CENTURY, THE IRACEMA MILL HAS BEEN PRODUCING SUGAR AND ETHANOL FOR MORE THAN 70 YEARS. IN ADDITION, ITS GREATER PROXIMITY TO THE PORT OF SANTOS IN RELATION TO OTHER PLANTS GIVES IT A DISTINCT ADVANTAGE IN TERMS OF EXPORT LOGISTICS**



## São Martinho Mill

The São Martinho mill, in Pradópolis, also in São Paulo state, is the world's largest sugarcane processing facility, crushing approximately 8.5 million metric tons per harvest. Founded in 1948 and with a current workforce of more than 4,000 employees, the unit is distinguished not only for its size, but also for its advanced agricultural and industrial processes.

The mill features high productivity at competitive costs. Its mechanization ratio, which is one of the highest among the major plants in the sector, and its concern for the environment are considered benchmarks in the sugar and energy markets. It also developed the Viva a Cana program, designed to protect sugarcane fields, and maintains the Environmental Education Center (CEA), which supports and promotes environmental preservation practices, mainly among students and members of the surrounding community. The location is also home to the Shared Services Center (CSC) for the entire São Martinho Group.

Another of the plant's key differentials is its logistics area, including an in-house railway, which allows it to transport sugar and ethanol output to the port of Santos much cheaper than by road-based transportation. Its facilities also offer several competitive advantages, such as bulk sugar storage. An expansion of the mill was inaugurated in 2012, which increased owned and third-party transshipment capacity directly to the Port of Santos by 2 million tons, as well as a warehouse with installed capacity for 60,000 tons. A total of 1.5 million tons were sent through this route during the most recent harvest.

Also in 2012, the cogeneration plant project was completed at the São Martinho unit, which will produce approximately 244,000 MWh in excess electricity that can be marketed during the 2013/2014 harvest.

**THE SÃO MARTINHO MILL, IN PRADÓPOLIS, ALSO IN SÃO PAULO STATE, IS THE WORLD'S LARGEST SUGARCANE PROCESSING FACILITY, CRUSHING APPROXIMATELY 8.5 MILLION METRIC TONS PER HARVEST. FOUNDED IN 1948 AND WITH A CURRENT WORKFORCE OF MORE THAN 4,000 EMPLOYEES, THE UNIT IS DISTINGUISHED NOT ONLY FOR ITS SIZE, BUT ALSO FOR ITS ADVANCED AGRICULTURAL AND INDUSTRIAL PROCESSES**

## Boa Vista Mill

Inaugurated in 2008, the Boa Vista mill, located in Quirinópolis, Goiás, is considered one of the most modern plants in the world due to its advanced ethanol production technology. With a fully-mechanized harvesting process (with zero burning), the mill was the first in Brazil to combine modern and sustainable practices both in its operations and its relations its surrounding communities.

Boa Vista is installed on a 1.7 million m<sup>2</sup> site, with 23,000 m<sup>2</sup> of built-up area, and its layout was specially designed to facilitate future crushing capacity expansions.



One of its most impressive features is the Industrial Operations Center (IOC), a command room that operates round the clock showing the real-time status of all ongoing industrial processes. It controls all of the plant's operations, including cane juice extraction and treatment, fermentation, distillation, storage, steam generation, power and compressed air generation and water and effluent treatment.

## Nova Fronteira

In June 2010, Nova Fronteira S.A. came to own 100% of the Boa Vista mill. Nova Fronteira is the result of a union between the São Martinho Group (51%) and Petrobras Biocombustível (49%), which formed a partnership focused on ethanol production in Brazil's Midwest region. The Boa Vista mill received an initial investment R\$420 million from Petrobras Biocombustível in order to accelerate the growth of its operations in the coming years.

Expertise in biofuel production, together with research and technological innovations that generate cleaner and more efficient products, have made Nova Fronteira Bioenergia a leading company in its industry in Brazil.

For São Martinho, the partnership with Petrobras Biocombustível will have a positive impact on its financial structure, as well as strengthening its investment capacity and allowing it to concentrate on its growth plan. It will also make the Group part of the consolidation of Brazil's sugar and ethanol industry, with a focus on new demand in the domestic and international ethanol and energy markets and on the global challenge of offering fuels with low carbon emissions.



## Omttek

Omttek, São Martinho's industrial unit located in Iracemápolis (SP), was inaugurated in 1990, and uses advanced biotechnology processes to produce yeast products for the animal feed and foodstuff markets. It is also one of the few plants in the world producing and exporting ribonucleic acid (RNA) sodium salt, used in the food industry as a raw material for flavor enhancers.



## Santa Cruz Mill

The Santa Cruz mill is located in the municipality of Américo Brasiliense, in the central region of São Paulo state, 280 kilometers from São Paulo city and 350 kilometers from the Port of Santos. The mill is able to meet its own raw material needs, supplying over 90% of the sugarcane used for production. In 1946, one year after the acquisition of Fazenda Santa Cruz by the Ometto family, the company carried out its first harvest. It currently has the capacity to produce and process more than 4 million tons of sugarcane, with harvest rates above 90% for raw sugarcane and 100% mechanized planting, making it one of the largest companies in the sugarcane industry in Brazil.

Its portfolio of products includes VHP sugar, hydrous ethanol, anhydrous ethanol, electricity and sugarcane yeast. It is one of the pioneers and a benchmark in the implementation of a Sustainability Policy, with ISO 9001, ISO 14001 and Greenergy certifications for its processes, which ensure a healthy work environment for its employees and the community, with a focus on results and sustainable growth.

In 2013, all of the administrative management of the Santa Cruz mill began to be handled by the São Martinho mill.



**THE SANTA CRUZ MILL'S PORTFOLIO OF PRODUCTS INCLUDES VHP SUGAR, HYDROUS ETHANOL, ANHYDROUS ETHANOL, ELECTRICITY AND SUGARCANE YEAST. IT IS ONE OF THE PIONEERS AND A BENCHMARK IN THE IMPLEMENTATION OF A SUSTAINABILITY POLICY, WITH ISO 9001, ISO 14001 AND GREENERGY CERTIFICATIONS FOR ITS PROCESSES, WHICH ENSURE A HEALTHY WORK ENVIRONMENT FOR ITS EMPLOYEES AND THE COMMUNITY, WITH A FOCUS ON RESULTS AND SUSTAINABLE GROWTH**



## Cogeneration Unit

In 2013, the São Martinho Group finalized its investments in the cogeneration unit built at the São Martinho mill, which totaled R\$180 million. The thermoelectric unit uses two modern technologies to transform sugarcane bagasse into electricity: burning in a bubbling fluidized bed, which is more efficient and flexible than the methods currently being used, generating more energy with the same amount of fuel; and evaporation and condensation, with reduced water consumption in relation to traditional condensation technologies.

The unit has an initial capacity to generate a 244,000 MWh surplus to be sold, enough to transform the company into a major independent producer of electricity. The surplus to be generated will be enough to meet the demand of a city with approximately 200,000 residents.



Funds were allocated for the purchase of a high-pressure boiler and a condensing turbo generator, as well as upgrades to the mill to enable the installation of the project. Ninety-seven percent of the equipment is made in Brazil.

Construction of the unit generated 400 direct jobs and 1,200 indirect jobs, taking a total of 650 days to be completed. Operations are already under way, but sales will only begin during the 2013/2014 harvest.

## Rail Terminal

In order to increase and accelerate the transport of sugar produced in the São Martinho mill and other units in the Ribeirão Preto region of São Paulo, in 2010 the Group established a partnership with Rumo, a Cosan group company specializing in sugar and grain logistics. The agreement involves investments in transportation and a larger terminal for sugar shipments.

With a total investment of R\$30 million, the new logistics complex, inaugurated in 2012, has a rail transshipment capacity of more than 2 million tons of owned and third-party sugar per year, to the Port of Santos for export.

São Martinho's investments in expanding the highway and rail terminal were focused exclusively on sugar and include the construction of a warehouse with 60,000 tons of installed capacity. The new warehouse, together with the two existing warehouses, each with a capacity of 120,000 tons, will provide the logistics complex with a total capacity of approximately 300,000 tons.

In addition, São Martinho also modernized a tunnel and expanded an internal stretch of the rail line, increasing agility by enabling the trains to enter and leave the terminal through different access points.

Meanwhile, Rumo Logística will be responsible for obtaining the product from the other mills, making the necessary adjustments to the rail line from the main branch and ensuring transportation to the Port of Santos by rail. São Martinho is responsible for managing the intake, storage and transshipment of the sugar.

With the expansion of the terminal, 1.5 million tons of sugar were loaded and shipped in 2012.



## São Carlos Mill

### [GRI 2.9]

In December 2012, the São Martinho Group announced the acquisition of all of the agricultural assets of the São Carlos mill, located in Jaboticabal (SP) and controlled by Biosev, the sugar and ethanol branch of the French company Louis Dreyfus. The agricultural assets from this mill were transferred to Mirtilo Investimentos, which was merged into São Martinho. The transaction also involved the purchase of a sugar warehouse with static capacity for 40,000 tons.

The mill will add approximately 1.85 million tons of sugarcane to the Group's production. This volume will be processed by the São Martinho mill, which is located an average of 30 kilometers from these sugarcane plantations.

Half of Mirtilo's total sugarcane supply will come in the form of supply contracts, with different durations, from two to six years. The other 50% will come from its own sugarcane. This sugarcane will be a strategic part of optimizing operations at the São Martinho mill, which is the Group's largest. The transaction will enable the unit to reach its full crushing capacity of 10.5 million metric tons. In addition, the sugarcane processed at Mirtilo is located within an eight kilometer radius of the mill.



## High mechanization ratio

The São Martinho Group has one of the industry's highest sugarcane mechanization ratios: 87.3% of the 2012/2013 harvest was mechanized, without the burning of sugarcane plantations, up 1.6 p.p. from the previous harvest. The magnitude of this figure can be gauged from the fact that the average mechanization ratio of the mills in the state of São Paulo is only 72.6%, according to estimates from the State Department of the Environment.

The advantages of mechanized harvesting are many, including a reduced environmental impact, as it eliminates burning, lower risk of injury when compared to manual harvesting, higher operational efficiency, and preservation of soil conditions. On the other hand, it represents a major challenge for the industry in terms of training and reallocating the workforce. With this in mind, São Martinho has developed training programs, including the Training Program for Drivers and Operators, which teaches agricultural laborers how to operate tractors, machinery and cane harvesters, helping meet demand for workers specializing in automation and mechanization, in line with the new realities of the market.





# COMPETITIVE DIFFERENTIALS

## Strategies

The São Martinho Group seeks to grow with sustainability by following a solid strategy comprised of the following elements:

- Organic growth and growth through strategic acquisitions, partnerships and new projects: São Martinho plans to expand its businesses through projects such as the Boa Vista mill. It also keeps a close eye on other sugar and ethanol companies in Brazil, in order to identify merger and acquisition opportunities that generate economies of scale, operational synergies and productivity gains.
- Continue reducing operating costs and increasing operational efficiency: São Martinho will continue to concentrate its efforts on improving operational efficiency through investments in technology in the agricultural, industrial, logistics and IT areas.

- Expand its share of the international sugar and ethanol markets: the Group plans to expand its operations in the international market, drawing on its production flexibility and logistics potential to explore any new export opportunities that may emerge in the medium-to-long term.

## Competitive advantages

The São Martinho Group plays a leading role in the sugar and ethanol market thanks to its competitive strengths, which are:

- **Technological innovation and a highly mechanized agroindustrial complex:** São Martinho is constantly seeking to implement technological innovations in its planting, harvesting and manufacturing processes. Such innovations have greatly improved its yields and extraction capacity, as well as reducing its operating costs. In addition, in recognition of the undeniable importance of well-preserved land, not just in terms of productivity, but also because of its direct link to the Group's business sustainability, the São Martinho Group



**SÃO MARTINHO IS CONSTANTLY SEEKING TO IMPLEMENT TECHNOLOGICAL INNOVATIONS IN ITS PLANTING, HARVESTING AND MANUFACTURING PROCESSES. SUCH INNOVATIONS HAVE GREATLY IMPROVED ITS YIELDS AND EXTRACTION CAPACITY, AS WELL AS REDUCING ITS OPERATING COSTS. IN ADDITION, IN RECOGNITION OF THE UNDENIABLE IMPORTANCE OF WELL-PRESERVED LAND, NOT JUST IN TERMS OF PRODUCTIVITY, BUT ALSO BECAUSE OF ITS DIRECT LINK TO THE GROUP'S BUSINESS SUSTAINABILITY, THE SÃO MARTINHO GROUP HAS ADOPTED MODERN PRACTICES TO MONITOR AND PROTECT THE PHYSICAL, CHEMICAL AND BIOLOGICAL CONDITIONS OF THE SOIL. SÃO MARTINHO IS BRAZIL'S MOST HIGHLY MECHANIZED SUGAR AND ETHANOL COMPANY AND WAS THE FIRST MAJOR PRODUCER TO DEVELOP AND USE MECHANIZED PLANTING EQUIPMENT**



has adopted modern practices to monitor and protect the physical, chemical and biological conditions of the soil. São Martinho is Brazil's most highly mechanized sugar and ethanol company and was the first major producer to develop and use mechanized planting equipment.

**Strategically-located land holdings and mills:** São Martinho's own or leased land has the advantage of being located in Brazil's Center-South region, which is naturally suited to sugarcane cultivation. In addition, its land is strategically located within an average of 24 kilometers from its mills. This close proximity, coupled with the Group's high level of mechanization, reduces transportation costs and increases yields. The units are also close to the Santos port terminals and warehouses. The São Martinho unit also possesses its own railway, which reduces delivery times and logistics costs and increases operating efficiency.

**Experienced and professional management team:** São Martinho's management has more than ten years of experience in production and operational processes, as well as an extensive knowledge of the sugar and ethanol industry, while its controlling shareholders have more than 40 years of experience in the industry. São Martinho uses human resources management tools designed to strengthen management skills, focusing on integrating and motivating employees to maximize their effectiveness. An illustrative example of this is the re-qualification courses offered by the Group, which have benefited hundreds of employees, creating opportunities and culminating in promotions. The Renovation Program, developed in association with UNICA, encompasses initiatives focused on the professional training of São Martinho Group's staff.



# **B** **MANAGEMENT AND PERFORMANCE**





## INDUSTRY OVERVIEW

### The sugar and ethanol industry

Sugarcane is cultivated in two main regions of Brazil: the Center-South and the Northeast. There are two harvest periods, one in each region: in the Center-South, the harvest takes place between April and November and in the Northeast between September and March. In the Center-South region, sugarcane planting for sugar and ethanol production represents more than 85% of Brazil's output, while in the state of São Paulo it represents more than 60%.

Brazil is the world's leading sugarcane producer, accounting for more than 40% of the total. It is followed by India, which accounts for 25% of global output. Brazil's vast territory and amenable climate translate into plenty of land available for sugarcane production. In addition, due to other favorable conditions, Brazilian sugarcane can be harvested five to six times before replanting, which is a major advantage over other countries, such as India, where it needs to be replanted every two or three harvests on average.

According to Brazil's Sugarcane Industry Association (UNICA), the Center-South region ended the 2012/2013 harvest with an effective milling of 532.7 million tons of

sugarcane, up 8.0% from the previous harvest. A total of 34.1 million tons of sugar (+9.0%) and 21.3 billion liters of ethanol (+4.0%) were produced.

The increase in the supply caused the average prices of both products to drop in 2012, when compared to 2011. The prices of anhydrous and hydrous ethanol dropped 9.7% and 6.6%, respectively, and sugar fell 3%, according to data from the Center for Advanced Studies in Applied Economics – Escola Superior de Agricultura Luiz de Queiroz (CEPEA-ESALQ). Given that the São Martinho Group hedges its sugar sales through the futures market, it was able to obtain prices that were higher than the industry average.

### Sugar

Sugar is a staple consumer product and an essential commodity that is produced in various parts of the world. Sugar made from sugarcane accounts for more than 70% of total sugar production, with sugar derived from beets accounting for the rest. During the 2012/2013 harvest, global sugar production totaled approximately 174.5 million tons and consumption totaled approximately 163.3 million tons, according to the United States Department of Agriculture (USDA).



**SUGARCANE IS CULTIVATED IN TWO MAIN REGIONS OF BRAZIL: THE CENTER-SOUTH AND THE NORTHEAST. THERE ARE TWO HARVEST PERIODS, ONE IN EACH REGION: IN THE CENTER-SOUTH, THE HARVEST TAKES PLACE BETWEEN APRIL AND NOVEMBER AND IN THE NORTHEAST BETWEEN SEPTEMBER AND MARCH. IN THE CENTER-SOUTH REGION, SUGARCANE PLANTING FOR SUGAR AND ETHANOL PRODUCTION REPRESENTS MORE THAN 85% OF BRAZIL'S OUTPUT, WHILE IN THE STATE OF SÃO PAULO IT REPRESENTS MORE THAN 60%**



## **Ethanol**

Global ethanol production has been growing at a steady rate. Environmental concerns and initiatives are raising awareness of the need to reduce the consumption of fossil-based fuels and adopt cleaner ones, such as ethanol. One such example is the Renewable Fuel Standard (RFS) implemented by the Environmental Protection Agency (EPA) in the United States. RFS establishes the first mandate regarding the volume of renewable fuel consumed in the United States, with a goal of 36 billion gallons by 2022. The requirement for 2012 is 7.5 billion gallons.

Currently, the United States and Brazil are the leading producers and consumers of ethanol, with most of the ethanol produced in the U.S. made from corn, whereas in Brazil it is made from sugarcane. Brazil consumed 23 billion liters during the 2012/2013 harvest.

## **Climate change**

The São Martinho Group began milling the sugarcane from the 2012/2013 harvest in mid-April. Early in the fiscal year, the Company was forced to deal with intense rains, particularly during the month of May. In June, the weather became drier, allowing São Martinho to make up for the lost milling. The end of the harvest was fairly dry, which allowed the harvest to be extended and all of the sugarcane to be harvested.

# OPERATING HIGHLIGHTS

The São Martinho Group's 2012/2013 harvest outperformed the previous harvest, with a total of 12.9 million tons of sugarcane harvested, up 21.9% from the previous harvest. Sugar production increased 25.3% and anhydrous ethanol production was up 43.9% during the same period. Meanwhile, there was a 5.8% decline in the production of hydrous ethanol.

The São Martinho mill, which is located in the São Paulo municipality of Pradópolis, maintained its position as the world's largest sugarcane processing facility, with crushed volume of 76 million metric tons.

## São Martinho growth pillars

- 1) Financial strength;
- 2) Value-added partnerships for the ethanol platform;
- 3) Diversification of sugarcane-based products.
- 4) Logistics.

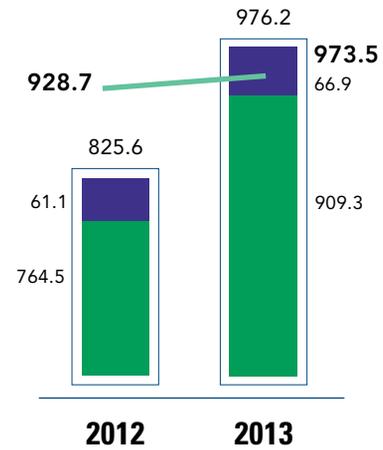
OPERATING HIGHLIGHTS	2011/2012 HARVEST	2012/2013 HARVEST	CHANGE 11/12 - 12/13
<b>São Martinho - Consolidated</b>			
Processed sugarcane ('000 metric tons)	10,590	12,915	21.9%
Own ('000 metric tons)	6,886	8,236	19.6%
Third-party ('000 metric tons)	3,704	4,679	26.3%
Harvest mechanization (%)	85.7%	87.3%	1.6 p.p.
<b>Production</b>			
Sugar ('000 metric tons)	774	970	25.3%
Anhydrous ethanol ('000 m <sup>3</sup> )	191	275	43.9%
Hydrous ethanol ('000 m <sup>3</sup> )	188	177	- 5.8%
RNA – ribonucleic acid sodium salt (metric tons)	226	324	43.7%
Energy exported ('000 MWh)	140	177	26.7%

# FINANCIAL RESULTS

FINANCIAL HIGHLIGHTS ('000 REAIS)	2011/2012 HARVEST	2012/2013 HARVEST	CHANGE 11/12 - 12/13
Net revenue	1,366,990	1,635,955	19.7%
Cost of goods sold - COGS	990,438	1,233,695	24.6%
Gross profit (cash)	376,552	402,260	6.8%
Gross margin (cash)	27.5%	24.6%	-3.0 p.p
Adjusted EBITDA	537,114	651,915	21.4%
EBITDA margin	39.3%	39.8%	0.6 p.p
Total assets	4,787,167	5,633,110	17.7 %
Shareholders' equity	2,024,678	2,100,617	3.8 %
Net debt	935,819	1,429,293	52.7%

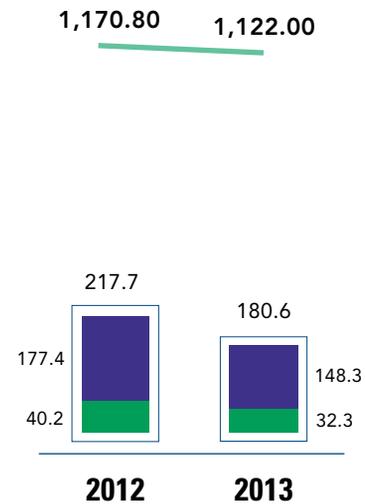
## Sugar - Volume ('000 tons) and average price (R\$/ton)

- EM Volume
- DM Volume
- Average Price



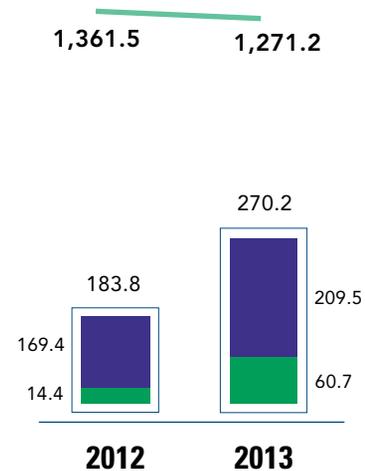
## Hydrous ethanol - Volume ('000 m<sup>3</sup>) and average price (R\$/m<sup>3</sup>)

- EM Volume
- DM Volume
- Average Price



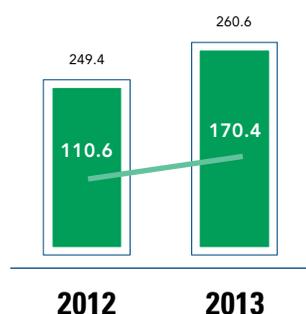
## Anhydrous ethanol - Volume ('000 m<sup>3</sup>) and average price (R\$/m<sup>3</sup>)

- EM Volume
- DM Volume
- Average Price



## Electricity - Volume ('000 MWh) and average price (R\$/MWh)

● DM Volume  
— Average price



## Net Revenue

The São Martinho Group's consolidated net revenue for the 2012/2013 harvest reached R\$1,636.0 billion, up 19.7% in relation to the previous harvest, driven mainly by the increase in the sales of sugar and anhydrous ethanol, as well as the improved prices for electricity.

BREAKDOWN OF NET REVENUE ('000 REAIS)	2011/2012 HARVEST	2012/2013 HARVEST	CHANGE 12/13
Net revenue – Sugar	766,687	950,326	24.0%
Net revenue – Hydrous ethanol	254,847	202,686	-20.5%
Net revenue – Anhydrous ethanol	250,223	343,481	37.3%
Net revenue – Electricity (domestic market)	27,593	44,409	60.9%
Net revenue – Other	67,640	95,053	40.5%

Net revenue from sugar sales totaled R\$950.3 million, up 24.0% from the previous harvest. This growth was mainly due to the 18.2% increase in the volume sold and the 4.8% increase in the average sale price.

Net revenue from the sale of hydrous ethanol was down 20.5%, due mainly to the higher allocation of the mix to anhydrous ethanol. Net revenue for anhydrous ethanol increased 37.3%.

Revenue from the sale of electricity occurs during the months in which sugarcane is being milled (between April and December). During the 2012/2013 harvest, this revenue increased 60.9%, reaching R\$44.4 million. This strong performance was due to the increase in the sale price of electricity during the period. Net revenue from Other Products and Services also increased during the harvest year, reaching R\$95.1 million, due mainly to the increase in Ribonucleic Acid (RNA) Sodium Salt sales volume.

## EBITDA

The Group's consolidated adjusted EBITDA reached R\$651.9 million, up 21.4% over the same period in the previous harvest. The increase mainly reflects the increase in the volumes sold of sugar and anhydrous ethanol, resulting from the 21.9% increase in the volume of sugarcane milled during the harvest.



## Debt

The Group continued to implement its investment plan during the 2012/2013 harvest, with spending allocated to expanding its mills and sugarcane plantations, as well as the completion of the cogeneration project at the São Martinho mill. These investments totaled approximately R\$400 million, of which R\$198.5 million were used to acquire the sugarcane plantations of the São Carlos mill; R\$120 million to increase milling, particularly at the Boa Vista mill; and R\$70 million to complete the electricity cogeneration plant.

As a result of these operations, the Group's net debt reached R\$1.4 billion in March 2013, up 52.7% from the same period last year. Given that the EBITDA generated by the above investments will only begin as of the 2013/2014 harvest, the São Martinho Group believes that its Net Debt/EBITDA ratio will be lower in March 2014.

## Capex

The São Martinho Group's maintenance Capex totaled R\$336.0 million during the 2012/2013 harvest, in line with the investments carried out during the same period last year. An additional R\$137.3 million was spent on expansion and modernization, specifically for the São Martinho mill's cogeneration project (R\$70 million) and the acquisition of the biological assets of São Carlos (R\$38.0 million).

Investments were also made to expand the Boa Vista mill, in the amount of R\$149.7 million, up 23.0% from the same period during last year's harvest. The increase in these investments was due to the expansion of the planted area at this mill and the increase in industrial capacity to 4.0 million tons for the 2013/2014 harvest.



# 4 ENVIRONMENTAL MANAGEMENT



# SUSTAINABILITY AS A STRATEGY

Sustainability is one of the São Martinho Group's strategic pillars and is an integral part of the Company's mission of offering products in innovative ways that ensure the preservation of existing natural resources. Given that its business is centered on sugarcane, a renewable resource that in turn produces ethanol, sugar, electricity and other byproducts, the Group seeks to establish a commitment to the environment, the community, clients, partners and consumers, while at the same time promoting growth and the well-being of future generations.

Sustainability is therefore deeply entwined with São Martinho's activities. One of the best examples of this is generating clean energy from the burning of sugarcane bagasse, most of which is used to fuel boilers and provide power for the mills throughout the entire harvest. The remainder is sold. Sustainability permeates the Group's entire production chain, ranging from the responsible use of soil, the mechanized planting and harvesting of sugarcane, the re-use of waste products in the production process, respect for and conservation of the environment, ethics and corporate governance, and its relations with the community and other stakeholders. Throughout its history, the Group has invested in improving its processes, technologies and initiatives, reflecting its concern over sustainability while at the same time increasing operational efficiency.

## Sustainability management

In 2010, through its definition of sustainability management, the concept of sustainable development began to permeate São Martinho's activities, relationships and business in an even more structured manner. The Company has been pursuing a new approach and mindset, which will be incorporated into its daily activities and will play an important role in the decision-making process, thereby influencing all levels and departments.

Since then, the Sustainability Area's strategies have been aligned and integrated into the Company's business strategies, based on three areas of focus:

- **Sustainability governance:** Since 2010, the Group has worked with an Executive Sustainability Committee to support the already-established Sustainability Committee, in addition to working groups in the units, which enabled sustainability management to be represented by several of the Group's departments and units.
- **Certifications:** The quest for high standards of sustainability management capable of earning certifications that meet the requirements of specific clients and markets.
- **Sustainability Report:** For São Martinho, the development of another Annual and Sustainability Report represents a mobilization process within the organization to structure indicators and report on their performance. This process also allows for the identification of opportunities for corrective actions, the application of best practices and improvements in general.

# ENVIRONMENTAL MANAGEMENT

Respect for the environment is intrinsic to the sustainability of the São Martinho Group's business, in addition to being one of its Values, also included in the "responsible use of land" and "technology" pillars. In line with these commitments, the Company has an Environmental Policy through which it assumes its role of producing renewable energy, in a socially and environmentally responsible manner, aimed at its sustainable development and meeting the applicable legal requirements, in order to continually act to prevent pollution by reducing environmental risks and impacts.

More than merely formalizing its commitment to the environment, the São Martinho Group demonstrates it in practice through the adoption of eco-efficient procedures, investments in raising awareness and other initiatives, which are presented below.

## Environmental Education Center

The São Martinho Group's Environmental Education center, also known as CEA, has already received more than 50,000 visitors since its inauguration in 2000. Its main objective is to raise awareness among students, employees and the community about the importance of maintaining and respecting the environment, as well increasing their knowledge regarding the conservation of natural resources. The program is in operation at the São Martinho mill, located in Pradópolis (SP), and, in April 2010, another unit was installed at the

Boa Vista mill, in Quirinópolis (GO). In 2012, with the purchase of a portion of the shares of the Santa Cruz unit, the São Martinho Group acquired an additional Environmental Education unit in the municipality of Américo Brasiliense (SP). The center has a wide range of facilities, including models, maps, audio-visual rooms and other tools to promote environmental awareness. The topics addressed by the CEA include conscientious water use, care of the soil and the preservation of riparian forests. Through thematic visits, people can learn about the mills' agricultural and industrial processes, which include sugarcane planting and biological control, as well as sugar and ethanol production, with a focus on the conscientious use of the natural resources and inputs used by the Group.

Closely connected with the CEA, the Seedling Nursery (*see the Viva a Natureza Project below*) is another important São Martinho initiative aimed at the replanting of riparian forests. Each year the nursery produces around 380,000 seedlings of 210 different native species, 350,000 of which are from the São Martinho mill in São Paulo and the other 30,000 are from the Boa Vista mill in Goiás. All of them are used in the reforestation of the Group's riparian areas or in partnerships with environmental authorities. The nursery also donates seedlings to the government and local communities.

At the Iracema mill, there is an annual planting of 80,000 native seedlings in Permanent Preservation Areas, in partnership with the Iracemópolis Seedling Nursery. In addition, Environmental Education is promoted through behavioral training lectures, employee integration efforts and events such as the Internal Workplace Accident Prevention Week (SIPAT). The Internal Accident Prevention Commission (CIPA) is also focused on this type of awareness.

## Viva a Natureza Project

The Viva a Natureza project is a pioneering São Martinho initiative involving environmental preservation and the replanting of riparian forests, which began at the São Martinho mill, in Pradópolis (SP). When the project was implemented in 2000, the goal was to plant one million native species seedlings in reforestation and riparian areas within ten years. The project, which was subsequently implemented at the Iracema and Boa Vista mills, has already resulted in the planting of more than 2.5 million seedlings.

The project was conceived as a means of recovering, protecting and stabilizing headwaters and other water sources in the areas where the mills are located, as well as minimizing the silting up of water courses. It also aims to raise awareness of the need for environmental preservation among employees and the community, as well as engaging them in actions for this purpose.

### The Viva a Natureza project:

- Annual production of 137,750 seedlings of 230 native species.
- Annual planting of 121,508 seedlings in 2012.
- Approximately 2.5 million trees have been planted by the São Martinho Group.
- A total of 808.38 hectares in permanent preservation areas have been reforested.



## Soil conservation

São Martinho is fully aware that well-preserved land is essential for ensuring high plantation yields and the sustainability of its business. It therefore adopts practices for monitoring and protecting the physical, chemical and biological conditions of the soil.

By using the remains of crops and other preservation methods, the Group is able to maintain soil humidity and avoid leaching and loss of nutrients, while improving fertility. With a high harvest mechanization ratio of 87.3%, a benchmark for the industry, and without the use of burning, the Group is able to minimize the loss of topsoil and nutrients in an area covering 125,000 hectares.

To enable proper soil conservation, São Martinho also maintains a Soil Laboratory certified as grade A by the Campinas Agricultural Institute (IAC), which helps determine the most appropriate fertilizer formulations in order to avoid waste during the various applications. In addition, in 2012 the Soil Laboratory was received ABNT NBR ISO/IEC 17025: 2005 certification. The company systematically uses organisms cultivated in its biofactory for pest control. Replacing pesticides with laboratory-bred larvae and wasps protects the soil, keeps pests in check and guarantees the survival of microorganisms that benefit plantation fertility and the ecosystem as a whole.

The conservation and expansion of the riparian forests on the Group's land is another fundamental aspect of its soil preservation policy. In these areas rain water infiltrates the region's water table, guarantees the supply of natural wells and maintains the flow of water in nearby brooks, streams and rivers. Riparian areas also provide natural protection against river silting, floods and erosion, while preserving biodiversity and sustaining agriculture.

It is important to note that the crops are rotated, using leguminous plants during the sugarcane plantation renewal period. This method allows the agricultural productivity to be maintained while the soil is being conserved.

These and other techniques ensure the preservation of soil quality. The Group's success and high yields are not due to mechanization per se, but are rather the result of its culture of technological innovation, sustainability, and staff training. An example of this is the Viva a Cana program, which since 2003 has instituted the rational management of field operations and adapted machinery and equipment in order to protect ratoons and prevent soil compaction, thereby benefiting crop development.

## Reuse of waste

Virtually nothing is wasted in the sugar and ethanol industry— everything is transformed. See some examples below.

== **Vinasse:** This is a liquid byproduct of distillation that is produced during the ethanol production process. It is rich in potassium, a necessary nutrient in sugarcane fertilizers. Through rigorously controlled procedures, the vinasse is applied through "fertigation," a technique whereby fertilizer is mixed with the water used to irrigate the soil, normally through huge water jets which are discharged into the air fall like rain over large areas of the plantations.

== **Filter cake:** Generated during the clarification of sugarcane juice, filter cake is rich in phosphorus and organic matter. After treatment and the addition of nutrients, it is used in planting and in ratoons as a substitute for mineral fertilizers.



## Recognition

The São Martinho mill received the “Quality of life and respect for the environment” trophy at the Third Social and Environmental Responsibility Seminar in 2012, held by the Brazilian Sugarcane Industry Association (UNICA). Of the 52 projects analyzed, only eight were finalists, each for a different issue related to the United Nations (UN) Millennium Development Goals, which were created to foster new bases of sustainable development for people across the world.



**THE SÃO MARTINHO MILL RECEIVED THE “QUALITY OF LIFE AND RESPECT FOR THE ENVIRONMENT” TROPHY AT THE THIRD SOCIAL AND ENVIRONMENTAL RESPONSIBILITY SEMINAR IN 2012, HELD BY THE BRAZILIAN SUGARCANE INDUSTRY ASSOCIATION (UNICA). OF THE 52 PROJECTS ANALYZED, ONLY EIGHT WERE FINALISTS, EACH FOR A DIFFERENT ISSUE RELATED TO THE UNITED NATIONS (UN) MILLENNIUM DEVELOPMENT GOALS, WHICH WERE CREATED TO FOSTER NEW BASES OF SUSTAINABLE DEVELOPMENT FOR PEOPLE ACROSS THE WORLD**



## ENVIRONMENTAL INDICATORS

### Materials used

[GRI EN1]

The table below shows the materials used by the São Martinho Group during the 2012/2013 harvest year, by weight or volume. The materials are classified as indirect, i.e. they are used in the production chain but not incorporated into the final product, except for “coloring material – anhydrous ethanol,” which is used in the production chain and is directly incorporated into the final product (direct material).

	Materials	Unit	São Martinho Mill	Iracema Mill
Industrial	Coloring Material – Anhydrous Ethanol	liter	1,482	643
	Hydrated Lime	metric ton	2,859	2,027
	Polymer	metric ton	30	29
	Sodium Hydroxide	metric ton	500	348
	Sulfuric Acids	metric ton	1,750	1,119
	Deafoamer	metric ton	53	28
	Dispersant	metric ton	43	23
	Chlorine	metric ton	7	NA
	Cyclohexane	liter	30,005	79,405
	Polyaluminum Chloride - PAC	metric ton	23	1
Agricultural	Herbicides	liter	-	177,545
	Herbicides	metric ton	-	42
	Pesticide	liter	-	15,784
	Pesticide	metric ton	-	5
	Nitrogen	metric ton	-	2,228
	Limestone	metric ton	-	15,278
	Potassium (K <sup>2</sup> O)	metric ton	-	1,251
	Phosphorus (P <sub>2</sub> O <sub>5</sub> )	metric ton	-	1,138

Additional Information: The final products exported the São Martinho and Iracema mills are dispatched in bulk, which eliminates the need for packaging. For the domestic market, the supply from the Iracema mill is made in Big Bags of 1,200 kilograms.

## Direct and indirect energy consumption

[GRI EN3/ EN4]

The tables below show São Martinho's direct and indirect energy consumption during the 2012/2013 harvest year.

DIRECT ENERGY CONSUMPTION (GIGAJOULES - GJ)			
		São Martinho Mill	Iracema Mill
Description			
Non-Renewable Sources	Diesel	977,605.9	401,285.6
	LPG	598.4	590.0
	Gasoline	761.8	298.0
Renewable Sources	Biomass	12,272,250.5	5,698,361.9
	Ethanol	23,903.8	11,379.8
	Methane	27,752.0	NA

INDIRECT ENERGY CONSUMPTION (MEGAWATT-HOUR - MWH) USED IN THE AGROINDUSTRIAL OPERATION			
		São Martinho Mill	Iracema Mill
Description			
Concessionaire/ distribution network (third party)		CPFL	Elektro
Purchased and consumed energy volume		7,031	9,936

Additional Information:

- The São Martinho mill uses more materials from direct (renewable and non-renewable) sources due to the extent of its agricultural area. The unit generates methane from the biodigestion of vinasse and uses it as an energy source in the yeast drying process.
- The Group has no Small Hydroelectric Plants (SHPs).

## Greenhouse Gas (GHG) Emissions

[GRI EN16/EN17]

The São Martinho Group prepared its first greenhouse gas emission inventory during the 2010/2011 harvest year, which quantifies the emissions of the São Martinho and Iracema mills between April 1, 2010 and March 31, 2011, based on the GHG Protocol guidelines. The measurement considered the calculation in metric tons of equivalent carbon dioxide (tCO<sub>2</sub>e) resulting from the Group's operations and the intensity of ethanol for export in grams of equivalent carbon dioxide per megajoule (gCO<sub>2</sub>e/MJ).

According to the GHG Protocol guidelines, the emissions total is defined as the sum of Scope 1 (direct) and Scope 2 (indirect) emissions, as specified below. Other types of indirect emissions are part of Scope 3, also detailed on this page.

### Scope 1 – Direct emissions

**Sources:** Fossil fuel use in the agricultural area; CH<sub>4</sub> and N<sub>2</sub>O emissions from the burning of sugarcane straw; the release of CO<sub>2</sub> and N<sub>2</sub>O from the soil as a result of nitrogen fertilization; the application of lime in the plantations; the use of vinasse and filter cake on the crop; the decomposition of unburned sugarcane straw; and the emission of CH<sub>4</sub> and N<sub>2</sub>O from the burning of bagasse.

### Scope 2 – Indirect emissions

**Source:** Energy balance of electricity imports and exports.

### Scope 3 – Indirect emissions (other)

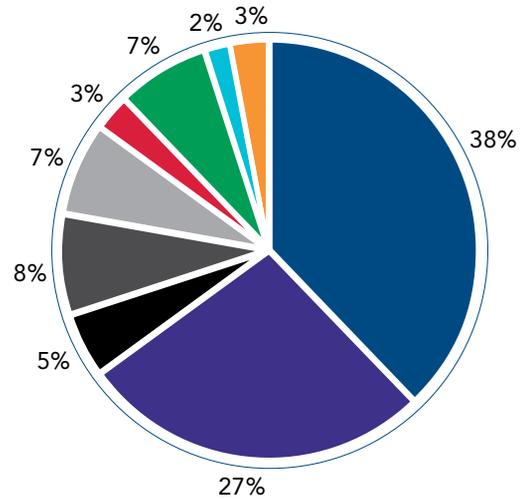
**Sources:** Production of inputs for the agricultural area; production and maintenance of machinery and equipment; production of inputs for the industrial area; construction and maintenance of buildings and industrial facilities; and the use of fossil fuel for ethanol transportation for exports.

TOTAL EMISSIONS IN 2012 (IN TCO <sub>2</sub> E)			
	São Martinho Mill	Iracema Mill	São Martinho Group
Scope 1	249,356.5	109,448.3	358,804.8
Scope 2	960.5	-279.6	680.9
TOTAL			359,485.7
	São Martinho Mill	Iracema Mill	São Martinho Group
Scope 3	23,104.2	21,016.9	44,121.1

## São Martinho Mill

### Sources of emissions

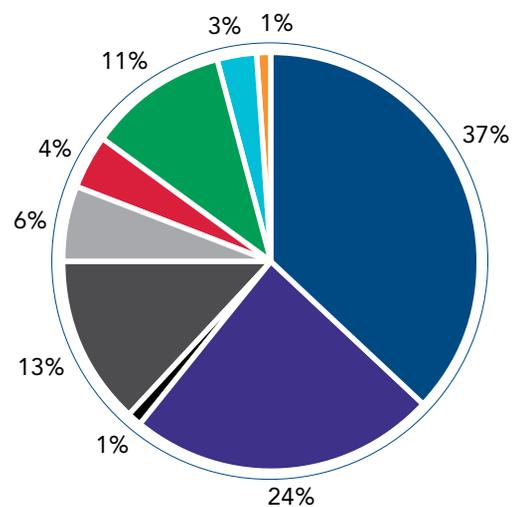
- Burning bagasse in boilers – release of CH<sub>4</sub> and N<sub>2</sub>O
- Use of fossil fuels
- Burning straw – release of CH<sub>4</sub> and N<sub>2</sub>O
- Nitrogen fertilization - release of N<sub>2</sub>O and CO<sub>2</sub>
- Application of lime in the fields
- Application of Vinasse and Filter Cake
- Production of inputs for the agricultural area
- Transport of exported ethanol
- Other emissions



## Iracema Mill

### Sources of emissions

- Burning bagasse in boilers – release of CH<sub>4</sub> and N<sub>2</sub>O
- Use of fossil fuels
- Burning straw – release of CH<sub>4</sub> and N<sub>2</sub>O
- Nitrogen fertilization - release of N<sub>2</sub>O and CO<sub>2</sub>
- Application of lime in the fields
- Application of Vinasse and Filter Cake
- Production of inputs for the agricultural area
- Transport of exported ethanol
- Other emissions



## Wastewater

### [GRI EN21]

One of the key environmental indicators monitored by the São Martinho Group is the wastewater produced by its mills. The figures recorded during the 2012/2013 harvest year are shown below.

TOTAL WASTEWATER BY TYPE AND DESTINATION				
UNIT	DESTINATION	Volume (m <sup>3</sup> )	DBO (mg/L)	DQO (mg/L)
São Martinho Mill	Treatment system	14,823,076	48	17
	Other discharges for crop irrigation (water used to clean equipment)	2.066,497	619	1,400
Iracema Mill	Treatment system	-	-	-
	Other discharges for crop irrigation (water used to clean equipment)	913,182	-	-

Additional Information:

- No wastewater is routed to a treatment system at the Iracema mill because the unit reuses this water in its processes.
- More wastewater from the São Martinho mill is used for crop irrigation due to its higher planted area.

## Waste disposal

### [GRI EN22]

The materials used in São Martinho's operations are appropriately disposed of in accordance with their characteristics (e.g. type of material, hazardousness, etc.) through methods including recovery, incineration and burial in a landfill. The following table shows the main materials disposed of by the Group.

SÃO MARTINHO MILL				
Waste	Hazardous	Unit	Amount	Disposal
Steel	Yes	Kg	36,090	Recycling/Recovery*
Carbon Steel	Yes	Kg	791,692	Recycling/Recovery
Automobile Batteries	Yes	Kg	13,320	Other/Manufacture
Rubber	Yes	Kg	2,890	Recycling/Recovery
Automotive Clutch Disc	Yes	PC	148	Recovery of parts/Resale
Wiring	Yes	Kg	4,284	Recycling/Recovery
Pesticide Packaging (Hard Plastic)	Yes	20L	1,666	Not washable/Not contaminated
Pesticide Packaging (Hard Plastic)	Yes	1L	800	Not washable/Not contaminated
Pesticide Packaging (Hard Plastic)	Yes	5L	170	Not washable/Not contaminated
Pesticide Packaging (Hard Plastic)	Yes	10L	213	Not washable/Not contaminated
Pesticide Packaging (Flexible Plastic)	Yes	5KG	1,600	Not washable/Not contaminated
Pesticide Packaging (Rigid Cellulosic)	Yes	12KG	172	Not washable/Not contaminated
Light Bulbs	Yes	PC	4,300	Decontamination/Targeting
Electric Materials	Yes	Kg	820	Recycling
Plastic/Paper	Yes	Kg	17,950	Recycling
Automotive Clutch Plate	Yes	PC	70	Recovery of Parts/Resale
Tires	Yes	Unit	2,156	Reconditioning
Tires	Yes	Unit	1,443	Vulcanization/Sale
2 <sup>nd</sup> Line Steel Drum	Yes	PC	496	Recycling
2 <sup>nd</sup> Line Steel Drum	Yes	PC	2,035	Recycling/Recovery

IRACEMA MILL				
Waste	Hazardous	Unit	Amount	Disposal
Rubber	No	Metric ton	12.7	Landfill
Herbicide Packaging**	Yes	Unit	16,394	Recycling
Cardboard/Plastic Packaging	No	PC	114	Recycling
Soot	No	Metric ton	47,113	Other
Used Bulbs	Yes	PC	1,055	Decharacterization
Used Tarps	Yes	Kg	900	Recycling
Burned Oil	Yes	Kg	44,790	Recycling
Dirty Rags	Yes	Kg	5,670	Recycling
Paper/Cardboard	No	Kg	33,465	Recycling
Plastic	No	Kg	17,755	Recycling
Class I Waste	Yes	Metric ton	63.11	Incineration
Outpatient Waste	Yes	Metric ton	1.1	Landfill
Carbon Steel Scrap	No	Kg	742,000	Recycling
Aluminum Scrap	No	Kg	1,390	Recycling
Stainless Steel Scrap	No	Kg	3,200	Recycling
Scrap Automotive Batteries	Yes	Kg	8,460	Recycling
Scrap Plastic Drums	Yes	PC	1,909	Recovery
Scrap Cartridges and Toners	Yes	PC	75	Recycling
Scrap Automotive Clutches	Yes	PC	100	Recycling
Scrap Copper Wiring	No	Kg	2,090	Recycling
Scrap Wood	No	Kg	25,980	Incineration
Scrap Tires	No	Unit	884	Recycling
Filter Cake	No	Metric ton	95,755	Other***
Vinasse	No	m <sup>3</sup>	1,202,641	Other

\* Recovery: A term used for the process through which waste material is restored to its initial form/condition, without changing its origin.

\*\* Herbicide packaging Includes 1, 5, 10, and 20-liter drums, boxes, paper/plastic bags, and metal containers.

\*\*\*Other: Any other waste disposal method such as recycling and incorporation, mixing the waste material into another material/product.

## Compliance with environmental laws

### [GRI EN28]

One of the challenges of São Martinho's environmental management is to fully comply with the environmental laws and regulations that are in effect. To add transparency to this process, the Group discloses in this report the monetary value of significant fines and the total number of non-monetary sanctions for non-compliance with environmental laws and regulations. No fines of this type were received incurred during the 2012/2013 harvest.

ADMINISTRATIVE OR LEGAL SANCTIONS	IRACEMA MILL	SÃO MARTINHO MILL
Voluntary environmental agreements with regulatory agencies that are considered mandatory	0	0
Types of suits filed against the Group	Legal – 2 (Tax Foreclosures)	0
Monetary value of significant fines (R\$)	0	0
Proceedings conducted through arbitration mechanisms	0	0



# 5 RELATIONSHIPS

[GRI 4.14/ 4.15]



# EMPLOYEES

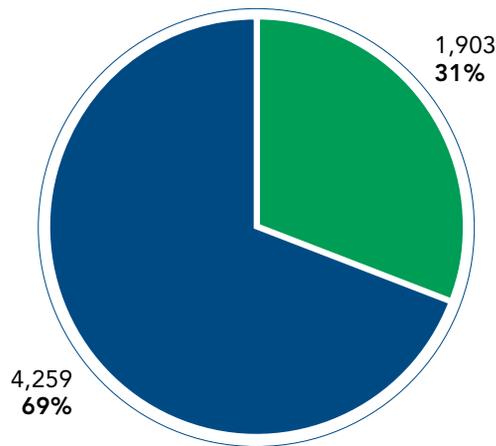
## Employee profile

[GRI 2.8/LA1]

In this section, the São Martinho Group presents some of the key stakeholder groups in its relationship strategy, with a particular emphasis on their influence on the Group's business and vice-versa. Stakeholders are defined in line with São Martinho's pillars, which include partners and suppliers, shareholders, employees, clients and the community. Profiles of some of these stakeholders and the main initiatives developed by the Company to make its relationships increasingly strategic and sustainable are shown below.

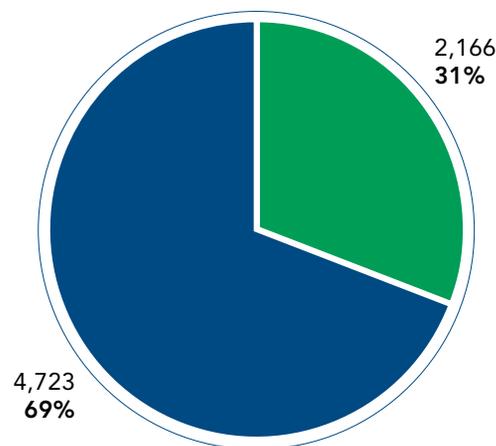
### Employees by harvest region 2011/2012

- São Martinho Mill (Pradópolis - SP)
- Iracema Mill (Iracemópolis - SP)



### Employees by harvest region 2012/2013

- São Martinho Mill (Pradópolis - SP)
- Iracema Mill (Iracemópolis - SP)



TOTAL CLT WORKERS BY JOB CATEGORY			
Mill	Category	Harvest	Off-season
São Martinho Mill	Executive Board	1	0
	Managerial	23	20
	Coordination	28	24
	Leadership	117	121
	Technical Support	23	21
	Operational	4,531	4,368
<b>São Martinho Total (Pradópolis)</b>		<b>4,723</b>	<b>4,554</b>

TOTAL CLT WORKERS BY JOB CATEGORY			
Mill	Category	Harvest	Off-season
Iracema Mill	Managerial	2	2
	Coordination	9	9
	Leadership	90	94
	Technical Support	18	16
	Operational	2,047	2,265
<b>Iracema Mill Total (Iracemópolis)</b>		<b>2,166</b>	<b>2,386</b>
<b>Overall Total</b>		<b>6,889</b>	<b>6,940</b>

THIRD-PARTY EMPLOYEES BY JOB CATEGORY		
	São Martinho Mill	Iracema Mill
Administrative	79	96
Industrial	394	672
Agricultural	89	474
<b>Total*</b>	<b>562</b>	<b>1,242</b>

\*Monthly average of third-party workers during the 2012/2013 harvest.

TOTAL WORKFORCE BY EMPLOYMENT CONTRACT			
Mill	Contract Type	Off-Season	Harvest
São Martinho Mill	Fixed-term employment contract	450	463
	At-will employment contract	4,104	4,260
Iracema Mill	Fixed-term employment contract	427	240
	At-will employment contract	1,959	1,926
<b>Overall Total</b>		<b>6,889</b>	<b>6,940</b>

APPRENTICES, INTERNS AND TRAINEES						
	São Martinho Mill		Iracema Mill		Total	
	Off-Season	Harvest	Off-Season	Harvest	Off-Season	Harvest
Apprentices	28	29	13	18	41	47
Interns	32	21	9	7	41	28
Internal Trainees	34	34	27	27	61	61
External Trainees	14	15	5	6	19	21

Additional Information:

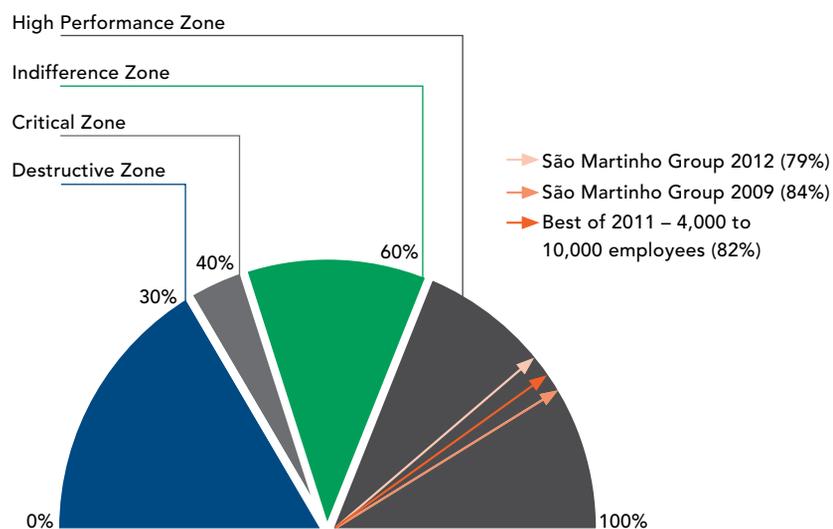
- This indicator does not include Omtex, given that it does not operate in the sugar and ethanol industry.

## Employee engagement

Once every two years, São Martinho conducts a survey to identify the job satisfaction level, employees' intentions to continue (or not) working for the Group and their level of commitment to its success. Through this survey, the Group examines those factors influencing employee engagement, including: personal attitudes (vis-à-vis their immediate superiors and/or co-workers), compensation, corporate practices, work (activities, resources), opportunities (career and professional development) and quality of life.

The results are used to obtain an accurate picture of the Group's current situation, draw up an action plan, jointly with management, for those points that need improvement, and implement measures to ensure sustainability. The second edition of the São Martinho Employee Engagement Survey, completed in February 2012, showed an employee engagement ratio of 79%, indicating a high level of commitment to the Company and their work. Studies by Aon Hewitt, the consulting firm responsible for conducting the survey, showed that organizations with engagement levels above 65% have better business results. When this figure is less than 40%, their ability to achieve their goals may be diminished.

## Results of the Engagement Survey



The ratio achieved by São Martinho is in line with those of the major Brazilian companies (with more than 4,000 employees each) included in Valor Econômico magazine's "Best Companies in Personnel Management" rankings, published in November 2011. The São Martinho Group's second Employee Engagement Survey included the participation of 4,417 employees, which reflects a 77% participation rate.



## Among the best places to work

In 2012, the São Martinho Group was included, for the first time, in the *Exame/Você S.A. Guide – Best Companies to Work For*. São Martinho was the only company from the sugarcane industry to be included in the ranking.

The Guide reflects employee opinions about the Company, given that they respond to a survey about a series of Company attributes. The participants are chosen at random. The Human Resources areas of the registered companies also complete a questionnaire in which they describe their management practices.

Personnel Management is one of the Group's pillars and it is fully aligned with its values, goals and strategies, which have been perfected over the course of nearly a century. Among the positive points identified and published by the survey are the "social projects, which range from caring for the environment and supporting local communities, to job opportunities for young professionals," according to the website [www.150melhoresempresas.com.br](http://www.150melhoresempresas.com.br).

Inclusion in the Guide consolidates São Martinho's reputation as an innovative and solid company in the sugar and energy industry. It can also be used to gauge employee satisfaction, allowing for the identification of areas for improvement.

## Ranking breakdown 2012 – 2013

INDICES	RANKING	SCORE
IFT	38°	81.1%
IQAT	25°	87.0%
IQGP	102°	67.4%

\*IFT – Workplace Happiness Index

\*\* IQAT – Work Environment Quality Index

\*\*\*IQGP- Personnel Management Quality Index

## Careers

The São Martinho Group offers equal opportunity for professional development, in accordance with objective criteria based on abilities, skills, job profiles and individual contributions. The Group invests in technical and behavioral training, as well as in scholarship programs that contribute to the acquisition of knowledge and encourage the continuous development of its employees. The Group has a policy that prioritizes internal recruitment prior to advertising vacancies on the open market.

As such, everyone is encouraged to compete for and occupy new positions based on their desired career path. The requirements for each position are based on competencies and skills that serve as a reference in the selection and development processes.

## Management by Skills and Abilities

The Evaluation of Qualifications and Skills is a People Management tool used to map employees' behavior and abilities when executing their activities. Its aim is to improve processes and relationships and promote personal and professional development, resulting in higher salaries. The assessment process is concluded with the preparation of the Individual Development Plan (PDI), which is drawn up in association with the employee's immediate manager at the moment of feedback.



The current skills are self-development, entrepreneurship, personnel management, a focus on results and sustainability, interpersonal skills and systemic vision.

### Succession plan

In order to ensure opportunities for São Martinho professionals and in line with its growth strategy, the Group maps strategic positions in the Succession Plan. Every year employees are evaluated by a committee charged with identifying their potential and performance and defining successors for executive, managerial, advisory, coordinating and technical support positions at the senior and leader levels. The committee is composed of all those professionals who hold positions immediately above those for which the Group is seeking successors. For example, executives evaluate managers, and managers evaluate coordinators. Their performances is evaluated and monitored using criteria such as abilities, skills, position profiles and individual contributions.

This evaluation not only reveals the qualities of the employee, but it also identifies possible gaps in development, providing feedback that can help improve their activities.

## Development

### [GRI LA11]

The São Martinho Group has always invested in its employees because it firmly believes that its strength, success and competitive edge depend on its people. In recent years, the Group has improved its development management and achieved results for the whole Organization.

Creating opportunities, providing training and giving encouragement help prepare employees for increasingly tough challenges. The Company invests in technical and behavioral training, as well as in scholarship programs that contribute to the acquisition of knowledge and encourage the continuous development of its employees.

### [GRI LA10]

AVERAGE NO. OF TRAINING HOURS AT SÃO MARTINHO DURING THE 2012/2013 HARVEST: 30.5*				
Category	São Martinho Mill		Iracema Mill	
	2011/2012 Harvest	2012/2013 Harvest	2011/2012 Harvest	2012/2013 Harvest
Managerial	50	43	56	40
Coordination	68	49	72	50
Leadership	63	87	51	42
Technical Support	59	46	69	62
Operational	21	27	19	30
	<b>22</b>	<b>29</b>	<b>21</b>	<b>32</b>

\*Includes all internal and external training, wholly paid for by the São Martinho Group.

One of the Group's main initiatives in this area is its behavioral and operational training program, which is given on an annual basis and aims to nurture behavioral competencies and promote the Group's mission, vision and values, as well as to improve interpersonal relations through practical and conceptual activities. It has been in place for more than ten years, and involves 90% of employees.

## Integration

All new employees participate in the Integration Program, which addresses important matters such as the Group's mission, vision and values, organizational structure, human resources policy, benefits, occupational health and safety policy, information technology, and integration into the business sector as a whole, as well as the agricultural and industrial segments.

## Professional training programs

Due to technological advances and environmental issues, manual labor during planting and harvesting is gradually being replaced by mechanized procedures. Aiming to retrain the employees who carry out such activities, while meeting current and future demand, the Group constantly invests in employee training, despite its high mechanization ratio of 87.3%. Among the programs carried out inside the Company and the surrounding communities are:

▬ **Agricultural Maintenance Worker Training:** An 18-month program developed in association with the National Industrial Learning Service (SENAI) targeting agricultural laborers. There are 600 hours of classroom learning, which can take place either within the Company itself or at the local SENAI, as well as practical activities that take place in the maintenance workshop. At the end of the program, employees may be promoted, depending on the number of vacancies available. It was implemented in the São Martinho mill in 2008. During the 2012/2013 harvest, 20 employees received training, 100% of whom were incorporated in the Group's workforce.

▬ **Thermoelectric Unit (UTE) Worker Training:** With the construction of the cogeneration unit at the São Martinho mill and the subsequent transfer of the most experienced operators to that location, it was necessary to hire and train new professionals. To train them, the São Martinho Group invested in a program, which was taught by the SENAI from May to September 2012. It included a total of 614 hours of training that transmitted the skills needed for the activity. A total of 15 new operators were trained. The experienced operators, in turn, took part in the operation assisted by HPB-Simisa (boiler maker) and training in other companies with the same equipment and operational concepts.

▬ **Internship and SENAI Apprentice Programs:** The São Martinho Group's internship policy is designed for students enrolled in vocational and college programs. It is designed to provide students with the opportunity to practice their theoretical knowledge and gain experience through real-life situations in their future profession. The program also aims to discover new talent and form a base of qualified candidates who can be hired by the Group.

In addition, the São Martinho Group currently has SENAI apprentices among its employees, complying with the law and fulfilling its social role through a solidarity-based approach to the community. The SENAI Training Program for Professional Workmanship is open to young people who have completed junior high school. There are opportunities available for students studying the following subjects: Industrial Mechanics, Electronics, Auto Mechanics and Boiler Shop. Those who qualify are hired as SENAI apprentices through a special contract, with a maximum two-year term.

▬ **Renewal Program:** The Rural Worker Retraining Program, developed in partnership with UNICA and SENAI, seeks to retrain workers from manual sugarcane operations and members of the surrounding communities, offering courses for Automotive Maintenance Mechanics, Harvester Operator, Welders and Tractor Operators. During the training the employees participate in classes at the SENAI unit and workshops at the Company. In early 2013, the program trained 40 employees including Pesticide Application Specialists and Crop Assistants.

### Leaders of Tomorrow: Trainee Program and Values in Action

Every two years, the Group holds internal and external selection processes for trainees who have recently graduated from university or who have completed courses related to the Group's business, with the aim of training them for strategic positions and to become future leaders. There are two different programs: Leaders of Tomorrow, which involves external recruitment, and Values in Action, with similar rules, but which is conducted internally. Each manager is responsible for defining the number and profile of the trainees for the two groups: Trainees and Values in Action. The selection process follows the Group's overall recruitment and selection policies and offers opportunities for both personal and professional development and the acquisition of knowledge related to the candidate's current position in the Group. After two years, the managers are responsible for advising the trainees under their responsibility with respect to the Group's career plan.

In 2012, the program selected 21 external candidates for the Leaders of Tomorrow and 90 young people who already worked for the Company for Value in Action.

## Manager Development Program (PDG)

This program provides training focused on the Company's leadership levels, guided by the Group's strategies. The Manager Development Program was created based on the gaps identified in the Skills Evaluation, the Engagement Survey and the other tools used as part of HR's strategic planning, and it is composed of development actions that include all of the Company's leadership levels, including the trainees.

**Leadership Development Module (MDL):** This module is composed of a variety of subjects, including self-knowledge, human motivation and behavior and the leadership pipeline, based on the level of the position. The Group relied on support from a specialized management development consulting firm (LabSSJ) to provide this training. In 2012, a total of 20,096 hours of training were provided. A total of 400 managers are currently participating.

**Management Meeting:** This meeting is held annually, in order to reinforce organizational values and skills, integrate teams and share challenges and goals. The 2012 edition included a special appearance by Maestro João Carlos Martins and the young tenor Jean Willian (the grandson of a former São Martinho rural worker).

**International Executive Training Programs:** This program was offered in 2012 at the Leadership Development Institute in state of Florida, in the United States. It is an activity to develop personnel management skills using the most innovative and advanced tools. Six of the Company's executives took part, including two executive officers and four managers.

**Meeting of Leaders:** An annual program whose main objective is to align the year's competencies and goals, promoting integration and strengthening team work. In 2012, the event was held in Dourados, São Paulo, with the presence of 254 managers of the São Martinho and Iracema units.

## Compensation

### [GRI EC5]

The São Martinho Group has a compensation policy that is aligned with market practices and in keeping with the objectives of the Organization, which, together with its organizational process framework, seeks ways to ensure effective internal and external fairness, as well as to sustain its personnel management pillars.

All of the positions are evaluated and classified according to the Hay methodology. Compensation is fixed and defined using pay scales with a 50% spread (from 80% to 120%), providing the Company with flexibility in the management of its compensation. The salary levels are defined and compared based on the market average. Raises within a pay scale are merit-based and/or based on results obtained through the Evaluation of Skills and Abilities.

When comparing the wage floor applied by the State Government for each profession and job category, São Martinho found that the lowest variation was in the São Martinho mill's agricultural area. The wage floor at this unit exceeded the local floor by 12% during 2012/2013 harvest years. The highest variation applied to drivers/machinery operators at both mills, calculated to be 56% for São Martinho and 47% for Iracema. See the table below.

### Difference between the adopted wage floor and the local minimum

#### [GRI EC5]

		São Martinho Mill	Iracema Mill
Agricultural	Wage floor (collective bargaining agreement)	760.00	765.05
	Government* minimum wage	678.00	678.00
	Change (%)	12.09	12.84
Industrial	Wage floor (collective bargaining agreement)	777.12	778.91
	Government* minimum wage	678.00	678.00
	Change (%)	14.62	14.88
Driver / Machine Operator	Wage floor (collective bargaining agreement)	1,059.30	996.19
	Government* minimum wage	678.00	678.00
	Change (%)	56.24	46.93

\*All of the categories use the federal minimum wage

São Martinho also offers workers a strategic compensation system that includes:

▬ **Variable monthly compensation:** based on team performance indicators and defined according to company strategies and process guidelines. This applies to industrial and agricultural employees, who are eligible to receive a significant increase in their monthly income.

▬ **Profit Sharing Program (PPR):** aims to distribute, in the form of compensation, the results obtained through the contribution of employees in reaching and/or outperforming goals. This applies to 100% of the São Martinho Group's employees. Its implementation was agreed upon between the Company and the unions in 1998 through collective bargaining agreements. In order to negotiate and monitor the Profit Sharing Program, commissions were created that are composed of representatives chosen by the workers from the different professional categories, representatives appointed by the Company and a representative appointed by each of the unions in the respective categories. All of the Group's employees are covered by collective bargaining agreements. **[GRI LA4]**

▬ **Management Bonus:** offered to the Company's managers. The indicators are defined individually each year, are calculated quarterly and are in keeping with the Organization's strategy. The amount varies based upon the hierarchical level.

In addition to rigorously following its internal policies and procedures, in order to ensure that the compensation successfully attracts, recognizes and retains talents, the São Martinho Group is mindful of surveys, reports and market practices.

## Benefits

**[GRI LA3]**

The São Martinho Group's Benefits Policy aims to standardize the benefit packages it offers, define the bonus guidelines and establish the rules governing compliance with the legislation and the granting of extra benefits at its own discretion.

The Policy applies to all of the Company's employees and seeks to ensure the satisfaction of internal clients, taking into account factors such as the professional activity carried out by the employee and their place of work, maintaining the equilibrium, the cost/benefit ratio, the attractiveness of the Company, its retention rate and the engagement of talent.

Below are the benefits currently offered by São Martinho:

Benefits	Temporary or Indefinite Contract	Full time/ Part time Employee	CLTs / Interns / Trainees / Other
Medical Care	Yes	Yes	Yes
Dental Care	Yes	Yes	Yes
Complementary Aid	Yes	Yes	Yes (except interns)
Funeral Assistance	Yes	Yes	Yes
Advance/ Purchase Card	Yes	Yes	Yes (except interns)
Christmas Basket	Yes	Yes	Yes
Workplace Accident Coverage	Yes	Yes	Yes
Pharmaceutical Coverage	Yes	Yes	Yes (except interns)
Credit Cooperative	Yes	Yes	Yes (except interns)
Private Pension	Yes	Yes	Yes (except interns)
Extension of Maternity Leave	Yes	Yes	Yes (except interns)
Meal - Food Voucher	Yes	Yes	Yes (except interns)
Meal – Meal Voucher	Yes (except for employees in the São Paulo office)	Yes (except for employees in the São Paulo office)	Yes (except for employees in the São Paulo office)
Meal – Restaurant Voucher	Yes (except for employees in the São Paulo office)	Yes (except for employees in the São Paulo office)	Yes (except for employees in the São Paulo office)
Group Life Insurance	Yes	Yes	Yes
Collective Transportation	Yes	Yes	Yes
Flu Vaccine	Yes	Yes	Yes

## Health

For the São Martinho Group, occupational health involves a preventive approach and the promotion of quality of life through programs that ensure better conditions for the health and well-being of employees. The Group has highly qualified teams and the appropriate tools for proactively fulfilling the guidelines of its Occupational Health and Safety Policy, guided by the Company's Values and seeking to contribute to the sustainable development of its business.

The Company's employees are not subject to specific serious illnesses due to the activities carried out at the workplace.

### Occupational Health and Safety Policy

In order to ensure the sustainable development of its business and meet legal requirements, the Group has established workplace safety and occupational health as parts of the productive process, with the same importance as agro-industrial production. In order for this to effectively take place, it provides the necessary conditions and resources that are focused solely on the well-being of its employees.

**FOR THE SÃO MARTINHO GROUP, OCCUPATIONAL HEALTH INVOLVES A PREVENTIVE APPROACH AND THE PROMOTION OF QUALITY OF LIFE THROUGH PROGRAMS THAT ENSURE BETTER CONDITIONS FOR THE HEALTH AND WELL-BEING OF EMPLOYEES. THE GROUP HAS HIGHLY QUALIFIED TEAMS AND THE APPROPRIATE TOOLS FOR PROACTIVELY FULFILLING THE GUIDELINES OF ITS OCCUPATIONAL HEALTH AND SAFETY POLICY, GUIDED BY THE COMPANY'S VALUES AND SEEKING TO CONTRIBUTE TO THE SUSTAINABLE DEVELOPMENT OF ITS BUSINESS**

### "Do the Right Thing, Celebrate Life." Campaign

#### [GRI LA8]

Safety first. That is the central message of the "Do the Right Thing, Celebrate Life" campaign. The initiative was introduced in July 2010, on National Workplace Accident Prevention Day, in order to reinforce the importance of preserving life. Through the program, employees are encouraged to make smart choices that promote the well-being of the entire team.

A new stage of awareness also began in 2011, focused on the need to pay attention when carrying out all activities - at home or at work - and the importance of leaders providing incentives and setting strong examples. Accordingly, there were a series of internal communications to employees reinforcing the need to do the right thing to avoid accidents in a variety of everyday situations.

The third phase of the campaign, implemented in 2012, included employees and their families, with actions that will help them to work together to achieve better results.

Another campaign that seeks to reduce the number of accidents at the Company is the Zero Accident campaign, carried out in between harvests, with activities that highlight the need for greater care and attention in the maintenance of machinery, always using safety equipment.

These campaigns complement the Group's continuous improvement efforts, in which multidisciplinary teams from the Occupational Health, Workplace Safety, Industrial and Agricultural areas study and develop means of improving facilities, machinery, equipment and working procedures, eliminating and/or reducing those risks that are inherent to the Group's operations.

In addition to developing programs to improve the quality of life of its employees and the community, the Group also supports and participates in national and international campaigns through one-off initiatives, including World No

Tobacco Day, International Day against Drug Abuse and Illicit Trafficking, World Diabetes Day, National Cholesterol Control Day, National No Tobacco Day, and World AIDS Day.

## Health, safety and quality of life programs

### [GRI LA8]

The Group has several programs in place to promote health and the quality of life, aiming to raise its employees' awareness of the importance of adopting healthy habits that generate well-being, happiness and an improved balance between their personal and professional lives. They include:

**Smoking Cessation Program:** Raises awareness about the dangers of smoking. The registered employees are evaluated so that they can receive the appropriate treatment. After their evaluations, they take part in regular meetings that focus on the experiences of former smokers, risks and tips for combatting nicotine addiction, and success stories; explanations about the different degrees of addiction, symptoms and treatment; tips and motivational messages; as well as social, professional and family support.

**High Blood Pressure Control and Prevention Program:** Provides guidance on risk factors, dietary habits and the treatment of hypertension.

**Healthy Eating and Nutrition Program:** Involves educational and preventive actions focused on healthy eating habits and physical exercise.

**Clinical Monitoring Program:** Encourages employees to visit their doctor and monitor illnesses.

**Water Quality, Food and Waste Program:** Monitors the quality of the water served to Company employees, as well as the selection and disposal of food used in the cafeterias.

**Vaccination Program:** Held annually over the course of a week for all of the Company's employees. It is advertised on murals, in buses and through other means of communication.

**Vaccination Monitoring Program:** When undergoing occupational exams, employees are encouraged to regularize their preventive vaccines, such as yellow fever and tetanus, among others.

**Balanced Nutrition Program:** Offers a special menu for employees who opt for lighter fare, based on nutritional information.

**Occupational Health Medical Control Program:** Systematically monitors the health of employees by subjecting them to medical examinations on admission, whenever they change their job or activity, and when they leave. Employees also undergo examinations that are not required by law, and workers who have been discharged by the National Institute of Social Security (INSS) can benefit from the Temporary Readaptation Program. The Group is also responsible for studying and implementing regulations such as NR10 (Safety in Electrical Installations and Services), NR13 (Boilers and Pressure Vessels), NR31 (Health and Safety in Agriculture), the NR32 (Health and Safety in Health Services), and NR33 (Health and Safety in Confined Spaces), all of which it has done successfully.

**Temporary Rehabilitation Program:** Focused on employees who have been medically restricted from fully performing their activities. In this case, the professionals are able to return to activities that are compatible with their physical restrictions.

**Hearing Conservation Program:** Aimed at preventing and stabilizing hearing loss through individual, collective, environmental and administrative control measures. To do this, workplace conditions and risk factors are analyzed in order to establish periodic goals for the audiometric examinations. The Company invests in modern hearing protection and sound insulation for the machinery and equipment in order to provide healthier environments within the workplace. It also rotates workers into environments with lower noise levels.

**Program for Persons with Disabilities:** The Group's health sector includes a monitoring program for people with disabilities.

**Occupational Health Dialogue:** Meetings in which employees discuss health-related issues, including high blood pressure, isotonic drinks, workplace exercise, healthy diet, PPE use, alcoholism, tobacco addiction, cholesterol, breastfeeding and depression.

**Environmental Risk Prevention Program:** Aims to preserve the health and integrity of workers through the anticipation, recognition, evaluation and subsequent control of risks. It is divided into the actions listed below:

- ▬ Integrity – Safety Training: Publication of information about the importance of Personal Protective Equipment (PPE), such as gloves, protective leggings and sleeves, etc.
- ▬ Survey of Aspects, Hazards, Impacts and Risks: Publication of information about the importance of using and maintaining Collective Protective Equipment, such as machinery bulkheads, soundproofing, etc.
- ▬ Safety audits and inspections: Carried out monthly for the agricultural and industrial areas;
- ▬ “Do the Right Thing. Celebrate Life” Campaign: *find out more on page 54*
- ▬ Zero Accident Program: *find out more on page 54*
- ▬ Internal Workplace Accident Prevention Week and Internal Rural Workplace Accident Prevention Week: Held annually, over the course of one week, the events include lectures, theatrical performances, shows, raffles and other activities related to the respective issues;
- ▬ Monthly meetings: Given that the São Martinho Group understands that health and safety are strategic issues, it carries out monthly videoconferences on these issues that include the participation of the CEO, the Agro-industrial Executive Officers, the Industrial Managers, the Agricultural Managers, the Managing Director, the HR Manager and the Safety Engineers from the units.

**Study and Implementation of Regulatory Standards:** Focused on the bringing the company’s facilities into compliance with the legal requirements of Regulatory Standards such as NR10 (Safety in Electrical Installations and Services), NR12 (Workplace Safety for Machinery and Equipment), NR13 (Boilers and Pressure Vessels), NR20 (Workplace Health and Safety for Flammables and Combustibles), NR31 (Workplace Health and Safety in Agriculture) and NR35 (Working at Height), among others.

**Evaluation of Aspects/Impacts and Hazards/Risks:** The activities carried out by the Group are critically evaluated by a multidisciplinary team. A survey is conducted of the Aspects and Hazards of each task, which are then evaluated to determine if the existing controls are sufficient to avoid having them turn into Impacts and Risks, respectively.

**Compromisso Nacional:** *find out more on page 58.*

**Workplace Exercise:** The São Martinho Group has implemented workplace exercise routines in its mills, whereby trainers and monitors encourage the practice of physical exercise on a daily basis. It also conducts satisfaction surveys to measure the results and identify opportunities for improvement. In addition, every day São Martinho distributes an oral rehydration solution to its agricultural workers, instructing and encouraging them on its use as a means of replacing water and minerals, which are essential to health.

The Group also maintains Internal Accident Prevention Commissions (CIPAs), which consist of representatives elected by the employees and appointed by the Group. In addition, all of the collective bargaining agreements with the labor unions of each unit include provisions related to occupational health and safety, mainly in regard to their legal aspects. The Group also relies on the Occupational Medicine and Safety Engineering Service (SESMT), which supplies personal protective equipment (PPE), clothing and uniforms, as well as providing training and information on issues related to stability, leave of absence, etc. **[GRI LA9]**

### Health and Safety Indicators

The São Martinho Group has adopted the strictest standards for safety and the conditions to ensure health and wellness, offering a workplace and work activities that respect the physical integrity of its employees. At the same time, it is engaged in an intensive effort focused on prevention through the effective work of the Internal Accident Prevention Commissions (CIPAs), investments in first rate Personal Protective Equipment – developed and certified to meet ergonomic requirements – and in training for its team of Engineers, Safety Technicians and Workplace Doctors and Nurses. It also seeks to raise awareness through campaigns (Do the Right Thing, Celebrate Life; Zero Accident; Health; Quality of Life and others), programs (Environmental Risk Prevention Program and the Occupational Health Medical Control Program), as well as Health and Safety Dialogues.

As a result of this work, during the 2012/2013 harvest year, the São Martinho Group was able to significantly improve all of its health and safety indicators with respect to the previous harvest year, as shown below.

Other assistance programs for employees, their families and members of the community

Program Audits;  
Weekly Safety Dialogue Program;  
Authorization for Special Work;  
Safety Management for Service Providers;  
Evaluation of Aspects/Impacts and Hazards/Risks;  
“Do the Right Thing, Celebrate Life” Campaign;  
“Zero Accident” Campaign;  
Occupational Exams;  
Vaccination Monitoring Program;  
Hearing Conservation Program;  
Program for Persons with Disabilities;  
Workplace Exercise;  
Oral Rehydration;  
Lectures on Quality of Life – During the periodic examinations of the teams – Agricultural Services;  
Clinical Monitoring Program;  
Health Always Program, in partnership with UNIMED;  
Drug Rehabilitation Program;  
Readaptation Program for Employees with problems caused by poor health or accidents;  
World No Tobacco Day;  
International Day Against Drug Abuse and Illicit Trafficking;  
World Diabetes Day;  
National Cholesterol Control Day;  
National Day Against Smoking;  
World AIDS Day.



**THE SÃO MARTINHO GROUP HAS ADOPTED THE STRICTEST STANDARDS FOR SAFETY AND THE CONDITIONS TO ENSURE HEALTH AND WELLNESS, OFFERING A WORKPLACE AND WORK ACTIVITIES THAT RESPECT THE PHYSICAL INTEGRITY OF ITS EMPLOYEES. AT THE SAME TIME, IT IS ENGAGED IN AN INTENSIVE EFFORT FOCUSED ON PREVENTION THROUGH THE EFFECTIVE WORK OF THE INTERNAL ACCIDENT PREVENTION COMMISSIONS (CIPAS), INVESTMENTS IN FIRST RATE PERSONAL PROTECTIVE EQUIPMENT – DEVELOPED AND CERTIFIED TO MEET ERGONOMIC REQUIREMENTS – AND IN TRAINING FOR ITS TEAM OF ENGINEERS, SAFETY TECHNICIANS AND WORKPLACE DOCTORS AND NURSES. IT ALSO SEEKS TO RAISE AWARENESS THROUGH CAMPAIGNS (DO THE RIGHT THING, CELEBRATE LIFE; ZERO ACCIDENT; HEALTH; QUALITY OF LIFE AND OTHERS), PROGRAMS (ENVIRONMENTAL RISK PREVENTION PROGRAM AND THE OCCUPATIONAL HEALTH MEDICAL CONTROL PROGRAM), AS WELL AS HEALTH AND SAFETY DIALOGUES**



[GRI LA7]

Indicators	2011/2012 HARVEST		2012/2013 HARVEST	
	São Martinho Mill	Iracema Mill	São Martinho Mill	Iracema Mill
Frequency rate of accidents with leave of absence <sup>1</sup>	2.8	5.3	2.6	3.1
Frequency rate of accidents without leave of absence <sup>2</sup>	2.8	39.6	2.8	3.5
Frequency rate of accidents with or without leave of absence <sup>3</sup>	5.5	44.9	5.4	6.6
Rate of severity <sup>4</sup>	94	366	65	69
Days lost <sup>5</sup>	845	1,239	601	273
Days deducted <sup>6</sup>	0	0	0	0
Deaths <sup>7</sup>	0	0	0	0
Rate of absenteeism <sup>8</sup>	5.18	4.05	5.07	4.03
Occupational illnesses <sup>9</sup>	0	0	0	0

<sup>1</sup> Number of accidents with leave of absence x 1,000,000/man-hours worked.

<sup>2</sup> Number of accidents without leave of absence x 1,000,000/man-hours worked;

<sup>3</sup> (Number of accidents with leave of absence + Number of accidents without leave of absence) x 1,000,000/man-hours worked;

<sup>4</sup> Number of working days lost + Number of working days deducted) x 1,000,000/man-hours worked;

<sup>5</sup> Number of consecutive days of leave of absence due to personal injury, excluding the day when the accident happened and the day when the employee returned to work.

<sup>6</sup> Days deducted due to permanent, total or partial disability or death for the calculation of the gravity ratio;

<sup>7</sup> Inability to work due to loss of life;

<sup>8</sup> Percentage of the real number of working days lost in relation to the total of scheduled working days to be worked by employees;

<sup>9</sup> Personal injury that prevents the injured worker from going back to work on the same day or that results in permanent disability.

Note: This indicator does not include Omtex, given that the unit has few employees and is not part of the sugarcane industry.

## National Commitment

The São Martinho Group obtained, in 2012, approval under the National Commitment to Improve Sugarcane Working Conditions at its three units. The initiative involves entrepreneurs from the national sugarcane industry, represented by the Sugarcane Industry Association (UNICA); workers, with support from the Federation of Salaried Rural Workers of the State of São Paulo (FERAESP); the National Confederation of Agriculture Workers (CONTAG); and the Federal Government. Signed in 2009, it brings together the best labor practices adopted by companies in the industry, which go beyond the standards established by law. The goal is to disseminate the standardization and adoption of these practices, thereby contributing the ongoing improvement of labor relations in the sugarcane industry.

The approval certifies that the Iracema, São Martinho (SP) and Boa Vista (GO) mills meet the criteria of the Commitment. With this approval, the São Martinho Group has its name included on a positive list on the website of the General Secretariat of the Presidency of the Republic and also receives a seal. To earn the approval, the mills underwent an extensive verification process, which was carried out by Deloitte Touche Tohmatsu Consultores, which is accredited by the Federal Government.

The analysis of the best labor practices that make up the National Commitment includes topics such as labor contracts; workplace health and safety; transparency in the measurement of production; transportation; education, training and job placement; compensation; working hours; food; union organizing and collective bargaining; protection to the unemployed; responsibility with regard to workplace conditions throughout the productive chain; responsibility with regard to community development.

The São Martinho Group has pioneered both the adoption and the improvement of best labor practices in the sugarcane industry. One example is the partnership between the São Martinho Mill and the manufacturers of Personal Protective Equipment (PPE) for the development of technology to be used by workers who handle the manual planting and harvesting of sugarcane. During the verification process, the audit recognized the reinforced leggings with openings that allowed for ventilation, as well as the special boots and gloves used by the workers. All of this equipment was developed exclusively for the mill and was subsequently adopted by the market at large.

# PARTNERSHIP NETWORK

One of São Martinho's pillars consists of its relationships with suppliers and partners, since it recognizes that these stakeholders play an essential role in the sustainability of its business. Taken together, they account for approximately two-thirds of total crushed sugarcane volume.

Suppliers are the land owners who produce sugarcane, while partners are the owners of land used by the Group for agricultural production. One of the Group's greatest challenges is to ensure lasting business relationships with its suppliers and partners. In order to meet this challenge, it maintains open and transparent dialogue, provides excellent service together with the appropriate tools, invests in training, ensures access to information about new technologies, and is constantly alert to new demands and opportunities for improvement throughout the entire production chain.

As part of this effort, each year the Group holds two events for suppliers: one at the end of the harvest, to present results and projections, and another in late January, to provide technical information and discuss technologies that may be useful and guide the coming harvest. The Group also holds occasional meetings to address specific matters, such as preventing and combating crop pests. It also relies on a field team that conducts periodic visits to the plantations to monitor service quality and identify opportunities for improvement.

To facilitate the management of information on sugarcane production, São Martinho has created an exclusive, password-accessed section on its website for suppliers and partners, where they can verify production details, invoices and a wide variety of technical issues, as well as receive news on the São Martinho Group.

To further strengthen this relationship, the Group has conducted a survey of best practices, which will be used to develop a future certification for suppliers in association with UNICA, the Center-South Sugarcane Planters Organization (ORPLANA) and the Guariba Suppliers Association.

## Local supply

[GRI EC6]

Despite not having a specific policy that gives priority to contracting local suppliers, for strategic reasons, especially those related to logistics, management and relationships, the local supply of services, inputs and equipment used in the production processes – from the towns surrounding the mills – is of the utmost importance for the São Martinho Group. During the 2012/2013 harvest, 59.8% of the Company's purchases were from local suppliers. Broken down by unit, the percentage spent locally reached 54.6% at the São Martinho unit and 68.6% at Iracema. The tables below show the importance of local suppliers in numbers.

ORIGIN OF SÃO MARTINHO GROUP'S SUPPLY		
Origin of supply	Amount spent on sugarcane purchases	Share of the total supply
Local suppliers	R\$403,590,542.25	59.8%
Other suppliers	R\$271,740,633.04	40.2%
Total supply	R\$675,331,175.29	100%

PERCENTAGE OF LOCAL SUPPLY TO THE MILLS (APRIL 2012 TO MARCH 2013)		
	São Martinho Mill	Iracema Mill
Total amount spent on sugarcane purchases per mill	R\$425,927,491.54	R\$249,403,683.74
Percentage spent on local supply	54.6%	68.6%

Note: Sugarcane suppliers have not been taken into consideration in the figures above, which deal with the origin of the São Martinho Group's supply (indicator EC6).

# INVESTORS AND SHAREHOLDERS

Since São Martinho S.A.'s shares were listed on the BM&FBovespa, in 2007, the Group has built up an Investor Relations (IR) team that discloses information to the market, in both Portuguese and English, including notices, material facts and financial statements. The IR team also maintains constant contact with São Martinho's investors, as well as financial analysts and any other parties interested in understanding the Group's business.

In recent years, the IR area has made a great effort to ensure coverage by key investment banks. As a result, the Company is now covered on a permanent basis by analysts from the main investment banks and asset management firms.

## COMMUNITY

Respect for people is one of the Group's values, and the surrounding community is understood to be one of its pillars. The Company sees its relationship with society as something that is inseparable from its business, which is why it seeks to promote the social and economic development of the communities in which it operates, particularly in the fields of education and culture.

This has resulted in the social projects described below.



**SÃO MARTINHO SEES ITS RELATIONSHIP WITH SOCIETY AS SOMETHING THAT IS INSEPARABLE FROM ITS BUSINESS, WHICH IS WHY IT SEEKS TO PROMOTE THE SOCIAL AND ECONOMIC DEVELOPMENT OF THE COMMUNITIES IN WHICH IT OPERATES, PARTICULARLY IN THE FIELDS OF EDUCATION AND CULTURE. THIS HAS RESULTED IN THE SOCIAL PROJECTS DESCRIBED BELOW**



### Dialogue with the community



One of the Group's initiatives is to establish open dialogue with the surrounding communities in order to ascertain exactly how they are affected by its agricultural and industrial activities, as well as to provide them with information on safety, environmental preservation, and other important issues.

## Santa Rita Soccer School/ Pradópolis Center Project



The São Martinho mill is carrying out this project in Pradópolis (SP) in partnership with Brazil's Center for Technology and Innovation Management (CGTI) and the local government. A total of 150 students, from the municipal and state school systems, between the ages of 7 and 18, take part. The project, whose aim is to shape the citizens of tomorrow, monitors school performance and attendance. It also offers educational talks as complementary activities. Funding is provided by the Federal Sports Incentive Law.

## The São Martinho Race



Each year, the São Martinho Group hosts a race that is open to employees from all of its units. The race, which includes both 5k and 10k courses through trails located on the São Martinho mill's sugar plantations in Pradópolis (SP) has caught the attention and drawn the participation of professional athletes. The fourth edition, held in 2012, brought together approximately 1,000 runners.

## "Planting the Future" Project



Since 2008, this project has brought environmental and civic education to adolescents from the municipality of Guatapar (SP). It is managed by the Municipal Council for the Rights of Children and Adolescents (CMDCA), together with the Department of Education, and supported by the São Martinho mill. The initiative involves activities carried out in a plant nursery, where the adolescents learn to cultivate seedlings and are taught the basics about environmental education. The project is offered to 36 students, between the ages of 14 and 17.

## “Projov” First Job and Rangers



This program, carried out in partnership with institutions from Iracemápolis and Pradópolis (SP), each year promotes access to the labor market for 45 students from the public school system, aged between 16 and 17. At the end of the activity, these young people have the opportunity to continue working at the São Martinho Group's units.

## New Frontiers of English



This program provided English classes in 2012 to young people being served by the Association for the Support and Protection of Minors (AAPM). The project was carried out through tax incentives passed along from São Martinho to the Municipal Fund for the Rights of Children and Adolescents (FMDCA). A total of 544 children from the municipal school system benefitted from the program.

## Philharmonic Orchestra of Rio Claro



Through tax incentives focused on culture, São Martinho brought approximately 40 students from the “Dorival Rossi” School (CEMA) in Pradópolis (SP), to a concert by the Philharmonic Orchestra of Rio Claro entitled “The Seventh Note.” These young people were able to interact with the professional musicians and put their learning into practice.

## Winter Clothing Campaign



The campaign, which is held annually by the Social Fund of some of the cities surrounding the São Martinho Group, aims to collect coats and blankets donated to low-income residents. Through this initiative, the São Martinho Group encourages its employees to voluntarily participate, in order to increase the number of donations to be distributed.

## Book Fair



Each year, São Martinho provides its employees with an opportunity to visit the "National Book Fair" in Ribeirão Preto. In order to facilitate cultural moments and encourage reading, São Martinho gives each participant a coupon good for one book. In 2012, approximately 107 employees and 29 adolescents from the Projov program took part in the visit.

## Christmas Without Hunger Campaign



The campaign, which is carried out in partnership with social institutions, stimulates the spirit of solidarity within the Company, leading to the collection of approximately 3,000 kilos of non-perishable foodstuffs in 2012.

## Theater in the City Project



Through tax incentive focused on culture, the São Martinho Group supported several children's plays in the municipalities of Dumont, Pradópolis, Guariba, Guatapar, Barrinha and Iracempolis (SP). In 2012, approximately 4,000 children attended 20 performances on the environment.

## "Future Entrepreneurs" Program



Developed in Iracempolis in partnership with Junior Achievement and the Limeira Institute of Development (IDELI), which has supported the Future Entrepreneurs project for the last ten years, in Limeira (SP) and the surrounding region. Over the course of 15 weeks, monitors – volunteers who are employees of the Iracema mill – seek to show high school students how a company works, teaching concepts such as marketing, finance, human resources and production. The students have the opportunity to develop and market a product, based on market research prepared and carried out by them, under the supervision of the Iracema volunteers. In 2012, the project trained 35 students.

## Tele-Classrooms



Since 2001, the Iracema mill has covered the cost of six tele-classrooms, outfitted with video equipment, reaching materials and monitors. The project, carried out in partnership with the City of Iracempolis, the city of Limeira and the Bradesco Foundation, aims to provide elementary and high school education to the entire community. In 2012, 118 adults resumed their studies in the tele-classrooms. In total, approximately 2,000 people have been served.

## Economically Active Social Inclusion



In partnership with the Ministry of Labor and Employment, SENAI and the cities of Guariba and Pradópolis, the São Martinho mill has carried out, since February 2013, professional training courses for people with disabilities (PWD). The Unit is a pioneer in the implementation of social projects and compliance with the enforcement of quotas, under which companies with more than 1,000 employees must have 5% of their workforce made up of people with disabilities. With the goal of preparing participants for work at the mill, contributing to social inclusion and the preparation of citizens who are economically active, all of the participants are professionally trained by SENAI with specific training that features specialized professors and monitoring by a multidisciplinary team.

The courses include 800 hours of training and last for approximately one year, with theoretical and practical content, as well as extra classes in remedial education. In Guariba, 31 students took part in Administrative Assistant training classes.

During the project, the participants are hired as Apprentices at the São Martinho mill and receive a salary during the training period, governed by the Federal Apprenticeship Law. São Martinho expects to train the participants to actively assume their future professional roles.

## GOVERNMENT

The São Martinho Group's seeks to build relationships with government agencies, largely through the Brazilian Sugarcane Industry Association (UNICA). Each year, the São Martinho and Itacema mills receive certification renewal for the sugarcane industry's Agro-Environmental Protocol, a voluntary commitment between the mills in São Paulo state, UNICA and the state government. The São Martinho Group joined the Protocol in 2008, and its membership has to be renewed every year following the presentation of its results and targets in regard to the elimination of cane burning and other aspects of sustainable production.

The Agro-Environmental Protocol is part of the Green Ethanol project, which encourages sustainable ethanol production in partnership with the sugar and ethanol sector, underpinned by social and environmental responsibility, respect for the environment, and pollution controls. In accordance with the Protocol, the mills will have to eliminate burning in mechanizable areas by 2014 and in non-mechanizable areas by 2017.

The São Martinho Group also participates in the Renewal Program, a UNICA initiative supported by the Inter-American Development Bank (IDB), which aims to retrain rural workers in view of harvest mechanization.



# CORPORATE GOVERNANCE



# CORPORATE GOVERNANCE OVERVIEW

[GRI 2.3/ 2.6 / 2.9]

The São Martinho Group is a publicly-held company. In February 2007, São Martinho shares began trading on the Novo Mercado, the BM&FBovespa's highest corporate governance listing segment, under the ticker SMT03. When joining the Novo Mercado, the Company undertook to comply with some of the most important and strictest listing regulations in the international markets, thus ensuring total transparency and equal treatment for all its shareholders.

In 2010, the Group completed the merger of Usina São Martinho S.A. (a wholly-owned subsidiary). As a result, São Martinho S.A. (the parent company) took over full responsibility for all activities related to the production of sugarcane, sugar, ethanol and their byproducts, and another wholly-owned subsidiary, Vale do Mogi Empreendimentos Imobiliários S.A., was constituted to take over the São Martinho mill's land holdings. The idea behind the restructuring was to centralize the Group's activities and increase operational efficiency, especially in the financial and fiscal areas, as well as reduce administrative and operating costs.

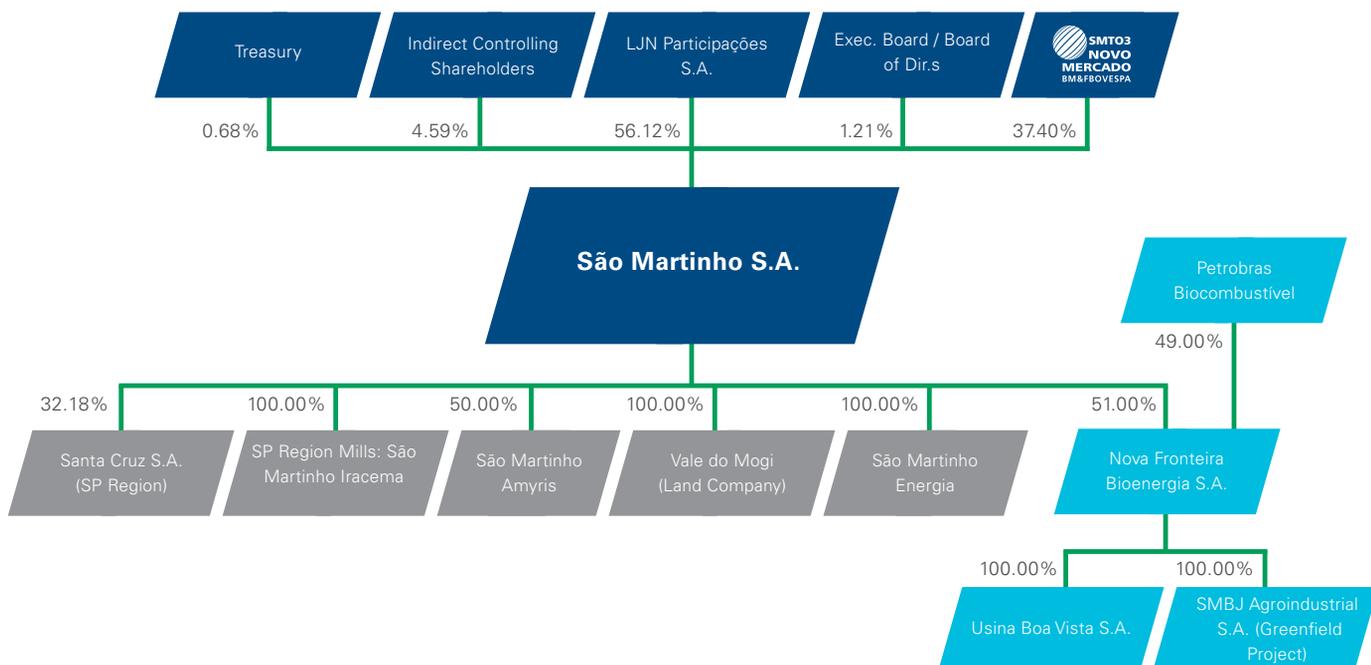
Also as part of the corporate restructuring process, in 2011 São Martinho S.A. merged with Omtek (another wholly-owned subsidiary) and took over responsibility for its activities, which consist of the production, sale and import/export of chemical and organic products, on its own behalf or on the behalf of third parties, as well as the production of animal feed additives, ingredients and supplements.

The other changes arising from the reorganization refer to the inclusion of the Group's previously mentioned partnerships with Amyris Biotechnologies and Petrobrás Biocombustível S.A. The latter resulted in the creation of Nova Fronteira Bioenergia, the parent company of the Boa Vista Mill and SMBJ Agroindustrial.

With the 2012 acquisition of the Santa Cruz Mill, the São Martinho Group also came to hold a 32.18% stake in the company. At the end of the 2012/2013 harvest, the Company took over 100% of the administrative management of the mill through its Shared Services Center.

The ownership structure below shows how the São Martinho Group is organized.

## Ownership structure of São Martinho S.A.



## Shareholder breakdown

SHAREHOLDERS	% OF SHARES
LJN Participações S.A.	56.12
Indirect Controlling Shareholders	4.59
Management	1.21
Treasury	0.68
Outstanding Shares	37.40
<b>Total</b>	<b>100.00</b>

## Classification of the Company's shares

In 2011, the São Martinho Group's shares were given a global rating of BB+ and a national rating of BrAA+ by the international ratings agency Standard & Poor's (S&P), known worldwide as leader in financial market intelligence services. The ratings reflect, among other factors, the Company's conservative capital structure, the high agricultural productivity of its sugarcane plantations and its low sugar and ethanol production costs.

# GOVERNANCE STRUCTURE

[GRI 4.1/ 4.2]

## Board of Directors

[GRI 4.3]

The Board of Directors is responsible for establishing the overall guidelines of the business, including its long-term strategy. It also monitors management, approves the financial figures, determines dividend payments and elects the executive officers. Board decisions are taken through a majority vote. In the event of a tied vote, a new meeting is convened to resolve on the matter, at which all members must be present. Some decisions require a quorum of a majority of members.

São Martinho's Bylaws are in full compliance with Brazilian Corporate Law (Law 6404) and the Novo Mercado listing rules. They therefore establish that the Board of Directors must be composed of seven members elected by the Annual Shareholders' Meeting for a two-year term, although they can be removed at any time by another Shareholders' Meeting. The table below lists the current members of São Martinho's Board of Directors, who were elected by the Annual Shareholders' Meeting of July 27, 2012.

NAME	POSITION
João Guilherme Sabino Ometto	Chairman
Luiz Antônio Cera Ometto	Vice Chairman
Nelson Ometto	Member
Murilo César Lemos dos Santos Passos	Independent Member
João Carvalho do Val	Member
Marcelo Campos Ometto	Member
Luiz Olavo Baptista	Member

## Board of Executive Officers

In accordance with the Company's Bylaws, the Board of Executive Officers is composed of at least two, and at most eight, statutory officers. The body currently possesses seven members, elected at the Board of Directors meeting held on July 27, 2012. The election or reelection of executive officers takes place at the Board of Directors meeting, as well as the Annual Shareholders' Meeting, which approves the Company's annual financial results.

NAME	POSITION
Fábio Venturelli	CEO
Agenor Cunha Pavan	Managing Agroindustrial Officer
Mário Gandini	Agroindustrial Officer
Augusto Praúna Pinheiro	CFO and IRO
Roberto Pupulin	Administrative Officer
Fernando Zaneti	Agroindustrial Officer – Iracema Mill
Helder Luiz Gosling	Commercial and Logistics Officer

Another two non-statutory members complete the Group's Board of Executive Officers, as shown in the table below:

NAME	POSITION
Felipe Vicchiato	Strategic Planning and IR Officer
Márcia Cubas de Almeida	Human Resources, Legal and Sustainability Officer

## Management Committees

Three non-statutory committees focusing on specific management issues were created to support the decisions of the Board of Directors and strengthen the Group's corporate governance structure. These committees are composed of Board members and invited members. Their duties include:

### Strategy, Technological Innovation and New Business Committee

- ▬ To periodically evaluate the course of the Company's business;
- ▬ To support the identification of new products/services that add more value to the Company;
- ▬ To support the Board of Directors in identifying and developing alternative growth strategies;
- ▬ To monitor the results from new businesses.

### Finance, Audit and Risk Management Committee

- ▬ To analyze and evaluate financial issues, quarterly and annual reports, proposals of the external auditors and fiscal planning;
- ▬ To analyze the risks associated with major investments and financial transactions, as well as any other risks that may affect the Company's sustainability;
- ▬ To ensure that the best corporate governance practices are followed by developing efficient processes and internal controls;
- ▬ To promote a unique management culture for the entire Group, seeking to optimize capital allocation and the risk/return ratio.

### Personnel Management Committee

- ▬ To guide strategic personnel management planning;
- ▬ To define the short- and long-term variable compensation policy (bonuses based on overall results and professional performance);
- ▬ To evaluate the performance of the executive officers.

# NEW ORGANIZATIONAL MODEL

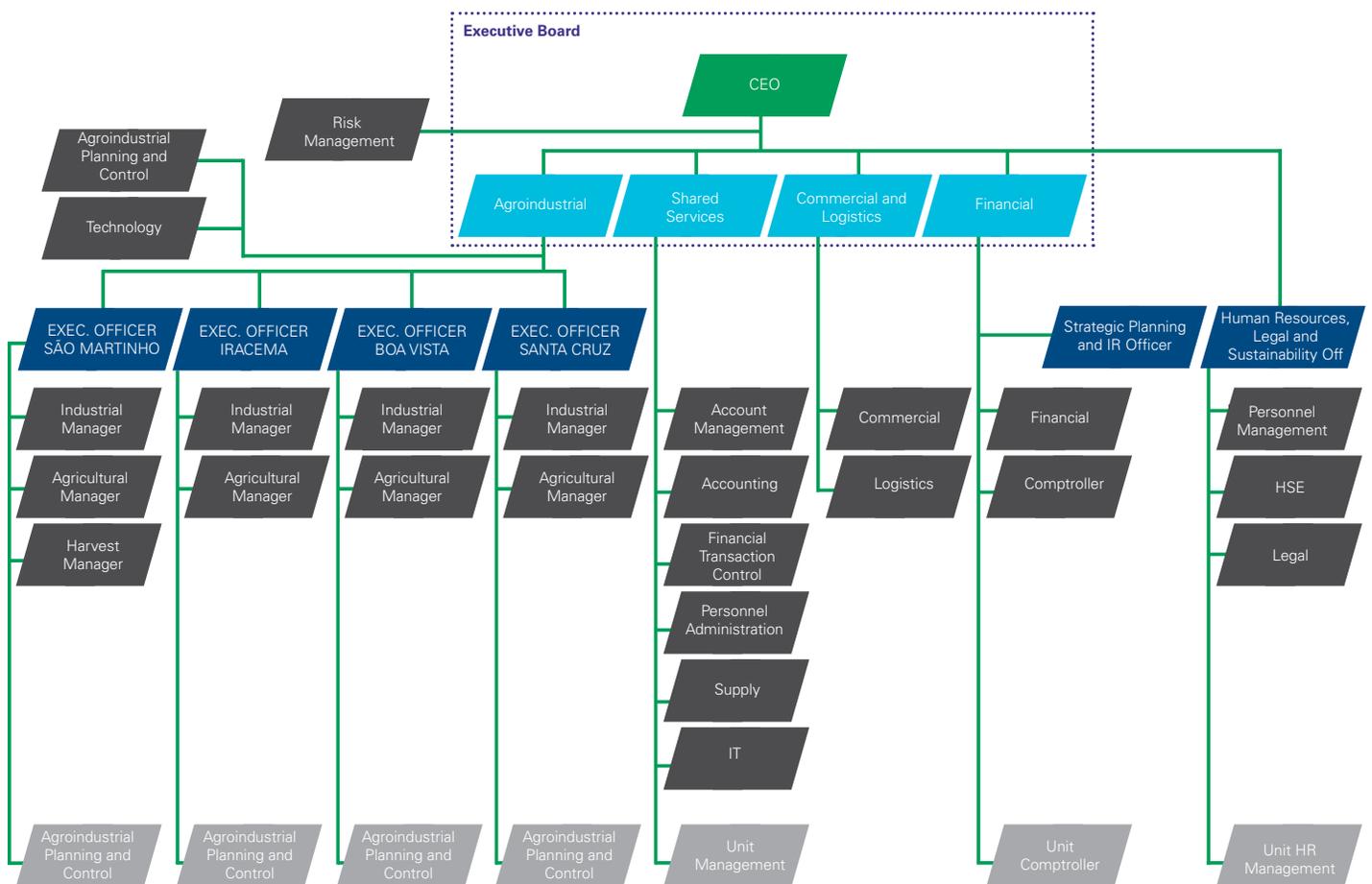
In 2012, the São Martinho Group developed a new organizational model that was created to meet the needs of its current structure and incorporate 100% of the administrative management of the Santa Cruz Mill. New organizational charts were defined for each area, which became effective in March 2013.

The reorganization has as its main objectives:

- ▬ To increase efficiency by reducing the cost of providing transactional services through the Shared Services Center for all of the companies that are customers and controlled by the São Martinho Group;
- ▬ To focus on legal compliance, in order to reduce potential labor, tributary or tax liabilities and increase the effectiveness of personnel management;
- ▬ To adjust the Financial, Commercial and Logistics areas, strengthening the Group's management role;
- ▬ To create a structure that can support the Santa Cruz mill, which will be one of the main customers of the São Martinho Group, together with Nova Fronteira, SMA, Vale do Mogi, etc., in an effort to integrate and standardize its management.

A realignment of the Company's processes and activities was carried out based on this new model.

## Overview of the new organizational chart



# RISK MANAGEMENT

The São Martinho Group's risk management area helps identify and manage the risks inherent to the Group's business, as well as the opportunities that they present, and communicates its risk exposure level and the course of action to be taken with clarity and transparency. In 2011, a management-level professional was hired to improve performance on this issue, giving rise to the Risk Management area.

In order to ensure its independence and access to other departments in the Company, the area reports directly to the CEO and the Board of Directors, which also reinforces its priority within the Company. The area's main function is to forecast potential threats to the Company's long-term financial and operational health. The main risks that São Martinho seeks to mitigate are listed below. In addition, the area also conducts risks analysis on new investments and strategic decisions and ensures compliance with the approved risk policies.

**Prices:** The prices of the products marketed by São Martinho are affected by the shifting levels of supply and demand, as well as the economic, political and financial instabilities in Brazil and around the world that can have an impact on the Company. A drop in the price of sugar or ethanol can have an adverse effect not only on the businesses relative to those products, but could also imply a shift in the production mix. To reduce this risk, São Martinho has a systematic price-setting strategy. The strategy not only focuses on the current harvest, but is also mainly focused on fulfilling the Group's Mission.

**Exchange rate position:** Given that a significant part of São Martinho's revenue comes from foreign markets, and a portion of its liabilities are denominated in foreign currencies, the price of the dollar is a very important variable with respect to the Company's profitability, which is why the São Martinho Group has a systematic exchange rate strategy in place.

**Financial leverage and liquidity:** The Company must always monitor its debt levels against its equity and cash flow. In other words, it must always ensure its solvency over both the short and long terms. To protect against the risks related to its liquidity, São Martinho has a debt profile in which it is fully able to meet its current obligations, while also presenting a balance sheet and profit expectations that ensure its future sustainability. In addition, it has all of the conditions necessary to continue investing in the growth of its businesses.

**Production flow:** São Martinho is engaged in the large-scale production of sugar, therefore, the Company's agility with respect to its production flow can represent an opportunity or a risk. Given the understanding that rail transportation is preferable due to its low costs, São Martinho partnered with Rumo Logística to modernize the rail terminal that provides access to the São Martinho Mill - which has already been inaugurated - and build a warehouse with storage capacity for 60,000 tons of sugar, which will ensure a transshipment capacity of 2 million tons of sugar per year. However, the Company also understands that it cannot depend on a single means of transportation, which is why it also has significant highway transportation capacity.

**Sugarcane supply:** Part of São Martinho's production relies on sugarcane purchased from third parties or harvested from leased lands. As a result, and in conjunction with the impact of weather on the harvests, the Company must always be aware of the risk of not being able to meet its demand for raw materials. In this context, one form of mitigating this risk is to seek to maintain manageable inventory levels through measures such as short, medium and long-term purchase contracts or leases, with ongoing monitoring in order to renew those that are set to expire or seek out new partnerships.

**Availability of personnel:** Business growth is intrinsically linked to increased hiring and training. As such, São Martinho always monitors key positions and the existence of potential substitutes. It also monitors whether there are job openings that must be filled for which skills must be developed within the Group, so that its professionals are able to advance its business interests. The technical, analyst and management levels are included in this monitoring program.

# CORPORATE ETHICS

**[GRI 4.8]**

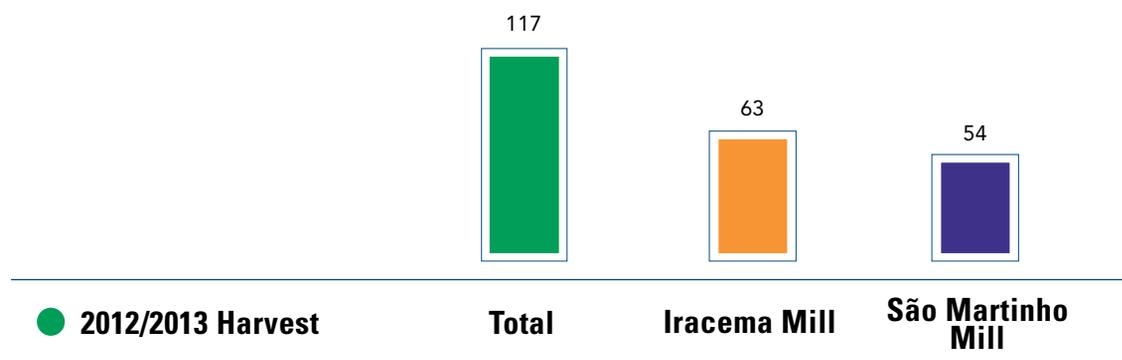
The São Martinho Group believes that the ethical principles that guide its business and organizational culture are essential to its sustainability. As such, since 2010 it has followed specific guidelines to such effect, formalized in a Code of Ethics and Professional Conduct, with rules and principles that must be adopted by all of the members of the Group, including interns, apprentices, managers, advisors, executive officers, and members of the Board of Directors and Fiscal Council, as well as the employees of outsourced service providers.

To ensure that the issues related to ethics and professional conduct are dealt with clearly and securely with employees, some communication channels were implemented in 2011 to receive complaints, suggestions and/or criticism. One of these channels is the toll-free telephone line 0800 777 3131. There is also the option to communicate by email with (etica@saomartinho.com.br) or regular mail (in a sealed envelope, with or without identification) to the address Alameda Caiapós nº 243, Barueri, CEP: 06460-110, São Paulo – SP. All of these channels provide maximum reliability to users, given that they are managed by a third-party company.

For São Martinho, these are important tools, because they provide management with the opportunity to treat and prevent issues that are not in accordance with the conduct expected by the Company.

**THE SÃO MARTINHO GROUP BELIEVES THAT THE ETHICAL PRINCIPLES THAT GUIDE ITS BUSINESS AND ORGANIZATIONAL CULTURE ARE ESSENTIAL TO ITS SUSTAINABILITY. AS SUCH, SINCE 2010 IT HAS FOLLOWED SPECIFIC GUIDELINES TO SUCH EFFECT, FORMALIZED IN A CODE OF ETHICS AND PROFESSIONAL CONDUCT, WITH RULES AND PRINCIPLES THAT MUST BE ADOPTED BY ALL OF THE MEMBERS OF THE GROUP, INCLUDING INTERNS, APPRENTICES, MANAGERS, ADVISORS, EXECUTIVE OFFICERS, AND MEMBERS OF THE BOARD OF DIRECTORS AND FISCAL COUNCIL, AS WELL AS THE EMPLOYEES OF OUTSOURCED SERVICE PROVIDERS**

## Calls received during the 2012/2013 harvest (Sistema Ethicall)





# 7 ADDITIONAL INFORMATION



# FINANCIAL STATEMENTS

SÃO MARTINHO S.A.	12M13	12M12
R\$ Thousand		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net Income in the period</b>	<b>72,950</b>	<b>126,611</b>
<b>Adjustments</b>		
Depreciation and amortization	209,505	184,963
Harvested biological assets (depreciation)	243,617	166,910
Variation in fair value of biological assets	(4,754)	(31,978)
Residual cost of investments and property, plant and equipment disposals	3,615	451
Capital gain from the change in equity interest	-	(13,720)
Interest, monetary and foreign exchange variations, net	-	(11,259)
Result of investment and property, plant and equipment disposals	825	1,178
Interest, monetary and foreign exchange variations, net	131,221	121,705
Constitution of provision for contingencies, net	15,987	5,832
Deferred income tax and social contribution	22,983	23,259
Constitution of provision for inventory losses	(527)	(3,222)
Adjustments to present value and others	13,949	5,086
	<b>709,371</b>	<b>575,816</b>
<b>Changes in assets and liabilities</b>		
Trade receivables	(21,873)	26,578
Inventories	(8,731)	11,506
Taxes recoverable	(51,679)	(23,566)
Financial Investments	(1,999)	(3,933)
Related parties	(2)	(1,623)
Other assets	5,016	(9,992)
Trade payables	(36,947)	(14,223)
Salaries and social charges	9,225	9,803
Taxes payable	2,066	1,868
Taxes payable in installments	(5,407)	(10,707)
Provision for contingencies - settlements	(31,142)	(16,767)
Other liabilities	(6,237)	(24,464)
<b>Cash provided by operations</b>	<b>561,661</b>	<b>520,296</b>
Interest paid	(64,885)	(37,708)
Income tax and social contribution paid	(2,166)	(14,322)
<b>Net cash provided by operating activities</b>	<b>494,610</b>	<b>468,266</b>

SÃO MARTINHO S.A.	12M13	12M12
R\$ Thousand		
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>		
Financial resources used in investments	(244,805)	(59,010)
Additions to property, plant and equipments, intangible assets and deferred charges	(288,090)	(308,318)
Additions to biological assets (planting and crop treatment)	(361,770)	(308,041)
Proceeds from sale of property, plant and equipment	2,090	3,649
Proceeds from sale of shares at Uniduto	-	6,782
Increase in cash and cash equivalents from charge in equity interest	-	100,588
Advance for future capital increase	(1,202)	(5,364)
Dividends and interest on own capital	4,213	-
<b>Net cash used in investing activities</b>	<b>(889,564)</b>	<b>(569,714)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Derivatives Financial Instruments	9,201	(533)
New borrowing - third parties	954,342	696,997
Repayment of borrowing - Copersucar	(15,030)	(8,460)
Repayment of borrowing - third parties	(300,133)	(379,962)
Advance for future capital increase	7,386	22,851
Payment of dividends and interest on capital	(36,084)	(30,243)
Purchase of treasury shares	(1,785)	(1,854)
Sale of shares through the exercise of options	780	-
<b>Net cash provided by financing activities</b>	<b>618,677</b>	<b>289,796</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>223,723</b>	<b>188,348</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>410,567</b>	<b>222,219</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>634,290</b>	<b>410,567</b>

**SÃO MARTINHO S.A. CONSOLIDATED - ASSETS**
**R\$ Thousand**

<b>Assets</b>	<b>Mar/13</b>	<b>Mar/12</b>
<b>Short-term assets</b>		
Cash and Cash Equivalents	634,290	410,567
Trade Receivables	62,667	38,399
Derivative Financial Instruments	84,998	11,063
Inventories	148,661	137,375
Taxes Recoverable	57,085	39,701
Income Tax and Social Contribution	36,655	20,550
Other Assets	7,610	5,551
<b>Total short-term assets</b>	<b>1,031,966</b>	<b>663,206</b>
<b>Long-term assets</b>		
<b>Long-term Receivables</b>		
Marketable Securities	9,037	6,541
Inventories	35,592	26,877
Related Parties	10	3,788
Deferred Income Tax and Social Contribution	56,785	38,227
Trade Receivables from Copersucar	1,398	1,737
Taxes Recoverable	67,438	46,581
Judicial Deposits	38,769	44,972
Other Assets	395	395
	<b>209,424</b>	<b>169,118</b>
<b>Investments</b>	11,488	8,262
<b>Biological Assets</b>	797,400	632,904
<b>Property, plant and equipment</b>	3,339,886	3,244,267
<b>Intangible Assets</b>	242,946	69,410
<b>Total long-term assets</b>	<b>4,601,144</b>	<b>4,123,961</b>
<b>Total assets</b>	<b>5,633,110</b>	<b>4,787,167</b>

**SÃO MARTINHO S.A. CONSOLIDATED - LIABILITIES**
**R\$ Thousand**

<b>Liabilities and shareholders' equity</b>	<b>Mar/13</b>	<b>Mar/12</b>
<b>Short-term liabilities</b>		
Borrowings	363,529	247,504
Derivative Financial Instruments	15,149	14,269
Trade Payables	98,235	76,655
Payables to Copersucar	2,263	2,356
Salaries and Social Contributions	66,523	57,297
Taxes Payable	12,485	12,199
Income Tax and Social Contribution	484	240
Related Parties	398	224
Dividends Payable	17,326	30,070
Advances from Customers	3,341	8,418
Aquisition of Investment	71,808	57,906
Other Liabilities	12,405	10,215
<b>Total short-term liabilities</b>	<b>663,946</b>	<b>517,353</b>
<b>Long-term liabilities</b>		
Borrowings	1,618,397	984,865
Payables to Copersucar	215,478	222,007
Taxes Payable in Installments	55,758	57,873
Deferred Income Tax and Social Contribution	867,891	820,201
Provision for Contingencies	66,331	74,259
Aquisition of Investment	9,849	55,569
Advances for future capital increase	30,931	23,543
Other Liabilities	3,912	6,819
<b>Total long-term liabilities</b>	<b>2,868,547</b>	<b>2,245,136</b>
<b>Shareholders' equity</b>		
Share Capital	614,150	455,900
Adjustments to Book Value	1,265,869	1,272,558
Revenues Reserves	232,556	308,867
Treasury Shares	(13,811)	(12,753)
Stock options granted	1,853	106
<b>Total shareholders' equity</b>	<b>2,100,617</b>	<b>2,024,678</b>
<b>Total liabilities and shareholders' equity</b>	<b>5,633,110</b>	<b>4,787,167</b>

SÃO MARTINHO S.A. - CONSOLIDATED	12M13	12M12	CHG. (%)
R\$ Thousand			
Gross Revenue	1,708,566	1,447,266	18.1%
Deductions from Gross Revenue	(72,611)	(80,276)	-9.5%
<b>Net Revenue</b>	<b>1,635,955</b>	<b>1,366,990</b>	<b>19.7%</b>
Cost of Goods Sold (COGS)	(1,233,695)	(990,438)	24.6%
<b>Gross Profit (%)</b>	<b>402,260</b>	<b>376,552</b>	<b>6.8%</b>
Gross Margin (%)	24.6%	27.5%	-3.0 p.p
<b>Operating Expenses</b>	<b>(203,450)</b>	<b>(140,172)</b>	<b>45.1%</b>
Selling Expenses	(72,466)	(53,748)	34.8%
General and Administrative Expenses	(127,561)	(112,960)	12.9%
Equity Income	(3,615)	(451)	701.6%
Other Operating Expenses, Net	192	26,987	-99.3%
<b>Operating Profit, Before Financial Effects</b>	<b>198,810</b>	<b>236,380</b>	<b>-15.9%</b>
<b>Financial Result, Net</b>	<b>(100,651)</b>	<b>(70,177)</b>	<b>43.4%</b>
Financial Revenues	114,748	75,692	51.6%
Financial Expenses	(196,379)	(123,545)	59.0%
Monetary and Exchange Variations - Net	(19,020)	(22,324)	-14.8%
<b>Income (Loss) Before Income and Social Contribution Taxes</b>	<b>98,159</b>	<b>166,203</b>	<b>-40.9%</b>
Income Tax and Social Contribution - Current	(2,226)	(16,333)	-86.4%
Income Tax and Social Contribution - Deferred	(22,983)	(23,259)	-1.2%
<b>Net Income</b>	<b>72,950</b>	<b>126,611</b>	<b>-42.4%</b>
Net Margin (%)	4.5%	9.3%	-4.8 p.p



# GRI INDICATORS

## [GRI 3.12]

STRUCTURAL INDICATORS		LOCATION IN REPORT OR NOTES
1.1	Statement from the most senior decisionmaker of the organization about the relevance of sustainability to the organization.	4 - 5
2.1	Name of the organization	Cover
2.2	Primary brands, products and/or services	16 – 17
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	18 to 23, 68
2.4	Location of the organization's headquarters	84
2.5	Number and names of the countries where the organization operates	12, 18 to 23
2.6	Nature of ownership and legal form	10,68
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	10
2.8	Scale of the organization	7,46
2.9	Significant changes during the reporting period regarding size, structure, or ownership	10, 23, 68
2.10	Awards received in the reporting period	The São Martinho Group did not receive any awards during the period covered by the report. Only the São Martinho mill received recognition from UNICA, as reported on page 39.
3.1	Period covered by the report	6
3.2	Date of the most recent previous report	Published in early 2013, covering the 2010/2011 and 2011/2012 harvest years.
3.3	Reporting cycle	The last report by the São Martinho Group was biennial. For the 2012/2013 harvest and those to follow, the Group plans to return to an annual cycle.
3.4	Contact information	84
3.5	Process for defining the contents of the report	6
3.6	Boundary of the report	6
3.7	Statement on any specific limitations on the scope or boundary of the report	There are no limitations on the scope or boundary of the report.
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities	6
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement	There were no re-statements of previously published information.
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	There were no significant changes in this respect.
3.12	Table identifying the location of the Standard Disclosures in the report	82
4.1	Governance structure	69 to71
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	The Chair of São Martinho's highest governance body is not an executive officer with the company.
4.3	For organizations that have a unitary board structure, state the number of members of the highest governance body that are independent and/ or non-executive members	69

4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	<p>The mechanism available for shareholders (including minority shareholders) to provide recommendations or direction to the São Martinho Group's highest governance body is the email address of the Investor Relations area: <a href="mailto:ri@saomartinho.com.br">ri@saomartinho.com.br</a>.</p> <p>For employees, while there is no direct communication channel between them and senior management, there are two other channels available: the email address for feedback regarding the Code of Ethics and Professional Conduct – <a href="mailto:etica@saomartinho.com.br">etica@saomartinho.com.br</a> – and the email address of the Communications area – <a href="mailto:comunicacoes@saomartinho.com.br">comunicacoes@saomartinho.com.br</a> – for general feedback.</p> <p>Disclosure of the issues raised through these channels during the period covered by the report is restricted to the involved areas.</p>
4.14	List of stakeholder groups engaged by the organization	44 to 65
4.15	Basis for identification and selection of stakeholders with whom to engage	44 to 65
PERFORMANCE INDICATORS		LOCATION IN THE REPORT (PAGE) OR NOTES
EC5	Range of ratios of the standard entry level wage, compared to local minimum wage, at significant locations of operation.	52
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	59
EN1	Materials used by weight or volume.	39
EN3	Direct energy consumption by primary energy source.	40
EN4	Indirect energy consumption by primary source.	40
EN16	Total direct and indirect greenhouse gas emissions by weight (2010/2011 Harvest).	40 – 41
EN21	Total water discharge by quality and destination (effluents).	42
EN22	Total weight of waste by type and disposal method.	43
EN28	Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations.	42 – 43
LA1	Total workforce by employment type, employment contract, and region.	43
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	46 – 47
LA4	Percentage of employees covered by collective bargaining agreements.	53
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work related fatalities by region.	58
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	54 to 57
LA9	Health and safety topics covered in formal agreements with trade unions.	56
LA10	Average hours of training per year per employee by employee category.	50
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	50
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	During the 2012/2013 harvest, the São Martinho Group donated R\$ 1,003,589.00 to political parties in Brazil.

# CREDITS AND CONTACTS

[GRI 2.4/ 3.4]

## Project coordination

São Martinho S.A.

[www.saomartinho.com.br](http://www.saomartinho.com.br)

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## Sustainability consulting services

MZ Group

## Content and editing

MZ Group

## Design and layout

MZ Group ([www.mz-ir.com](http://www.mz-ir.com))

## Photos

São Martinho archives

Shutterstock





Annual and  
Sustainability Report

2012  
13





**São Martinho S.A.**

Fazenda São Martinho, sem número  
Pradópolis, estado de São Paulo

**<http://www.saomartinho.com.br>**